



B Communications Ltd.

Q2 2023 – Quarterly Report

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

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

Chapter C – Unaudited Financial Statements

Chapter E – Report on the Effectiveness of Internal Controls

THIS DOCUMENT IS AN ENGLISH TRANSLATION OF THE HEBREW VERSION OF THE COMPANY'S FINANCIAL STATEMENTS AND THE MANAGEMENT DISCUSSION AND ANALYSIS FOR Q2 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 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).
- 1.2. On May 23, 2023, the Company signed a settlement agreement ("**the Settlement Agreement**") in connection with 2 motions for approval of class actions which were filed, among other things, against the Company and against Mr. Shaul Elovich (formerly the controlling owner and Chairman of the Company's Board of Directors) and against Mr. Or Elovitch (former director in the Company) (the "**Motions for Approval**"), according to which, without admitting any of the embezzlement claims alleged in the Motions for Approval, including the existence of misleading details in the statements or reports of Bezeq and/or the Company, the responsibility of any of the respondents to the alleged misleading details, the claimed damages or the class members' entitlement to the claimed remedies, the Company agreed to pay as follows: (a) to the members of Class A, defined in the Settlement Agreement as "everyone who purchased Bezeq shares in the period between February 11, 2015 and June 19, 2017, with the exception of the respondents or anyone on their behalf" – a total amount in shekels equal to USD 1,500,000; (b) To the members of Class B, defined in the Settlement Agreement as "everyone who purchased shares of the Company on the Tel Aviv Stock Exchange Ltd. between May 21, 2015 at 13:00 and June 19, 2017 (inclusive)" - a total amount in shekels equal to for USD 2,850,000.

In addition, as part of the Settlement Agreement, the parties recommended that the Company pay compensation to the applicants, their attorneys' fees, and additional costs in connection with the implementation of the Settlement Agreement. The total amount that the Company is expected to pay by virtue of the Settlement Agreement, including the compensation amounts for the classes as detailed above, amounts to a total in shekels equal to USD 5,500,000. The aforementioned settlement amount does not include the offset of the insurance company's participation by virtue of officers' insurance.

Upon the submission of the Settlement Agreement for the Court's approval, the Court ordered the parties to the motion for approval of the settlement arrangement to publish an ad in the newspaper and to inform the Attorney General and other parties to give their position. In July 2023, Bezeq and certain applicants in the Motions for Approval informed the Court that they maintain their rights regarding the Motions for Approval, and on July 26, 2023, the Attorney General submitted a request to extend the deadline for submitting his response to the motion for approval of the Settlement Agreement until August 25, 2023. The Court approved the request the aforementioned extension. In addition, on July 31, 2023, the Attorney General submitted an update regarding the state of the criminal proceedings and requested a delay of proceedings until July 20, 2024.

- 1.3. On June 19, 2023, Midroog Ltd. established an A3.il rating with a stable horizon for the Company's debentures (series C) and (series F) that were in circulation as of that date. In addition, Midroog established an A3.il rating with a stable horizon for the additional debentures to be issued by the Company from series F in the amount of up to NIS 550 million par value by way of series expansion which will be used to pay off the Company's debentures (series C). For more details, see immediate report published by the Company on June 19, 2023 (Ref. No.: 2023-01-057163).

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.

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- 1.4. On June 22, 2023, the Company published the results of an offering according to a shelf offer report for the issuance and registration for trading of debentures (Series 6) by means of a series expansion, according to which the Company issued NIS 538,000,000 par value debentures (Series 6) in exchange (gross) for a total of about NIS 503,568,000 million. For more details, see immediate reports published by the Company on June 22, 2023 (Reference No.: 2023-01-007660 and 2023-01-058783).
- 1.5. With the completion of the issuance of the Company's debentures (Series 6) as mentioned in Section 1.3 above, on June 22, 2023 the Company announced the existence of the precondition to full early repayment of the Company's debentures (Series 3) and the redemption was carried out on July 20, 2023. For more details, see immediate report dated June 22, 2023 (Reference No.: 2023-01-058786).
- 1.6. For details about purchases of Bezeq ordinary shares made by the Company, see Section 2.2 below.
- 1.7. On August 8, 2023, the Company's Board of Directors decided on the adoption of a plan for the buyback of the Company's shares, in the amount of up to NIS 30 million, effective from August 13, 2023 until: (1) Purchase of the Company's shares to the extent of the total purchase cost; or (2) The end of the trading day on November 1, 2023, whichever is earlier. The purchases will be made, from time to time during the above-mentioned period, in transactions on the stock exchange through a stock exchange member. It should be noted that the plan was adopted in writing in accordance with the rules set forth in the directive of the Securities Authority of July 26, 2010 (Position 199-8) regarding the "safe harbor" protection in the buyback of the securities by a corporation. For more details, see the immediate report published at the same time as this report.

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

The following is a breakdown of Bezeq's ordinary share purchases made by the Company:

Date	Shares	Total consideration (NIS millions)	Average price per share (NIS)
3.4.2023	2,100,000	10	4.75
28.5.2023	1,417,995	6.8	4.77
30.5.2023	2,090,000	10	4.79
28.6.2023	1,100,000	5	4.54
29.6.2023	1,100,000	5	4.57

The Company's current holding in Bezeq shares after these purchases and as of the date of publication of this report is 27.08% (26.58% fully diluted). For more details, see the immediates reports published by the Company on April 3, 2023, May 28, 2023, May 30, 2023, June 28, 2023 and June 29, 2023 (Ref.: 2023-01-038049, 2023-01-056769, 2023-01-058350, 2023-01-060607, and 2023-01-061348).

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- 2.3. Section 1.1.7 - Charges in connection with the transactions of the previous controlling shareholder of Bezeq and former officers of Bezeq and the "4,000 Case"

In relation to paragraph 1.1.7.3 regarding the decision of the Economic Department in the Tel-Aviv-Yafo District Court regarding the cancellation of some of the charges from the letter of indictment filed against former Group officers (in relation to the payment of the consideration for the purchase of the shares of the subsidiary Yes Television and Communication Services Ltd. by Bezeq, and in relation to the conduct of independent committees established for the purpose of examining transactions with related parties) and the filing of an appeal against this decision by the State - on July 13, 2023, the judgment of the Supreme Court was given in the appeal according to which the State's appeal is regarding all the respondents (with the exception of Eurocom Holdings (1979) Ltd.) was accepted and the case was returned to the District Court for further evidentiary investigation.

- 2.4. 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 and regarding the recommendation of the Bezeq Board of Directors dated August 8, 2023 to the General Assembly of Bezeq shareholders regarding the distribution of a dividend in respect of the profits of the first half of 2023, see Note 7 to the statements.

The balance of Bezeq's distributable profits as of the date of the report: about NIS 1.355 billion (surplus accumulated in the last two years after subtracting distributions made during that period).

- 2.5. To Section 1.5.4 - Main results and operational data

- 2.5.1. To Section 1.5.4.1 - Bezeq Fixed Lines (Bezeq's activity as NIO)

Financial data (NIS millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	1,130	1,111	1,057	1,086	1,067	1,096
Operating profit	418	403	293	388	393	386
Depreciation and amortization	256	245	266	252	248	239
Operating profit before depreciation and amortization (EBITDA) (1)	674	648	559	640	641	625
Net profit	261	249	153	235	243	218
Cash flow from current activities	602	608	628	427	541	634
Payments for investments in property, plant and equipment and intangible assets and other investments	281	312	277	294	279	285
Receipts from the sale of property, plant and equipment and intangible assets	1	29	9	8	5	14
Lease payments	35	40	35	34	33	36
Free cash flow (2)	287	285	325	107	234	327
Operating data						
Number of active subscribers at the end of the period (thousands) (3)	1,473	1,488	1,503	1,522	1,542	1,563
Average monthly revenue per telephony subscriber (NIS) (4)	39	41	40	41	41	47
Outgoing usage minutes (millions)	658	705	682	740	726	801
Incoming usage minutes (millions)	852	918	921	986	951	1,080
Telephony churn rate (6)	2.6%	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	1,505	1,504	1,505	1,511	1,519
Of which are subscribers connected to the fiber network at the end of the period (thousands) (7)	424	351	267	212	160	124
Internet lines at the end of the period - in retail (thousands) (7)	1,028	1,031	1,032	1,024	1,021	1,024
Of this number of subscribers connected to the fiber network at the end of the period - wholesale (in thousands) (7)	289	246	198	157	118	93
Internet lines at the end of the period - in retail (thousands) (7)	477	474	472	481	490	495
Of which are subscribers connected to the fiber network at the end of the period (thousands) (7)	135	105	69	55	42	31

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Financial data (NIS millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Average monthly revenue per Internet subscriber (NIS) - Retail (ARPU) (8)	122	120	117	116	113	110
Fiber optic network deployment at the end of the period (thousands of households available for connection) (9)	1,835	1,689	1,526	1,442	1,308	1,193
Average plan speed for Internet subscriber – retail (Mbps) (5)	278	250	220	192	164	151
Number of Be routers in use by Bezeq's customers (thousands)	801	786	764	733	708	688
Number of Be Spot and Be Mesh reception range enhancers of the home internet network (thousands)	430	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 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. Number of wholesale internet lines including Yes fiber subscribers. For this matter, see the Yes table.
- (8) Revenue 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 revenue from Internet access service (ISP).
- (9) As of the date of publication of the report, deployment of fiber optic network – approx. 1,884 million households are available for connection, of which approx. 457K subscribers are connected to the fiber network (of which about 308K retail and about 149K wholesale).

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2.5.2. To Section 1.5.4.2 - Pelephone

Financial data (NIS millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue from services	452	445	441	467	446	437
Of which: Revenue from services, net of interconnect (6)	347	331	336	358	339	323
Revenue from the sale of end equipment	133	171	151	141	153	163
Total revenue	585	616	592	608	599	600
Operating profit	49	51	17	60	52	64
Depreciation and amortization	135	133	135	139	136	122
Operating profit before depreciation and amortization (EBITDA) (1)	184	184	152	199	188	186
Net profit	41	44	13	50	46	56
Cash flow from operating activities	98	133	149	203	244	278
Payments for investments in property, plant and equipment, intangible assets and other investments, net	82	57	0	157	66	72
Lease payments	49	70	62	58	47	61
Free cash flow (1)	(33)	6	87	(12)	131	145
Operating data						
Number of postpaid subscribers for the end of the period (thousands) (2)	2,166	2,159	2,149	2,137	2,122	2,093
Number of prepaid subscribers for the end of the period (thousands) (2)	427	426	431	538	514	490
Number of subscribers for the end of the period (thousands) (2)	2,593	2,585	2,580	2,675	2,636	2,583
Of which are subscribers in 5G packages (thousands) (2)	898	834	784	738	677	605
Average monthly revenue per subscriber (ARPU) (NIS) (5)	58	57	57	58	57	57
Average monthly revenue per subscriber (ARPU) net of interconnect fees (NIS) (6)	45	43	43	45	43	42
Subscriber churn rate (Churn Rate) (4)	5.9%	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 the last six months have not received at least one call, did not make at least one call / message, did not perform a browsing operation, or did not pay for Pelephone's services. A prepaid subscriber is included in the active subscriber base from the date on which he performed a charge, and is deducted from the active subscriber base when he does not make outgoing use for six months or more. It should be noted that a customer can have more than one subscription number ("line"). The number of subscribers includes subscribers who consume various services (such as data for in-vehicle media systems), the average revenue from which is significantly lower than the rest of the subscribers. It should be noted that Pelephone markets packages with an increased volume of use that are also adapted to the needs of 5G, while close to the date of publication of Pelephone's report, there are about 920K subscribers in such packages.

(3) The average monthly revenue per subscriber (postpaid and prepaid). The index is calculated by dividing the average monthly revenue from all cellular services from both Pelephone's subscribers and other communication operators, including revenue received from cellular operators using Pelephone's network, repair service and extended warranty in the period by the average active subscriber base in that same period. See also Section 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, Bezeq 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) Revenue from services net of interconnect revenue and average monthly income per subscriber (ARPU) net of income from interconnect - 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 revenue from services and the average monthly income per subscriber (ARPU) by neutralizing interconnect revenue from mobile radio telephone operators and NIO operators to which the reform applies.

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2.5.3. To Section 1.5.4.3 - Bezeq International

Financial data (NIS millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	293	312	319	311	302	307
Operating profit (loss)	16	14	(60)	17	17	(4)
Depreciation and amortization	33	30	35	32	29	38
Operating profit (loss) before depreciation and amortization (EBITDA) (1)	49	44	(25)	49	46	34
Net profit (loss)	13	13	(58)	16	15	(5)
Cash flow from operating activities	57	19	56	5	37	112
Payments for investments in property, plant and equipment and intangible assets and other investments, net (2)	20	10	17	23	27	26
Lease payments	9	10	9	9	9	9
Free cash flow (1)	28	(1)	30	(27)	1	77
Operating data						
Subscriber churn rate (3)	10.0%	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.

2.5.4. To Section 1.5.4.4 - Yes

Financial data (NIS millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	336	329	330	315	316	316
Operating profit (loss)	26	0	0	0	(2)	10
Depreciation, amortization and ongoing impairment	46	50	57	46	46	50
Operating profit before depreciation, amortization and ongoing impairment (EBITDA) (1)	72	50	57	46	44	60
Net profit	30	5	1	0	2	10
Cash flow from operating activities	31	92	56	9	43	78
Payments for investments in property, plant and equipment and intangible assets and other investments, net	60	30	44	39	49	46
Lease payments	6	6	7	6	6	6
Free cash flow (1)	(35)	56	5	(36)	(12)	26
Operating data						
Number of TV subscribers (at the end of the period, thousands) (2)	579	580	579	575	567	564
Of which are IP subscribers (3)	364	348	329	307	280	253
Of which are StingTV subscribers	111	108	104	101	94	89
Average monthly revenue per subscriber (ARPU) (NIS) (4)	185	185	181	182	184	186
Subscriber churn rate (5)	3.3%	3.5%	3.0%	3.2%	2.9%	3.7%
Number of subscribers connected to the fiber network (EoP, thousands) (6)	21	14	7	2		

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- (1) For the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.
- (2) TV 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 revenue per small business customer, which is determined once per period.
- (3) Number of TV subscribers using Yes+ and STINGTV services transmitted via the Internet. As of the date of publication of the report, is about 370K subscribers (of which approx. 113K are STINGTV subscribers), which constitute 64% of all Yes subscribers. This rate also includes subscribers who also use satellite services at the same time.
- (4) Average monthly revenue per TV subscriber is calculated by dividing the total Yes revenue (excluding income from the sale of content to external broadcasters, revenue from end equipment and revenue 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) Number of TV subscribers who churned from Yes during the period divided by the average number of TV subscribers registered in the period. See also Section 7 of the chapter describing the Corporation's business for 2022.
- (6) Number of subscribers connected to the fiber network as of the date of publication of the report is approximately 24K.

2.6. To Section 1.6 - medium-term forecast and ambitions in relation to Bezeq Group

On July 26, 2023, Bezeq updated the Bezeq Group forecast for 2023, based on the information known to it at that time, as follows:

- Adjusted net profit for shareholders is expected to be about NIS 1.32 billion (compared to about NIS 1.2 billion in the original forecast). The main change comes from depreciation expenses and financing expenses, net.
- Adjusted EBITDA is expected to be about NIS 3.8 billion (no change compared to the original forecast).
- CAPEX is expected to be about NIS 1.75 billion (no change compared to the original forecast).

Also, regarding the scope of Bezeq's fiber network deployment - reaching approximately 2 million households, and regarding financial stability - maintaining a high credit rating, in the AA group (both unchanged compared to the original forecast).

Bezeq forecasts detailed above are forward-looking information, as defined in the Securities Law. The forecasts are based on Bezeq's estimates, assumptions, and expectations, and, among other things, on the Bezeq Group's estimates regarding the structure of competition in the communications market and the regulatory arrangement of the field, on the current economic situation in the market, and accordingly on the Group's ability to implement its plans for 2023, as well as taking into account changes that will apply to the above, the business conditions, and the effects of regulatory decisions, technological changes, developments in the structure of the communication market and the like, or insofar as one or more of the risk factors listed in the periodic report for 2022 materialize.

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

Regarding the temporary order according to which in 2023 the payment rate of the entities subject to the incentive fund will be at a rate of 0% instead of 0.5%, see an update to Section 2.16.5.

2.8. 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 Bezeq's physical infrastructure not only in the incentive areas, and this subject to compliance with security instructions.

2.9. 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 differences).

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 June 30, 2023, this proportion was 65%.

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 2.9.4 - the nature of the employment agreements at Bezeq

Further to the move to amend the Communication Order regarding the holding of means of control in Bezeq (see update to Section 1.1.2) and to the negotiations conducted between Bezeq and the employees' organization to amend the collective agreement in Bezeq following this, on August 6, 2023 and on August 8, 2023, the Audit Committee of the Bezeq Board of Directors and the Bezeq Board of Directors (respectively) approved an amendment (No. 7) ("**the Agreement**") to the special collective agreement of December 2006 and the amendments to it signed over the years ("**the 2006 Agreement**"), the main points of which are:

- (a) Maintaining Bezeq's financial resilience, including maintaining the public company status, Bezeq's current credit rating, and a percentage of holdings in Pelephone that will not be less than 50.01%.
- (b) Making a dividend distribution to Bezeq shareholders subject to the law and while maintaining Bezeq's current credit/debt rating while, in the case of a distribution that does not meet the profit test only - the consent of the employees' organization will also be required.
- (c) Payment of a special bonus to Bezeq employees in the amount of NIS 75 million, most of which is conditional on the dates and conditions stipulated in the Agreement depending on the change in the percentage of holdings of the current control permit holders in Bezeq (or the expiration/cancellation/transfer of the control permit) ("**the Conditions**").
- (d) If the conditions are met, Bezeq would pay a monthly shekel supplement of NIS 2,400 linked to the Consumer Price Index, and the Company will incur the payment of management fees for the pension fund of veteran permanent retirees who retired or will retire from Bezeq as of July 1, 2023.
- (e) If the conditions are met and in the absence of a controlling interest in Bezeq, the employees' organization has the right to appoint an additional (second) representative from among the employees, if the number of Board of Directors members exceeds eleven (11) (including external directors and a director from among the employees).
- (f) The validity of the Agreement (subject to its approval) will be from July 1, 2023 until December 31, 2025, while in relation to some of the arrangements a later validity is determined as detailed in the Agreement. The Agreement exhausts all the claims of the parties and the parties will maintain industrial peace in the matters regulated therein during its validity period, and in any matter related to changes in the holdings of the present control permit holders even after the expiration of its validity period.

The Agreement is also subject to the approval of the General Assembly of Bezeq's shareholders. For this matter and for additional details regarding the agreement, see Bezeq's immediate report dated August 9, 2023 regarding the summons to the meeting published at the same time as this report, which is included in this report by way of reference.

After the signing of the Agreement (subject to its approval) Bezeq is expected to record a one-time provision of NIS 75 million for the full amount of the special grant.

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3.4. 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.

3.5. To Section 2.11 – Dependence on suppliers

With regard to the possibility of dependency on IBM in relation to hardware and solutions for backups, restorations, and survivability of systems and infrastructures, storage equipment ("the Systems") - following the termination of Bezeq's contract with IBM and Bezeq's replacement contract with DELL, Bezeq no longer has any dependence on IBM in relation to system, in as a replacement, Bezeq may have a dependency on DELL in relation to the Systems.

3.6. To Section 2.11 - Working capital

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

3.7. 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.

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

As of June 30, 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%	3.20%-4.30%
	Banks	700	Non-indexed NIS	Varies based on the prime interest rate*	6.71%	6.85%	5.78%-6.78%
	Non-banking sources	3,621	Non-indexed NIS	Fixed	3.04%	3.15%	2.79%-4.00%
	Non-banking sources	2,775	Indexed NIS	Fixed	1.44%	1.48%	0.58%-2.20%

* Prime interest rate - 6.25% (as of August 2023)

3.9. 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.

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3.10. 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.

3.11. 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.

3.12. To Section 2.16.4 - wholesale market

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

3.13. To Section 2.16.5 - Advanced network - fiber

To paragraph 2.16.5.1 regarding the incentive fund to encourage deployment in incentive areas - on July 31, 2023, following the approval of the Minister of Finance and the Knesset Economy Committee, the Communications Order (Bezeq and Broadcasting) (Rate of the Annual Payment to the Incentive Fund) (Temporary Order), 5783-2023 was published, according to which, following the examination carried out by the Ministry of Communications, it was determined within the framework of a temporary order, that in 2023 the payment rate of the entities liable to the incentive fund will be at a rate of 0% instead of 0.5%. Following the temporary order, a decrease of approximately NIS 40 million is expected in Bezeq Group expenses in 2023 compared to 2022³.

3.14. To Section 2.18.1 - Pending proceedings

To paragraphs B, D, E (including the procedure indicated in footnote 51), F, G - regarding the continued stay of the proceedings in these cases in view of the investigation by the Securities Authority and the proceedings derived from it - at the request of the State, the handling of these cases is stayed, at this stage, until July 31, 2023 (subject to the filing of reservations, which will be examined). Regarding paragraph C - in relation to the motion from November 2015, following the State's motion regarding the stay of the procedure, the Court has set an internal reminder in the case for January 9, 2023, and in relation to the motion from March 2018, the State was granted an extension to submit an update notice on its behalf by September 5, 2023.

To paragraph 8 regarding motions for the disclosure of documents according to Article 198A of the Companies Law for the purpose of examining the submission of a motion for the approval of a derivative claim in connection with the determination of the Competition Commissioner dated September 4, 2019 regarding the abuse of Bezeq's position in the case of passive infrastructure - on June 4, 2023 the judgment of the Haifa District Court was issued, partially granting the motions and ordering the disclosure and review of the appendices of the Claims Committee report only and not the transcripts of the minutes of the Committee's discussion.

³ As was also stated in the explanatory notes to the draft order, Bezeq recently applied to the Ministry of Communications in accordance with the provisions of Article 14E of the Communications Law, which allows it to increase the fixed service area under the Bezeq license in accordance with the provisions of Article 14B of the Communications Law to the extent of up to 10% of the households in the areas included in Bezeq's notice pursuant to Article 14B(a) to the Communications Law. Bezeq requested to apply to it an obligation to deploy an advanced network and provide Internet access service over it, in all incentive areas remaining after the incentive tenders (the first and second) except in the Kfar Aqab area which includes approximately 5,000 households (an addition of about 8,000 households). As indicated in the explanation, from a preliminary point of view it appears that Bezeq meets the conditions established by law for the approval of the application, and the processing of the application is expected to be completed in the near future. It was also stated in the explanatory notes that the Ministry anticipates that some of the winners of the first tender will request to return some of the winning bids in their winning areas where they did not deploy. To the extent that these incentive zones are returned, the amounts allocated to them from the incentive fund in the first tender will be returned; However, the Ministry's examination reveals that these amounts will most likely not be enough to hold another tender and that it will be necessary to continue collecting the mandatory payments.

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In June 2023, two lawsuits were filed against Bezeq alongside motions for their approval as class actions, where it is claimed that Bezeq does not act lawfully with regard to giving notice of the lapsation of fixed period transactions in that it does not send a separate notice of the expected end of the benefit period within the framework of the fixed transaction and only notifies the customer through the monthly invoice and via text message. Both motions stated that the amount of the class action is over NIS 2.5 million, but it cannot be accurately estimated. Similar motions were also filed against Pelephone (see update to Section 3.16.1) and Yes (see update to Section 5.16).

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

4.1. To Section 3.1.8 - Structure of competition in the field and applicable changes

To paragraph 3.1.8.4 - Following the hearing held by the Ministry of Communications on the subject, on July 16, 2023, the Ministry published a policy document outlining the rules for the allocation of a frequency band in the 26 GHz range (as well as a narrow band in the 2100 MHz range) for use by parties other than cellular operators or NIO operators for the purpose of operating private networks on a local basis (area polygon) for each project. The implementation of the policy will require regulatory adjustments in the relevant legislation and is not expected to have a material impact on Bezeq's business.

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

To paragraph 3.7.1.1 C regarding 2G technology - on June 6, 2023, an updated decision by the Minister was obtained, stating that a licensee will be allowed to continue providing service on the 2G network for M2M (machine to machine) needs only until December 31, 2028, subject to to obtain the Director's approval. Also, the licensee will be entitled to contact the Director with an additional request to extend the service period with 2G technology for M2M needs only, until December 31, 2030.

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.

4.3. To Section 3.8.1 – Licenses

to Section 3.8.2.4 regarding the ongoing tender for mobile radio telephone services over 5G in the field of 26 GHz frequencies ("**the Tender**") - on July 17, 2023, Pelephone received a notice of winning a cluster of frequencies in this range from the Tenders Committee further to its participation in the Tender, As follows:

- (a) Winning 800 megabytes in the 26 GHz range (for a period of 10 years), while the license period as a cellular operator does not change as a result of the tender and can be renewed in accordance with the instructions of the license ("**Frequency Allocation**").
- (b) The Frequency Allocation will be carried out after the extension of the license and in exchange for the payment of a license fee in the amount of NIS 4,160,000, with the date of payment set for 60 working days from the date of receipt of the winning notice from the Tenders Committee.

The extension of the license in accordance with the winning result is subject to the approval of the Minister of Communications as stipulated in the conditions of the Tender. The aforementioned Frequency Allocation will allow Pelephone, among other things, to expand the range of advanced uses of the cellular network with 5G technology, with an emphasis on private networks and advanced services that require a particularly high browsing rate, such as hospital complexes. The cost of integrating this frequency range into 5G technology will be ongoing, and is not expected to be material.

4.4. To Section 3.14.3 - Site construction licensing

Establishment of sites by entities other than cellular operators - on July 17, 2023, the Ministry of Communications published a decision (and an amendment to the license of cellular operators), regarding allowing entities that do not have a cellular license to establish and lease out cellular radio centers (communication sites) to cellular operators. The websites will be operated and maintained by the cellular operators (operation and maintenance by the same parties as subcontractors of the cellular operators will be allowed). The implementation of the decision requires legislative changes and the establishment of regulatory rules regarding the manner and limitations of implementation. In Pelephone's estimation as of the date of publication of the report and before the establishment of regulatory rules on the matter, the decision is not expected to have a material impact on Pelephone's business.

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4.5. To Section 3.15 - Material agreements

To Paragraph 3.15.2 regarding the agreement between Pelephone and the of the Ministry of Finance Accountant General - the agreement was extended with the consent of the parties until May 16, 2024.

4.6. To Section 3.16.1 - Pending legal proceedings

To Section 3 regarding a motion for approval of a class action which was filed 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 benefits and compensation in the total value of approximately NIS 18 million.

In June 2023, two similar lawsuits were filed against Pelephone with the Central District Court together alongside motions for their approval as class actions. The subject of the lawsuits is the claim that Pelephone does not act in accordance with the law with regard to giving notices of the termination of fixed period transactions. One motion stated that the amount of the class action is at least NIS 13.2 million, but that it cannot be accurately estimated, and the second motion stated that the amount of the class action is over NIS 2.5 million, but that it cannot be accurately estimated. Similar motions were also filed against Bezeq (see update to Section 2.18.1) and Yes (see update to Section 5.16).

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

No update.

6. Yes - Multi-channel TV

6.1. To Section 5.1.2 - Limitations, legislation, and special constraints in the field of activity

Further to the hearing regarding the draft Law of Principles of Regulation of the Provision of Audio-Visual Content to the Public, 5782-2022 ("**the Hearing**"), in July 2023 the Ministry of Communications published a memorandum on the Communications Law (Broadcasts), 5783-2023 which includes a draft law ("**the Memorandum**" and "**the Draft Law**", respectively).

According to what is stated in the Draft Law and its attached explanatory notes, the Draft Law is intended to amend the legislation based on the recommendations of various committees over the years (the most recent of which was the Folkman Committee) and to update the set of obligations and rights applicable to all players operating in the visual and audio content market in a number of ways, including the following ways (which, according to the memorandum, are intended to enter into force in January 2024, with the exception of certain arrangements for which provisions were preliminarily set for later dates specified in the Memorandum):

- (a) A new authority will be established in place of the Council for Cable and Satellite Broadcasting and the Council of the Second Authority for Television and Radio, whose role will be to regulate the entire field of providing visual and audio content in a way that will be indifferent to the manner and technology in which the content is distributed, will be responsible for the competition in the field of providing visual and audio content, and will be authorized to issue instructions to prevent actions that could impair competition in the field.
- (b) A limited and targeted set of duties will be applied to the significant players operating in this market, including registration duties (and for this purpose it was proposed to establish three different registries - for content providers, Israeli channels, and news providers), investment in local productions (see paragraph 6 below), distribution of the content of the Israel Broadcasting Corporation and the Knesset channel, and obligations in the fields of sports and consumerism, where the extent of the obligations will change according to the revenue level of the content provider.
- (c) The existing restrictions on the economic models in the visual and audio content market will be abolished (while allowing some of the provisions regarding cross costs). As far as the traditional platforms (including Yes) are concerned - the prohibitions applicable to them regarding broadcasting advertisements and producing news content will be lifted. In addition, a transitional provision was established according to which television broadcasting license holders as defined in the Second Authority Law, to whom the transfer arrangements set forth in the Communications Law and the Broadcasting Distribution Law apply, will be required to allow the continued transfer of channels to registered licensed providers in accordance with the aforementioned laws and the mandated changes, until the beginning of 2027.

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- (d) Individual arrangements will be established regarding the provision of news content to the public.
- (e) Arrangements will be established regarding the supply of sports content to the public, so that the supply of significant sports enterprises through a single content provider will be avoided, and sports enterprises of special importance among the public in Israel will be accessible to the public.
- (f) Duties of investment in local productions will be established that will apply, **mutatis mutandis**, to all content providers, local and international, that have a significant scope of activity in Israel, as well as to Israeli channels that independently provide advertisements to the public. Thus, for example, content providers with a medium scope of activity will be required to invest in local productions an amount at the rate of 2% of their annual revenue (and for this purpose, the revenue of a corporation related to the content provider from the supply of visual and audio content in Israel will also be considered), while content providers with a large volume of activity (such as Yes) will be required to invest an amount at the rate of 4% of their revenue as mentioned.
- (g) Also, in the Draft Law, several changes were made in relation to the provisions included in the Hearing, including the transfer of the Idan+ system to application and determination of various arrangements in connection with it; Prohibition of a content provider to promote news providers on a billboard; Duty to provide announced sports events on a completely open channel; Authority to demand viewing data from content providers; and more. It was also stated in the Memorandum that in the near future another memorandum is expected to be published that will complete the operation of the aforementioned Memorandum which will be concerned with the regulation of the radio sector.

Yes is studying what is said in the Memorandum and its consequences. Since this is a legislative memorandum, at this stage it is not known which of the provisions of the Memorandum, if any, will be enshrined as binding legislation, and what the content and regulations of such legislation will be, and therefore there is a difficulty, at this stage, in assessing the extent of the impact on Yes' businesses of the legislation and regulation that will be established following the Memorandum (if any).

6.2. 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, while the commercial launch of the venture was carried out in June 2023.

6.3. To Section 5.9.2 - Dependence on content provider

As of the publication date of the report, Yes is negotiating the extension of the contracts with the local sports channel providers. In the assessment of Yes, its said engagements will be extended as stated.

Yes' assessment as stated above is forward-looking information as defined in the Securities Law, which may not materialize, or may materialize in a materially different manner than anticipated, among other things, depending on the relevant parties reaching the necessary agreements for that purpose.

6.4. To Section 5.12 - Financing

In August 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 July 1, 2023. This approval replaces a similar approval given in May 2023 (and not in addition to it).

6.5. 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).

6.6. To Section 5.16 - Legal proceedings

In April 2023, a petition was filed 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 revenue 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). In July 2023, a judgment was issued ordering the striking out of the petition while preserving the claims of the parties.

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In June 2023, a lawsuit against Yes was filed with the Lod Central District Court, alongside a motion for approval as a class action. The point of the claim is that Yes does not act in accordance with the law with regard to giving notice of the end of fixed period transactions in that it does not send a separate and independent notice of the end date of the benefit period beyond informing the customer through the monthly invoice and by sending a text message. The motion stated that the amount of the class action is estimated, at this stage, to be over NIS 2.5 million. It should be noted that similar motions on the same subject (failure to provide notice as required on the termination of a fixed period transaction) were submitted against Bezeq (see Section 2.18.1) and Pelephone (see update to Section 3.16.1).

6.7. 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).

August 8, 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 June 30, 2023

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended June 30, 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 June 30, 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 considering 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, international communications and network endpoint services and ICT solutions (hereinafter: "Bezeq International Services")
4. Multi-channel TV

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

Group Results

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

	1-6/2023	1-6/2022	Change		4-6/2023	4-6/2022	Change	
	NIS millions		NIS millions	%	NIS millions		NIS millions	%
Net profit	572	533	39	7.3	286	273	13	4.8
EBITDA*	1,876	1,824	52	2.9	952	919	33	3.6
Adjusted EBITDA*	1,918	1,877	41	2.2	984	922	62	6.7

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

The increase in net profit in the period was due to the landline interior communications segment (in the period - mainly due to decrease in provision expenses for legal claims and a decrease in financing expenses compared to a corresponding period) as well as an increase in the net profit of "Yes".

For more information see Chapter 1.2 below.

Report of the Board of Directors on the State of Affairs of the Corporation for the Period ended June 30, 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 income/expenses, taxes, depreciation, and amortization. The EBITDA index is an accepted index in the Group's field of activity which neutralizes aspects due to differences in the capital structure, various aspects of taxation and the manner and period of the amortization of property, plant and equipment and intangible assets. The Group's EBITDA is calculated as operating profit before depreciation, amortization and impairment (including ongoing losses from impairment of property, plant and equipment and intangible assets as described in Note 5 to the Statements).
Adjusted EBITDA	Calculated as an EBITDA index net of other operating expenses / income, net and one-off losses / profits from impairment / increase in value and expenses in respect of the capital remuneration plan. The index allows comparisons of operational performance between different periods while neutralizing one-off effects of exceptional expenses / income. It should be noted that the adjusted EBITDA index should not be compared to indices with a similar name reported by other companies due to a possible difference in the way the index is calculated.

The following is the method of calculating the indices:

	1-6/2023	1-6/2022	4-6/2023	4-6/2022
	NIS millions		NIS millions	
Operating profit	950	918	484	461
Depreciation, amortization, and impairment	926	906	468	458
EBITDA	1,276	1,824	952	919
Other operating expenses, net	35	49	28	3
Share-based compensation	7	4	4	-
Adjusted EBITDA	1,918	1,877	984	922

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

	June 30, 2023	June 30, 2022	Increase (decrease)		Explanation
	NIS millions	%	NIS millions	%	
Cash, restricted cash, and current investments	2,849	2,481	368	14.8	For more information, see Chapter 1.3 below.
Current and non-current trade receivables	2,188	2,262	(74)	(3.3)	The decrease was mainly due to the cancellation of an insurance indemnity balance (in the amount of NIS 75 million) in respect of a provision for a claim in the landline interior communications segment.
Inventory	125	92	33	35.9	The increase in inventory was mainly due to the cellular communications segment. Mainly from the timing of stocking up.
Broadcasting rights	53	62	(9)	(14.5)	
Right-of-use assets	1,924	1,797	127	7.1	The increase was due to the Bezeq International services segment, mainly from the cost of adding contracts that came into effect (see Note 15.5 to the Statements) as well as from an increase in the consumer price index, offsetting a decrease mainly in the cellular communication segment due to current depreciation expenses.
Property, plant and equipment	6,725	6,459	266	4.1	The increase was mainly due to the landline interior communications segment, partly due to the progress of the fiber network deployment project.
Intangible assets	3,248	3,263	(15)	(0.5)	
Deferred expenses and non-current investments	273	258	15	5.8	
Total assets	17,385	16,674	711	4.3	

Report of the Board of Directors on the state of affairs of the corporation for the Period ended June 30, 2023

1.1. Financial position (Cont.)

	June 30, 2023	June 30, 2022		Increase (decrease)	
	NIS millions	%	NIS millions	%	
Debt to financial institutions and bondholders	10,117	9,906	211	2.1	
Liabilities in respect of leases	2,098	1,943	155	8.0	
Trade payables	1,774	1,758	16	0.9	
Employee benefits	514	601	(87)	(14.5)	
Provisions	148	215	(67)	(31.2)	
Deferred tax liabilities	328	315	13	4.1	
Other liabilities	152	140	12	8.6	
Total liabilities	15,131	14,878	253	1.7	
Non-controlling interests	2,138	1,740	398	22.9	
Equity attributed to shareholders of the company	116	56	60	107.1	
Total equity	2,254	1,796	458	25.5	
Total liabilities and equity	17,385	16,674	711	4.3	

Explanation
The increase in debt was mainly due to the expansion of the Company's series F debentures and Bezeq's series 13 and 14 in the reporting period, offsetting the repayment of debentures and loans in Bezeq.
The increase was due to the Bezeq International services segment, mainly from the cost of adding contracts that came into effect (see Note 15.5 to the Statements) as well as from an increase in the consumer price index.
The decrease was mainly due to payments for employee retirement as well as an increase in the discount interest of liabilities to employees, partially offset by increased provisions for termination of employee-employer relations in early retirement and voluntary retirement in the Group in 2022.
The decrease was mainly due to the cancellation of the provision for a claim against the balance of insurance indemnification in the field of landline interior communications, offsetting an increase due to the creation of a provision for settlement in the Company.
Equity constitutes approximately 13.0% of the total balance sheet, compared to approximately 10.8% of the total balance sheet as of June 30, 2022.

Report of the Board of Directors on the state of affairs of the corporation for the Period ended June 30, 2023

1.2. Enterprise results

1.2.1. Key results

	1-6/2023	1-6/2022	Increase (decrease)		4-6/2023	4-6/2022	Increase (decrease)		
	NIS millions		NIS millions	%	NIS millions		NIS millions	%	
Revenues	4,607	4,480	127	2.8	2,299	2,225	74	3.3	The increase was mainly due to the landline interior communications segment and the multi-channel television segment.
Operating and general expenses	1,731	1,665	66	4.0	846	836	10	1.2	The increase in the period was mainly due to the landline interior communications segment and the multi-channel television segment.
Salary	965	942	23	2.4	473	467	6	1.3	The increase was mainly due to the landline interior communications segment, during the period, among other things, from the wage agreement in the public segment.
Depreciation, amortization and impairment	926	906	20	2.2	468	458	10	2.2	The increase was mainly due to the landline interior communications segment and at the time also from the cellular communication segment.
Other operating expenses, net	35	49	(14)	(28.6)	28	3	25	833.3	The decrease in the median was mainly due to the landline interior communications segment due to a decrease in expenses for the provision for legal claims, the increase in the quarter was mainly due to the provision for settlement in a legal claim in the Company, see Note 10 to the statements.
Operating Profit	950	918	32	3.5	484	461	23	5.0	
Financing expenses, net	186	203	(17)	(8.4)	98	99	(1)	(1.0)	The decrease was mainly due to the landline interior communications segment, see Note 11 to the Statements.
Taxes on income	192	182	10	5.5	100	89	11	12.4	
Profit for the period	572	533	39	7.3	286	273	13	4.8	

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1.2.2. Operating segments

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

Revenue by operating segments	1-6/2023		1-6/2022		4-6/2023		4-6/2022	
	NIS millions	% of total income	NIS millions	% of total income	NIS millions	% of total income	NIS millions	% of total income
Interior landline communication	2,241	48.6	2,163	48.3	1,130	49.2	1,067	48.0
Cellular communication	1,201	26.1	1,199	26.8	585	25.4	599	26.9
Bezeq International services	605	13.1	609	13.6	293	12.7	302	13.6
Multi-channel TV	665	14.4	632	14.1	336	14.6	316	14.2
Others and adjustments	(105)	(2.2)	(123)	(2.8)	(45)	(1.9)	(59)	(2.7)
Total revenue	4,607	100	4,480	100	2,299	100	2,225	100

Operating profit (loss) by operating segment	1-6/2023		1-6/2022		4-6/2023		4-6/2022	
	NIS millions	% of total income	NIS millions	% of total income	מיליוני ש"ח	NIS millions	% of total income	NIS millions
Interior landline communication	821	36.6	779	36.0	418	37.0	393	36.8
Cellular communication	100	8.3	116	9.7	49	8.4	52	8.7
Bezeq International services	30	5.0	13	2.1	16	5.5	17	5.6
Multi-channel TV *	8	1.2	(14)	2.2	13	3.9	(7)	2.2
Others and adjustments	(9)	-	24	-	(12)	-	6	-
Consolidated operating profit / percentage of Group income	950	20.6	918	20.5	484	21.1	461	20.7

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since the fourth quarter of 2018 (For more information see Notes 5 and 13 to the Statements). This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 14.4 for a summary of selected data from the statements of Yes.

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1.2.2. Activity segments (Cont.)

b. Interior landline communications segment

	1-6/2023	1-6/2022	Increase (decrease)		4-6/2023	4-6/2022	Increase (decrease)		Explanation
	NIS millions		% of total income	NIS millions	% of total income		NIS millions	% of total income	
Internet revenue	964	877	87	9.9	485	443	42	9.5	The increase was mainly due to an increase in the average income per retail subscriber, which was mainly due to an increase in the number of subscribers connected to the fiber network, from complementary end equipment, and from the provision of Internet access services (ISP) starting in April 2022. In addition, there was an increase in the volume of wholesale market activity in the field of fiber using of Bezeq infrastructures.
Landline telephony revenue	358	409	(51)	(12.5)	176	189	(13)	(6.9)	The increase in income was due to data communication and transmission services for businesses as well as an increase in paid jobs. The increase was partially offset by a decrease in transmission revenues to Internet Service Providers (ISPs) due to subscribers switching to Bezeq due to the unified internet reform.
Transmission, data communication and other	743	713	30	4.2	380	352	28	8.0	The decrease was due to a decrease in the number of lines and a decrease in the average income per telephone line due to a decrease in the volume of traffic, and in the period, also due to the reduction of telephony rates by the Ministry of Communications starting in April 2022.
Cloud and digital services	176	164	12	7.3	89	83	6	7.2	The increase was mainly due to virtual switchboard services and cloud services.
Total revenues	2,241	2,163	78	3.6	1,130	1,067	63	5.9	
Operating and general expenses	392	357	35	9.8	197	179	18	10.1	The increase was mainly due to an increase in subcontractor expenses mainly for paid jobs and the deployment of the fiber network.
Salary	516	491	25	5.1	253	245	8	3.3	The increase was due to salary updates (including the minimum wage), hiring employees and during the period also due to a one-time grant for permanent employees following the wage agreement in the public sector, mainly offsetting employee retirement.
Depreciation and amortization	501	487	14	2.9	256	248	8	3.2	
Other operating expenses, net	11	49	(38)	(77.6)	6	2	4	200.0	The decrease in the period was mainly due to a decrease in expenses on provision for lawsuits compared to the corresponding period.
Operating profit	821	779	42	5.4	418	393	25	6.4	

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1.2.2. Activity segments (Cont.)

b. Interior landline communications segment – Cont.

	1-6/2023	1-6/2022	Increase (decrease)		4-6/2023	4-6/2022	Increase (decrease)		Explanation
	NIS millions		% of total income	NIS millions	% of total income		NIS millions	% of total income	
Financing expenses, net	147	170	(23)	(13.5)	71	76	(5)	(6.6)	The decrease in net financing expenses was mainly due to an increase in financing income from investments, a decrease in linkage differences in respect of debentures, mainly due to a lower index increase and, in the period, also due to early repayment costs of debentures which were recognized in the corresponding period. This is offsetting a decrease in financing income for employee benefits that were recognized in the corresponding period and quarter and an increase in interest expenses on loans, for more information see Note 11 to the financial statements.
Taxes on income	164	148	16	10.8	86	74	12	16.2	
Segment profit	510	461	49	10.6	261	243	18	7.4	

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1.2.2. Activity segments (Cont.)

C. Cellular communications segment

* Income from interconnect - as part of the reform to change the interconnect rates regime (hereafter: "the Reform"), which began gradually from June 2023 until June 2025, interconnect income from mobile radio telephone operators and NIOs to whom the reform applies are presented separately.

	1-6/2023	1-6/2022	Increase (decrease)		4-6/2023	4-6/2022	Increase (decrease)		Explanation
	NIS millions		% of total income	NIS millions	% of total income		NIS millions	% of total income	
Revenues from services net of interconnect *	684	664	20	3.0	350	340	10	2.9	The increase was mainly due to an increase in income from roaming services and continued growth in the number of subscribers, including subscribers to 5G packages. The increase was partially offset by a decrease in income from hosting services.
Interconnect expenses *	213	219	(6)	(2.7)	102	106	(4)	(3.7)	
Revenues from the sale of end equipment	304	316	(12)	(3.8)	133	153	(20)	(13.1)	The decrease in the period was mainly due to a decrease in the number of devices sold which was partially offset by an increase in wholesale sales. The decrease in the quarter was mainly due to a decrease in the number of devices sold as well as a decrease in wholesale sales.
Total revenues	1,201	1,199	2	0.2	585	599	(14)	(2.3)	
Operating and general expenses	670	668	2	0.3	319	335	(16)	(4.8)	The change was mainly due to a decrease in end equipment costs and expenses attributed to interconnect revenues at the same time as the decrease in income, as mentioned above. On the other hand, there was an increase in roaming costs in parallel with the increase in income from this service, an increase in network costs, among other things, in light of the increase in electricity rates, as well as an increase in loan-loss expenses.
Salary	164	159	5	3.1	80	77	3	3.9	The increase was mainly due to the effects of the collective agreement signed in December 2022 and was partly offset by a decrease in the number of employees.
Depreciation and amortization	268	258	10	3.9	135	136	(1)	(0.7)	The increase in the period was mainly due to the update of the estimate of the cost of right-of-use assets carried out in the corresponding period for past periods. The increase was partially offset by a decrease in depreciation for assets whose depreciation period has ended, as well as by updating the estimate of liquidation assets and disposal of sites.
Other income, net	(1)	(2)	1	50.0	2	(1)	3	-	The increase in the quarter was mainly due to an increase in retirement expenses due to streamlining under the collective agreement.
Operating profit	100	116	(16)	(13.8)	49	52	(3)	(5.8)	
Financing income, net	(12)	(16)	4	25.0	(6)	(7)	1	14.3	The decrease in the period was mainly due to a decrease in interest income from the parent company due to repayment of loans which was partly offset by an increase in interest income from deposits.
Income taxes	27	30	(3)	(10.0)	14	13	1	7.7	
Segment profit	85	102	(17)	(16.7)	41	46	(5)	(10.9)	

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1.2.2. Activity segments (Cont.)

d. Bezeq International services

	1-6/2023	1-6/2022	Increase (decrease)		4-6/2023	4-6/2022	Increase (decrease)		Explanation
	NIS millions		% of total income	NIS millions	% of total income		NIS millions	% of total income	
Revenues	605	609	(4)	(0.7)	293	302	(9)	(3.0)	The decrease was largely due to a decrease in income from internet services (ISP) in private activity, mainly due to a decrease in the number of subscribers following the unified internet reform. This decrease was largely offset by an overall increase in the business activity of the segment, mainly from the consolidation of the subsidiary CloudEdge in the second quarter of last year and an increase in this activity, from the operation of international capacities and, during the period, also from income from equipment, licensing, and service contracts.
Operating and general expenses	397	413	(16)	(3.9)	189	197	(8)	(4.1)	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 mainly by an increase in expenses due to the consolidation of the CloudEdge subsidiary in the second quarter of last year and an increase in this activity and from an increase in expenses for the sale of licensing, equipment, and service contracts.
Salary	109	115	(6)	(5.2)	55	59	(4)	(6.8)	The decrease was mainly due to a continuous decrease in the number of Bezeq employees, which was partially offset by an increase in the salary of the CloudEdge subsidiary.
Depreciation, amortization, and impairment	63	67	(4)	(6.0)	33	29	4	13.8	The decrease in the period was due to a decrease in asset impairments recognized in the current period compared to the corresponding period. The decrease was partially offset by an increase in the depreciation of right-of-use assets and PP&E. The increase in the quarter was largely due to an increase in depreciation expenses for right-of-use assets and PP&E.
Other expenses, net	6	1	5	500.0	-	-	-	-	
Operating profit	30	13	17	130.8	16	17	(1)	(5.9)	
Financing expenses, net	4	3	1	33.3	3	2	1	50.0	
Taxes on income	26	10	16	160.0	13	15	(2)	(13.3)	
Segment profit	605	609	(4)	(0.7)	293	302	(9)	(3.0)	

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1.2.2. Activity segments (Cont.)

e. Multi-channel TV (pro forma) *

	1-6/2023	1-6/2022	Increase (decrease)		4-6/2023	4-6/2022	Increase (decrease)		Explanation
	NIS millions		% of total income	NIS millions	% of total income		NIS millions	% of total income	
Revenues	665	632	33	5.2	336	316	20	6.3	The increase was mainly due to an increase in income from integrated television and fiber packages as well as income from new content packages mainly from collaborations with international content providers.
Operating and general expenses	445	416	29	7.0	220	208	5.8	5.8	The increase was mainly due to an increase in costs of fiber activity as well as costs for collaborations with international content providers.
Salary	94	94	-	-	44	45	(1)	(2.2)	
Depreciation and amortization	119	134	(15)	(11.2)	59	68	(9)	(13.2)	The decrease was mainly due to assets that were fully depreciated and a change in the estimated duration of assets.
Other expenses (income), net	(1)	2	(3)	-	-	2	(2)	-	
Operating profit (loss)	8	(14)	22	-	13	(7)	20	-	
Financing income, net	(9)	(5)	(4)	(80.0)	(4)	(4)	-	-	The increase in the period 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)	-	-	-	-	-	
Segment profit (loss)	17	(10)	27	-	17	(3)	20	-	

* The results of the multi-channel television segment are presented net of the overall effect of impairment recognized as of the fourth quarter of 2018 (for more information, see Notes 5 and 13 to the Statements).

This is in accordance with the way the Group's main operational decision maker evaluates the sector's performance and makes decisions regarding the allocation of resources to the segment.

In addition, see Note 14.4 regarding a summary of selected data from the statements of Yes Television and Communication Services Ltd. as well as the table below.

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1.2.2. Activity segments (Cont.)

f. Results of Yes Television Services Ltd. (Cont.) - Comparison between accounting income and proforma income

	1-6/2023		1-6/2022		4-6/2023		4-6/2022	
	Accounting income	Pro forma profit and loss	Accounting income	Pro forma profit and loss	Accounting income	Pro forma profit and loss	Accounting income	Pro forma profit and loss
	NIS millions				NIS millions			
Revenues	665	665	632	632	336	336	316	316
Operating and general expenses	446	445	429	416	218	220	223	208
Salary	98	94	97	94	46	44	47	45
Depreciation and amortization	96	119	96	134	46	59	46	68
Other expenses (income), net	(1)	(1)	2	2	-	-	2	2
Operating profit (loss)	26	8	8	(14)	26	13	(2)	(7)
Financing income, net	(9)	(9)	(5)	(5)	(4)	(4)	(4)	(4)
Taxes on income	-	-	1	1	-	-	-	-
Segment profit (loss)	35	17	12	(10)	30	17	2	(3)

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1.3. Cash flow

	1-6/2023	1-6/2022	Increase (decrease)		4-6/2023	4-6/2022	Increase (decrease)		Explanation
	NIS millions		% of total income	NIS millions	% of total income		NIS millions	% of total income	
Net cash flow from operating activities	1,622	1,963	(341)	(17.4)	773	870	(97)	(11.1)	The decrease in the net cash flow from current activities was due to changes in working equity, mainly due to the advance of the crediting dates with the credit card companies in the corresponding quarter in the cellular communications segment and, in the period, also due to a shift in the collection from customers from the fourth quarter of the year 2021 to the first quarter of the year 2022 due to the labor strikes in the cellular communications segment and in the Bezeq International services segment in 2021.
Net cash flow used for Investing activities	(1,849)	(1,113)	(736)	(66.1)	(1,099)	(845)	(254)	(30.1)	The increase in the net cash flow used for investment activity in the period resulted from the classification of cash as restricted cash in the Company as well as from changes in net investments in the landline interior communications segment. The increase in the quarter was mainly due to a change in net investments in the landline interior communications segment.
Net cash flow derived from (used for) financing activities	274	(850)	1,124	-	(2)	(323)	321	99.4	The transition in the period to a net cash flow resulting from financing activities was mainly due to early repayments of debentures in the corresponding period in the Company and in Bezeq, as well as from the expansion of debentures in the Company and in Bezeq in the current period. The decrease in the net cash flow used for financing activities in the quarter was mainly due to the expansion of debentures carried out in the Company, from the early repayment of bonds and the buyback of shares carried out in the Company in the corresponding quarter.
Net increase (decrease) in cash	47	-	47	-	(328)	(298)	(30)	(10.1)	

Average volume in the reported half

Long-term liabilities (including current liabilities) to financial institutions and bondholders: approx. NIS 10,023 million.

Provider credit: approx. NIS 968 million.

Short-term customer credit: approx. NIS 1,490 million. Long-term customer credit: approx. NIS 305 million.

Working equity

The Group's consolidated working equity as of June 30, 2023 amounted to approximately NIS 511 million, compared with working equity of approximately NIS 648 million as of June 30, 2022.

The Company's working equity (according to the "Solo" Statements) as of June 30, 2023 amounted to approximately NIS 39 million, compared with working equity of approximately NIS 107 million as of June 30, 2022.

Bezeq (according to the "Solo" Statements) as of June 30, 2023, has a working equity surplus in the amount of approximately NIS 469 million, compared with a deficit in working equity of approximately NIS 585 million as of June 30, 2022.

The decrease in the working equity surplus in the Group and the Company was mainly due to a decrease in cash balances and an increase in current financial debt, offset by an increase in investments and a decrease in employee benefits.

1.4. Disclosure regarding the Company's projected cash flow

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

1.5. Update on the effects of inflation and the increase in interest rates on the results of the Group's activities

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

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

In the six-month period that ended on June 30, 2023, the increase in the consumer price index was manifested in Bezeq Group's financing expenses to the extent of approximately NIS 63 million (approximately NIS 52 million after hedging) compared to a decrease of about NIS 28 million (about NIS 18 million after hedging) in the corresponding period. It should be noted that the net effect of the increase in interest rates in the economy on the Bezeq Group's operating results was not material during the reporting period.

In accordance with the scope of the Group's index-linked debt as of June 30, 2023, every 1% increase in the Consumer Price Index is expected to result in an increase in Bezeq Group's financing expenses to the extent of approximately NIS 28 million, this is before considering the effect of hedging transactions. In addition, in accordance with the volume of Bezeq's existing floating interest rate debt, a change of every 1% in the Bank of Israel interest rate is expected to result in an increase in Bezeq Group's financing expenses to the extent of approximately NIS 7 million per year and, accordingly, no material impact on Bezeq Group's operating results is expected as a result.

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

2.1. Disclosure regarding valuations

The following are details of a highly material valuation (attached to Bezeq's financial statements) and a substantial and a material valuation in accordance with Regulation 8B(i) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. For more information, see Note 5 in the Statements.

	Yes Television Services Ltd. ("Yes") (*) Highly material valuation is attached to the Statements as of June 30, 2023
Identification of subject of valuation	Examination of the impairment of the assets of Yes as of June 30, 2023
Timing of the valuation	June 30, 2023; The valuation was signed on August 8, 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 June 30, 2023 is negative in the amount of approx. NIS 27 million.
Value of the subject of the valuation determined in accordance with the valuation	The total enterprise value of Yes is negative in the amount of approximately NIS 129 million. In light of the negative enterprise value, the net value of Yes' assets and liabilities was determined as the fair values or zero, whichever is higher. Accordingly, a recoverable amount was determined for Yes, 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 approximately NIS 85 million. Based on the valuation, the Group recognized, in the six- and three-month periods that ended on June 30, 2023, an impairment loss in the amount of approximately NIS 127 million and about NIS 58 million, respectively.
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 cum laude from Ben-Gurion University, Beer-Sheva, and is also a certified public accountant in Israel. 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. The valuator has no dependence on Bezeq. Bezeq undertook to indemnify the valuator for damages in excess of three times her fee unless he acted maliciously or through gross negligence.
Valuation model	In the first stage - the value using the DCF discounting method was updated compared to the valuation as of December 31, 2022. According to the examination conducted by the valuator and to the estimate of Yes' Management, during the period there were no changes that may indicate a material change requiring an update of Yes' forecasts in relation to the forecast used for the preparation of the valuation as of December 31, 2022. In parallel, an adjustment was made in the calculation of the value of use for June 30, 2023 mainly due to timing differences in payments to suppliers. In the second step - the fair value of yes's net assets and liabilities, minus costs, is determined Sale for June 30, 2023.

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	Yes Television Services Ltd. ("Yes") (*) Highly material valuation is attached to the Statements as of June 30, 2023
The assumptions according to which the valuator performed the valuation	Discount rate - 10% (after tax). The rate of permanent growth - 1%. The percentage of the scrap value of the total value determined in the valuation - irrelevant. In addition, assumptions were made regarding fair value minus sales costs of Yes assets.

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

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 material events after the date of the financial statements - see Note 15 to the Condensed Consolidated Financial Statements.

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Details related to debentures

- 2.4.** During the month of March, Bezeq raised funds through the expansion of series 13 and 14 bonds in the amount of approximately NIS 415 million.

On March 20, 2023 and March 22, 2023, Maalot announced an iIAA- rating for the debentures that Bezeq will issue through the expansion of series 13 and 14 (see immediate reports Refs. 2023-01-024652 and 2023-01-025747). It should be noted that, in addition, on May 3, 2023, Maalot confirmed Bezeq's iIAA- rating and updated its rating forecast from stable to positive, in light of an improvement in Bezeq's financial relations (see immediate report Ref. 2023-01-040606).

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

- 2.5.** On June 19, 2023, Midroog established the rating of A3.il with a stable horizon for the Company's series C and series F debentures in circulation. In addition, Midroog established the rating of A3.il with a stable horizon for additional debentures to be issued by the Company from series F in the amount of up to NIS 550 million by way of series expansion (see immediate report Ref. 2023-01-057163).

On June 22, 2023, the Company issued to institutional bodies and the public about 538 million in series F debentures for about NIS 500 million.

On July 20, 2023, the Company made a full and final early repayment of NIS 497 million on series C debentures plus accrued interest until the vesting date.

2.6. Financial clauses in the Company's debentures

In accordance with the Company's series C and F debentures to comply with the LTV condition, the LTV ratio as of June 30, 2023 was 52.9%.

The Company's net debt balance as of June 30, 2023 is approximately NIS 1,916 million and consists of the principal balance and accrued interest as of the balance sheet date for its debentures in the amount of NIS 2,515 million, minus cash balances, restricted cash, and short-term investments in the amount of NIS 599 million.

3. Miscellaneous

For information regarding the balance of liabilities of the reporting corporation in its financial statements as of June 30, 2023, see the form to be reported by the Company on the MAGNA system on August 9, 2023.

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Date of signing: August 8, 2023



Chapter C

Condensed Consolidated Interim Financial Statements As of June 30, 2023 (Unaudited)

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

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Somekh Chaikin
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To
Shareholders of B Communications Ltd.

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

Introduction

We reviewed the attached financial information of B Communications Ltd. and its subsidiaries (hereinafter - the Group), which includes the condensed consolidated report of financial position as of June 30, 2023 and the condensed consolidated statements of income, comprehensive profit, changes in equity and cash flows for the period of six and three months that ended on the same date. The Board of Directors and Management are responsible for preparing and presenting financial information for these interim periods in accordance with the international accounting standard IAS 34 "Financial Reporting for Interim Periods", and they are also responsible for editing financial information for these interim periods according to Chapter D of the Securities Regulations (Periodic and Immediate Financial Reports), 5730-1970. Our responsibility is to express a conclusion on financial information for these interim periods based on our review.

Scope of our review

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

Conclusion

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

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

Emphasis paragraph (drawing attention)

Without limiting our above conclusion, we draw attention to what is stated in Note 1.2 to the attached statements which refers to Note 1.3 to the annual consolidated 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 Bezeq's former controlling shareholder and the announcement of the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and 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 indictments against the former controlling shareholder in Bezeq and former senior executives in the Bezeq Group which attribute to the defendants offenses of obtaining by deceit and reporting offenses under the Securities Law. In addition, following the opening of the said investigation, a number of civil legal proceedings were initiated against Bezeq, former Bezeq officers and companies from Bezeq's controlling group in the past, including motions for approval of class actions. As stated in the above note, the Company is unable to assess the effects of the investigations, their findings and results on Bezeq as well as on the statements and estimates used in the preparation of these reports, if any.

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

Somekh Chaikin
Certified Public Accountants

August 8, 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 June 30, 2023 (Unaudited)

Condensed consolidated interim statements of financial position as of				
		June 30, 2023	June 30, 2022	December 31, 2022
		(Unaudited)	(Unaudited)	(Audited)
Assets	Note	NIS millions	NIS millions	NIS millions
Cash and cash equivalents		801	998	754
Restricted cash	15	500	-	-
Investments	12.1	1,548	1,483	973
Trade receivables		1,501	1,461	1,440
Other receivables		276	365	289
Inventory		125	92	85
Total current assets		4,751	4,399	3,541
Trade and other receivable		411	436	460
Broadcasting rights – net of rights exercised		53	62	57
Right-of-use assets		1,924	1,797	1,746
Property, plant and equipment		6,725	6,459	6,542
Intangible assets		3,248	3,263	3,251
Deferred expenses and non-current investments *		273	258	258
Total non-current assets		12,634	12,275	12,314
Total assets		17,385	16,674	15,855

* Including long-term restricted deposits.

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

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

		June 30, 2023	June 30, 2022	December 31, 2022
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and assets	Note	NIS millions	NIS millions	NIS millions
Debentures, loans and credit	15	1,585	959	921
Current maturities of liabilities in respect of leases		447	466	456
Trade payables		1,774	1,758	1,598
Employee benefits		320	390	399
Provisions	6	114	172	168
Total current liabilities		4,240	3,745	3,542
Loans and debentures	15	8,532	8,947	8,257
Leasing liabilities		1,651	1,477	1,452
Employee benefits		194	211	201
Derivatives and other liabilities		152	140	151
Deferred tax liabilities		328	315	319
Provisions		34	43	37
Total non-current liabilities		10,891	11,133	10,417
Total liabilities		15,131	14,878	13,959
Equity:				
Attributed to the shareholders of the Company		116	56	54
Attributed to non-controlling interests		2,138	1,740	1,842
Total equity		2,254	1,796	1,896
Total liabilities and equity		17,385	16,674	15,855

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Itzik Tadmor
CFO

Date of approval of the financial statements: August 8, 2023

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

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

Condensed consolidated interim income statements

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue (Note 8)	4,607	4,480	2,299	2,225	8,986
Operating expenses					
Operating and general expenses (Note 9) *	1,731	1,665	846	836	3,396
Salary	965	942	473	467	1,877
Depreciation, amortization and impairment *	926	906	468	458	1,868
Other operating expenses, net (Note 10)	35	49	28	3	220
Total operating expenses	3,657	3,562	1,815	1,764	7,361
Operating profit	960	918	494	461	1,625
Financing expenses (income) (Note 11)					
Financing expenses	271	292	150	148	530
Financing income	(85)	(89)	(52)	(49)	(132)
Financing expenses, net	186	203	98	99	398
Profit before taxes on income	764	715	386	362	1,227
Income tax expenses	192	182	100	89	336
Net profit for the period	572	533	286	273	891
Net profit for the period attributable to:					
Shareholders of the company	95	102	37	49	158
Non-controlling interests	477	431	249	224	733
Net profit for the period	572	533	286	273	891
Profit per share (NIS)					
Basic profit per share	0.88	0.92	0.33	0.43	1.42
Diluted profit per share	0.88	0.92	0.33	0.42	1.41

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

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

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

Condensed consolidated interim statements of comprehensive income

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023 (Unaudited) NIS millions	2022 (Unaudited) NIS millions	2023 (Unaudited) NIS millions	2022 (Unaudited) NIS millions	2022 (Audited) NIS millions
Profit for the period	572	533	294	286	891
Reassessment of defined benefit plan, net of tax	-	37	(1)	11	56
Additional other comprehensive loss items, net of tax	(4)	(1)	(6)	(13)	(6)
Total comprehensive income for the period	568	569	279	271	941
Comprehensive income for the period attributable to:					
Shareholders of the company	94	111	35	48	171
Non-controlling interests	472	458	244	223	770
Total comprehensive income for the period	568	569	279	271	941

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

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

Condensed consolidated interim statements of changes in equity

	Shareholders' equity	Premium on shares	Treasury shares	Other funds	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 six months ended June 30, 2023 (unaudited)

Balance as of January 1, 2023	12	1,495	(137)	(30)	(1,286)	54	1,842	1,896
Net profit for the period	-	-	-	-	95	95	477	572
Other comprehensive loss for the period, net of tax	-	-	-	(1)	-	(1)	(3)	(4)
Total comprehensive profit (loss) for the period	-	-	-	(1)	95	94	474	568
Transactions recognized directly in equity								
Share-based compensation	-	-	-	-	-	-	7	7
Transactions with non-controlling interests	-	-	-	-	(32)	(32)	(5)	(37)
Dividend distribution for non-controlling interests	-	-	-	-	-	-	(180)	(180)
Balance as of June 30, 2023	12	1,495	(137)	(31)	(1,223)	116	2,138	2,254

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

Balance as of January 1, 2022	12	1,495	(16)	(29)	(1,446)	16	1,454	1,470
Net profit for the period	-	-	-	-	102	102	431	533
Other comprehensive profit for the period, net of tax	-	-	-	-	9	9	27	36
Total comprehensive profit for the period	-	-	-	-	111	111	458	569
Transactions recognized directly in equity								
Share-based compensation	-	-	-	-	-	-	4	4
Dividend distribution for non-controlling interests	-	-	-	-	-	-	(176)	(176)
Buyback of shares	-	-	(71)	-	-	(71)	-	(71)
Balance as of June 30, 2022	12	1,495	(87)	(29)	(1,335)	56	1,740	1,796

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

Condensed consolidated interim statements of changes in equity (Cont.)

	Shareholders' equity	Premium on shares	Treasury shares	Other funds	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 June 30, 2023 (unaudited)

Balance as of April 1, 2023	12	1,495	(137)	(29)	(1,228)	113	2,075	2,188
Net profit for the period	-	-	-	-	37	37	249	286
Other comprehensive loss for the period, net of tax	-	-	-	(2)	-	(2)	(5)	(7)
Total comprehensive profit (loss) for the period	-	-	-	(2)	37	35	244	279
Transactions recognized directly in equity								
Share-based compensation	-	-	-	-	-	-	4	4
Transactions with non-controlling interests	-	-	-	-	(32)	(32)	(5)	(37)
Dividend distribution for non-controlling interests	-	-	-	-	-	-	(180)	(180)
Balance as of June 30, 2023	12	1,495	(137)	(31)	(1,223)	116	2,138	2,254

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

Balance as of April 1, 2022	12	1,495	(32)	(26)	(1,386)	63	1,693	1,756
Net profit for the period	-	-	-	-	49	49	224	273
Other comprehensive profit (loss) for the period, net of tax	-	-	-	(3)	2	(1)	(1)	(2)
Total comprehensive profit (loss) for the period	-	-	-	(3)	51	48	223	271
Transactions recognized directly in equity								
Buyback of shares	-	-	(55)	-	-	(55)	-	(55)
Dividend distribution for non-controlling interests	-	-	-	-	-	-	(176)	(176)
Balance as of June 30, 2022	12	1,495	(87)	(29)	(1,335)	56	1,740	1,796

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

Condensed consolidated interim statements of changes in equity (Cont.)

	Shareholders' equity	Premium on shares	Treasury shares	Other funds	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 year ended December 31, 2022 (audited)

Balance as of January 1, 2022	12	1,495	(16)	(29)	(1,446)	16	1,454	1,470
Profit for the year 2022	-	-	-	-	158	158	733	891
Other comprehensive profit (loss) for the period, net of tax	-	-	-	(2)	15	13	37	50
Total comprehensive profit (loss) for the period	-	-	-	(2)	173	171	770	941
Transactions recognized directly in equity								
Share-based compensation	-	-	-	1	-	1	11	12
Joining of businesses	-	-	-	-	-	-	1	1
Dividend distribution for 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 statements form an integral part thereof.

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

Condensed consolidated interim cash flow statements					
	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from operating activities					
Profit for the period	572	533	286	273	891
Adjustments:					
Depreciation, amortization and impairment	926	906	468	458	1,868
Financing expenses, net	202	234	111	108	445
Capital loss (gain), net	(2)	3	(1)	1	(8)
Share-based compensation	7	4	4	-	12
Income tax expenses	192	182	100	89	336
Change in trade and other receivables	(118)	343	(13)	126	342
Change in inventory	(45)	(29)	11	8	(21)
Change in trade and other payables	43	(19)	(130)	(108)	(54)
Change in provisions	22	28	18	(15)	24
Change in employee benefits	(87)	(112)	(56)	(29)	(91)
Change in other liabilities	3	(8)	3	(6)	18
Income Tax paid, net	(93)	(102)	(28)	(35)	(271)
Net cash derived from operating activities	1,622	1,963	773	870	3,491
Cash flows from investing activities					
Purchase of property, plant and equipment	(675)	(673)	(340)	(338)	(1,353)
Investment in intangible assets and deferred expenses	(182)	(184)	(101)	(89)	(346)
Payment for frequencies to the Ministry of Communications	-	-	-	-	(88)
Government grant received for frequencies	-	-	-	-	74
Investment activity, net	(561)	(283)	(185)	(432)	223
Proceeds from the sale of property, plant and equipment	35	21	2	6	40
Classification as restricted cash	(500)	-	(500)	-	-
Interest received from bank deposits	28	8	21	6	23
Miscellaneous	6	(2)	4	2	7
Net cash used for investing activities	(1,849)	(1,113)	(1,099)	(845)	(1,420)

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

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

Condensed consolidated interim cash flow statements (Cont.)					
	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows for financing activities					
Issuance of debentures and receipt of loans	915	300	500	300	400
Transaction of non-controlling interests	(27)	-	(27)	-	(15)
Repayment of debentures and loans	(58)	(527)	(58)	(157)	(1,416)
Leasing principal and interest payments	(223)	(203)	(98)	(92)	(420)
Buyback of shares	-	(67)	-	(56)	(121)
Interest paid	(153)	(151)	(139)	(142)	(307)
Dividend distributed to non-controlling interests	(180)	(176)	(180)	(176)	(392)
Costs in respect of early repayment of loans and debentures	-	(26)	-	-	(26)
Payment for expired hedging transactions	-	-	-	-	(18)
Net cash derived from (used for) financing activities	274	(850)	(2)	(323)	(2,315)
Net increase (decrease) in cash and cash equivalents	47	-	(328)	(298)	(244)
Cash and cash equivalents for the beginning of the period	754	998	1,129	1,296	998
Cash and cash equivalents at the end of the period	801	998	801	998	754

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

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

1. General

1.1. The reporting entity

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

The condensed consolidated financial statements of the Company as of June 30, 2023 include those of the Company and its subsidiaries (hereinafter collectively - "the Group"). (See also Note 13 - 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 its summons to a hearing, see Note 1.3 to the annual statements.

On July 13, 2023, the judgment of the Supreme Court was issued, which accepted the State's appeal on the cancellation of some of the charges in the letter of indictment filed against former Group officers (in relation to the payment of the consideration paid by Bezeq for the purchase of the shares of the subsidiary Yes Television and Communication Services Ltd., and in relation to the conduct of independent committees established for the purpose of examining transactions involving related parties). The State's appeal was accepted for all respondents (except for Eurocom Holdings (1979) Ltd.), and the case was returned to the District Court for further evidentiary investigation.

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

No effect 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 condensed consolidated interim financial statements only the material changes that occurred from the date of the last annual financial statements to the date of these interim financial statements.

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

2.3. This concise consolidated interim financial statements was approved by the Company's Board of Directors on August 8, 2023.

2.4. Use of estimates and discretion

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

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

3. Reporting rules and accounting policies

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 the Group's entities since the publication of the annual statements.

4.1. Yes Television Services Ltd. (Yes)

4.1.1. As of June 30, 2023, Yes has a positive equity in the amount of NIS 5 million, as well as a working equity deficit in the amount of NIS 193 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 August 8, 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 July 1, 2023 until September 30, 2024, instead of a similar commitment from May 2023. It should be noted that so far, during 2023, Yes did not utilize the credit facilities provided by Bezeq in any way.

In the opinion of Yes' Management, the sources of funding available to it, which include, *inter alia*, the continuation of the current policy of deficit in working equity 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 June 30, 2023.

4.2. Bezeq International Ltd.

See Note 5.2 below regarding impairment of assets recognized by Bezeq International in the statements as of June 30, 2023.

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

4.3. Dividends 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 Assembly of Bezeq's shareholders (following the recommendation of Bezeq's Board of Directors of March 13, 2023) approved the distribution of a cash dividend to Bezeq's shareholders in a total amount of NIS 246 million (which, as of the day determining the distribution, is NIS 0.088922 per share). The dividend was paid on May 11, 2023. The Company's share of the aforementioned dividend is approximately NIS 66 million.
- 4.3.3. On August 8, 2023, Bezeq's Board of Directors decided to recommend to the General Meeting of Bezeq's shareholders to distribute a cash dividend to Bezeq's shareholders in the total amount of NIS 392 million. As of the date of approval of the financial statements, the said dividend has not yet been approved by the General Meeting of the Bezeq shareholders. The Company's share of the said dividend, when approved, is about NIS 106 million.

4.4. Investment in Bezeq

During the second quarter of 2023, the Company purchased 7,807,995 ordinary shares of the subsidiary Bezeq for a total amount of approximately NIS 37 million (of which approximately NIS 10 million were paid after the balance sheet date). After the aforementioned purchases and as of the date of the statements, the Company holds 27.08% of the issued share capital and voting rights in Bezeq.

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

5. Impairment

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

In accordance with the examination conducted by an external valuator as of June 30, 2023 and in accordance with the assessment of Yes' Management, it was found that during the six months that have elapsed since the date of the previous valuation, there have been no changes that may indicate a material change requiring the update of Yes' forecasts in relation to the forecast used for preparing the valuation as of December 31, 2022.

In parallel, in light of timing differences in relation to the forecast that was used to estimate the value for December 31, 2022, an adjustment was made in the calculation of the value in use for June 30, 2023. The main adjustment is due to the balance of suppliers as of the valuation date, which mainly originates from the timing of payments to content and equipment suppliers that will be paid later in 2023.

The current value of the activity as of June 30, 2023, taking into account the adjustment made, is negative and amounts to a total of NIS 129 million.

Therefore, in light of the negative enterprise value, Yes amortized its assets as of June 30, 2023 to the net fair value amount of these assets, the negative amount of NIS 85 million.

Based on the fair value assessment of Yes' assets, which was performed by an external valuator as of June 30, 2023, the book value of the depreciable assets is about NIS 58 million higher than the fair value, net. Therefore, the Group recognized, in the period of six and three months ended June 30, 2023, an impairment loss of approximately NIS 127 million and NIS 58 million, respectively.

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

	Yes' enterprise value (according to the DCF method)	Fair value of Yes' 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
As of June 30, 2023 and for the period of three months that ended on that date (unaudited)	(129)	(85)	(27)	(58)
As of March 31, 2023 and for the period of three months that ended on that date (unaudited)	(159)	(145)	(76)	(69)
Total impairment recognized in period of six months that ended June 30, 2023				(127)
As of December 31, 2022 and for the year that ended on that date (audited)	(103)	(88)		(275)

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

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

	For period of six months ended		For period of three months		For year
	June 30		ended June 30		ended
	2023	2022	2023	2022	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Broadcasting rights *	63	79	28	47	149
Property, plant and equipment **	42	38	16	18	76
Intangible assets **	20	21	13	11	45
Other payables (advance expenses) *	2	4	1	3	3
Rights to use leased assets**	-	2	-	-	2
Total impairment recognized	127	144	58	79	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 to the annual financial statements.

5.2. Impairment in the Internet, international communications and network endpoint, and ICT services 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 materially lower value than Bezeq International's book value.

As of June 30, 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 as of this date, and has based itself on the results of the valuation as of December 31, 2022, according to which the enterprise value is negative and amounts to a total of NIS 166 million. The current value as of June 30, 2023 considering the update of the discount rate was negative and amounted to a total of NIS 162 million.

The net fair value of Bezeq International's assets as of June 30, 2023 is a negative amount of approximately NIS 27 million. Therefore, in light of the negative enterprise value as determined in the valuation as of June 30, 2023, Bezeq International amortized its assets up to the amount of the net fair value of these assets. Based on the fair value assessment of Bezeq International's assets, which was performed by an external valuator as of June 30, 2023, the book value of the depreciable assets is approximately NIS 21 million higher than the fair value, net. Therefore, the Group recognized, in the period of six and three months which ended on June 30, 2023, an impairment loss in the amount of about NIS 42 million and about NIS 21 million, respectively.

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

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

	DBS' enterprise value (according to the DCF method)	Fair value of DBS' assets and liabilities, net	Book value of DBS' assets and liabilities, net before recognition of impairment	Impairment loss
	NIS millions	NIS millions	NIS millions	NIS millions
As of June 30, 2023 and for the period of three months that ended on that date (unaudited)	(162)	(27)	(6)	(21)
As of March 31, 2023 and for the period of three months that ended on that date (unaudited)	(162)	(5)	16	(21)
Total impairment recognized in period of six months that ended June 30, 2023				(42)
As of December 31, 2022 and for the year that ended on that date (audited)	(166)	(22)		(104)

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

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Property, plant and equipment and intangible assets **	28	38	14	14	71
Short-term and long-term advance expenses *	9	11	3	3	21
Long-term advance payments for capacities **	5	6	4	4	12
Total impairment recognized	42	55	21	21	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 Bezeq International determined the fair value (at level 3) of the assets minus exercise costs, see Note 10.6 to the annual statements.

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

6. Contingent liabilities

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

In the opinion of the managements of the Group companies, which is based, among other things, on legal opinions regarding the chances of the legal claims, the statements included adequate provisions in the amount of NIS 108 million, where provisions were required to cover the exposure as a result of such legal claims.

In the opinion of the managements of the Group companies, the amount of additional exposure (beyond said provisions), as of June 30, 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 1.8 billion. Additional exposure in the amount of approximately NIS 2.5 billion in respect of claims the chances of which is not yet possible to assess at this stage. In addition, motions were filed against the Group companies to recognize the claims as class actions that did not specify an exact amount of the claim, for which the Group has additional exposure beyond the aforementioned. The amounts of additional exposure in this Note are nominal.

- 6.2. The following is a description of the contingent liabilities of the Bezeq Group that were in effect as of June 30, 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.	88	1,700	689
Claims by enterprises and companies	Legal claims in which the liability of the Group companies is claimed in connection with their operations and / or investments.	20	68	1,808 ⁽²⁾⁽¹⁾
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	Other legal claims, including tort claims (except for claims in which there is no dispute about the existence of insurance coverage), real estate, infrastructure, suppliers, etc.	-	27	4
Total legal claims against Bezeq and the subsidiaries⁽³⁾		166	108	1,795

- (1) The total includes two motions for approval of a class action in the total amount of NIS 1.8 billion filed in June 2017 against the Company, Bezeq, officers in the Bezeq Group and companies from the then controlling group of the Company and Bezeq regarding the purchase of Yes 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 1.2) and at the request of the Attorney General at this stage, until July 20, 2024.

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

6. Contingent liabilities (Cont.)

- (2) On May 23, 2023, the Company signed a settlement agreement in the amount of approximately USD 5.5 million (approx. NIS 20 million) in respect of two motions for the approval of class action lawsuits filed in June 2017, inter alia, against the company, Bezeq, officers in Bezeq Group as well as companies from the then controlling group of the Company and Bezeq regarding the transaction to purchase DBS shares by Bezeq from Eurocom DBS Ltd. The settlement amount does not include offsetting the insurance company's participation by virtue of the officers' insurance.

At this stage, the settlement agreement has been submitted for approval by the District Court in Tel Aviv (Economic Department) and there is no certainty that it will be approved. To the extent that the settlement agreement is approved, this will end the involvement of the Company and Shaul Elovitch (in his capacity as the Company's former controlling shareholder and Chairman of the Board of Directors only) and Or Elovitch (in his capacity as a former director in the Company only) in the motions for approval.

The provision in the Company's books for the aforementioned settlement minus the expected receipt from the insurance company in the amount of approx. NIS 19 million was imputed to other expenses in the income statement in the second quarter of 2023.

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

7. Equity

	As of June 30, 2023	As of June 30, 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)	(6,401,822)	(9,080,317)
Issued and paid up capital, net	107,255,476	109,933,971	107,255,476

On August 8, 2022, the Company's Board of Directors approved a buyback plan of the Company's shares in the amount of up to NIS 30 million, which will begin on August 13, 2023 and end: (1) purchase in the amount of NIS 30 million; or (2) on November 1, 2023, whichever is earlier.

As of the date of approval of the financial statements, Searchlight and the Forer family hold approximately 65.26% and 12.35%, respectively, of the Company's net issued and paid-up share capital.

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

8. Revenues

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Interior landline communication - Bezeq					
Internet	940	846	474	428	1,729
Landline telephony	348	400	171	185	762
Transmission and data communication	477	445	241	225	897
Cloud and digital services	176	164	89	83	331
Other services	164	137	89	65	261
	2,105	1,992	1,064	986	3,980
Mobile radio telephone - Pelephone					
Cellular services and end equipment	880	865	444	437	1,755
Sale of end equipment	299	312	131	151	604
	1,179	1,177	575	588	2,359
	665	632	336	316	1,277
Multi-channel TV - Yes					
Internet (ISP), international communications and network endpoint services – Bezeq International	568	582	279	289	1,183
Other	90	97	45	46	187
Total revenues	4,607	4,480	2,299	2,225	8,986

9. Operating and general expenses

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
End equipment and materials	402	394	181	191	743
Connectivity and payments to communications operators in Israel and abroad	399	362	197	179	782
Content costs (including depreciation of content)	278	280	137	149	567
Marketing and general	236	263	126	131	539
Services and maintenance by subcontractors	257	220	126	109	454
Maintenance of buildings and sites	127	115	63	60	247
Vehicle maintenance	32	31	16	17	64
Total operating and general expenses	1,731	1,665	846	836	3,396

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

10. Other operating expenses, net

	For period of six months ended June 30		For period of three months ended June 30		For year ended December
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Capital gain (loss) (mainly from exercise of real estate)	(2)	3	(1)	1	(8)
Provision for claims, net	37	45	28	2	55
Expenses in respect of the termination of an employer-employee relationship in early retirement in Bezeq	4	4	1	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	4	-	4	-	102
Other income	(8)	(3)	(4)	(2)	(7)
Other operating expenses, net	35	49	28	3	220

11. Financing expenses, net

	For period of six months ended June 30		For period of three months ended June 30		For year ended December
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Interest expenses in respect of financial liabilities	176	152	96	78	309
Financing expenses for liabilities in respect of leases	28	20	16	10	43
Linkage differences and exchange rate	52	79	31	51	125
Other financing expenses	7	8	3	4	19
Financing expenses in respect of employee benefits	8	-	4	-	-
Costs due to early repayment of loans and debentures	-	26	-	-	26
Change in the fair value of financial assets measured at fair value through statement of income	-	7	-	5	8
Total financing expenses	271	292	150	148	530
Financing revenue in respect of employee benefits *	-	30	-	10	40
Revenue from credit grossing in sales	11	12	4	6	20
Change in the fair value of financial assets measured at fair value through statement of income	20	24	12	18	23
Other financing income	54	17	36	15	49
Income from exchange of debentures	-	6	-	-	-
Total financing income	85	89	52	49	132
Total financing expenses, net	186	203	98	99	398

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

12. Financial instruments

12.1. Investments composition

	June 30, 2023	June 30, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Shekel deposits in banks (1)	884	1,326	787
Foreign currency deposits in banks	-	29	12
Investments in financial funds and marketable assets measured at fair value	641	108	159
Derivative instruments	23	20	15
Total	1,548	1,483	973

(1) Deposits in NIS in banks due before January 2025.

12.2. Fair value

Financial instruments measured at fair value for disclosure purposes only

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

	As of June 30, 2023		As of June 30, 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)	1,471	1,400	1,554	1,542	1,530	1,462
Debentures issued to the public (index-linked)	2,703	2,653	3,000	3,099	2,402	2,373
Debentures issued to the public (non-linked)	5,270	5,070	4,744	4,706	4,569	4,386
Total	9,444	9,123	9,298	9,347	8,501	8,221

12.3. Fair value hierarchy

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

	June 30, 2023	June 30, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Level 1 - Investment in financial funds and marketable securities measured at fair value through income	641	108	159
Level 2 – Forward contracts	55	23	42

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13. Segment reporting

For period of six months ended June 30, 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	2,106	1,179	568	664	90	-	4,607
Inter-segmental revenue	135	22	37	1	1	(196)	-
Total revenue	2,241	1,201	605	665	91	(196)	4,607
Depreciation, amortization and impairment	501	268	63	119	2	(27)	926
Segment results - operating profit (loss)	821	100	30	8	(4)	(5)	950
Financing expenses	205	17	8	5	-	36	271
Financing income	(58)	(29)	(4)	(14)	-	20	(85)
Total financing expenses (income), net	147	(12)	4	(9)	-	56	186
Segment profit (loss) after financing expenses, net	674	112	26	17	(4)	(61)	764
Income taxes	164	27	-	-	1	-	192
Segment results - net profit (loss)	510	85	26	17	(5)	(61)	572
For period of six months ended June 30, 2022 (unaudited)							
	Interior landline communication	Cellular communication *	Internet, international communications, network endpoint services and ICT solutions	Multi- channel TV *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	1,992	1,177	582	632	97	-	4,480
Inter-segmental revenue	171	22	27	-	5	(225)	-
Total revenue	2,163	1,199	609	632	102	(225)	4,480
Depreciation, amortization and impairment	487	258	67	134	2	(42)	906
Segment results - operating profit (loss)	779	116	13	(14)	7	17	918
Financing expenses	231	16	5	5	-	35	292
Financing income	(61)	(32)	(2)	(10)	-	16	(89)
Total financing expenses (income), net	170	(16)	3	(5)	-	51	203
Segment profit (loss) after financing expenses, net	609	132	10	(9)	7	(34)	715
Income taxes	148	30	-	1	3	-	182
Segment results - net profit (loss)	461	102	10	(10)	4	(34)	533

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized starting from 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 to the condensed selected data from the financial statements of Yes.

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For period of three months ended June 30, 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	1,065	574	280	335	45	-	2,299
Inter-segmental revenue	65	11	13	1	1	(91)	-
Total revenue	1,130	585	293	336	46	(91)	2,299
Depreciation, amortization and impairment	256	135	33	59	-	(15)	468
Segment results - operating profit (loss)	418	49	16	13	(3)	(9)	484
Financing expenses	107	7	4	3	-	29	150
Financing income	(36)	(13)	(1)	(7)	-	5	(52)
Total financing expenses (income), net	71	(6)	3	(4)	-	34	98
Segment profit (loss) before financing expenses, net	347	55	13	17	(3)	(43)	386
Income taxes	86	14	-	-	-	-	100
Segment results - net profit (loss)	261	41	13	17	(3)	(43)	286

For period of three months ended June 30, 2022 (unaudited)							
	Interior landline communication	Cellular communication *	Internet, international communications, network endpoint services and ICT solutions	Multi- channel TV *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	986	588	289	316	46	-	2,225
Inter-segmental revenue	81	11	13	-	5	(110)	-
Total revenue	1,067	599	302	316	51	(110)	2,225
Depreciation, amortization and impairment	248	136	29	68	1	(24)	458
Segment results - operating profit (loss)	393	52	17	(7)	3	3	461
Financing expenses	110	9	3	3	-	23	148
Financing income	(34)	(16)	(1)	(7)	-	9	(49)
Total financing expenses (income), net	76	(7)	2	(4)	-	32	99
Segment profit (loss) after financing expenses, net	317	59	15	(3)	3	(29)	361
Income taxes	74	13	-	-	2	-	89
Segment results - net profit (loss)	243	46	15	(3)	1	(29)	273

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized starting from 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 to the condensed selected data from the financial statements of Yes.

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For 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 revenue	326	40	56	-	6	(428)	-
Total revenue	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
Financing 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
Income taxes	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 starting from 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 to the condensed selected data from the financial statements of Yes.

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

14.1. Bezeq the Israel Telecommunications Corporation Ltd.

Data from the statement of financial position:

	June 30, 2023	June 30, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	2,730	2,820	2,086
Non-current assets	9,567	10,217	10,002
Total assets	12,297	13,037	12,088
Current liabilities	2,261	2,235	2,148
Long-term liabilities	8,002	9,317	8,317
Total liabilities	10,263	11,552	10,465
Equity	2,034	1,485	1,623
Total liabilities and equity	12,297	13,037	12,088

Data from the statement of income:

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	2,241	2,163	1,130	1,067	4,306
Operating expenses					
Salary	516	491	253	245	970
Depreciation, amortization and impairment	501	487	256	248	1,005
Operating and general expenses	392	357	197	179	759
Other expenses, net	11	49	6	2	112
Total operating expenses	1,420	1,384	712	674	2,846
Operating profit	821	779	418	393	1,460
Financing expenses (income)					
Financing expenses	205	231	107	110	424
Financing income	(58)	(61)	(36)	(34)	(92)
Financing expenses, net	147	170	71	76	332
Profit after financing expenses, net	674	609	347	317	1,128
Share in the profits of equity-accounted investee, net	144	128	82	64	151
Profit before income taxes	818	737	429	381	1,279
Income taxes	164	148	86	74	279
Profit for the period	654	589	343	307	1,000

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

14.2. Pelephone Communications Ltd.

Data from the statement of financial position:

	June 30, 2023	June 30, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	857	937	865
Non-current assets	2,593	3,537	3,215
Total assets	3,450	4,474	4,080
Current liabilities	713	802	684
Long-term liabilities	833	869	879
Total liabilities	1,546	1,671	1,563
Equity	1,904	2,803	2,517
Total liabilities and equity	3,450	4,474	4,080

Data from the statement of income:

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenues from services	897	883	452	446	1,791
Revenues from end equipment sales	304	316	133	153	608
Total revenues	1,201	1,199	585	599	2,399
Operating expenses					
Operating and general expenses	670	668	319	335	1,327
Salary	164	159	80	77	314
Depreciation, amortization and impairment	268	258	135	136	532
Total operating expenses	1,102	1,085	534	548	2,173
Other expenses (income), net	(1)	(2)	2	(1)	33
Operating profit	100	116	49	52	193
Financing expenses (income)					
Financing expenses	17	16	7	9	42
Financing income	(29)	(32)	(13)	(16)	(68)
Financing income, net	(12)	(16)	(6)	(7)	(26)
Profit before income taxes	112	132	55	59	219
Income taxes	27	30	14	13	54
Profit for the period	85	102	41	46	165

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

14.3. Bezeq International Ltd.

Data from the statement of financial position:

	June 30, 2023	June 30, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	399	394	396
Non-current assets	577	389	364
Total assets	976	783	760
Current liabilities	393	406	431
Long-term liabilities	366	146	139
Total liabilities	759	552	570
Equity	217	231	190
Total liabilities and equity	976	783	760

Data from the statement of income:

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	605	609	293	302	1,239
Operating expenses					
Operating and general expenses	397	413	189	197	827
Salary	109	115	55	59	237
Depreciation, amortization and impairment	63	67	33	29	134
Other expenses, net	6	1	-	-	71
Total operating expenses	575	596	277	285	1,269
Other operating expenses (income), net	30	13	16	17	(30)
Financing expenses (income)					
Financing expenses	8	5	4	3	9
Financing income	(4)	(2)	(1)	(1)	(8)
Financing expenses, net	4	3	3	2	1
Profit (loss) before income taxes	26	10	13	15	(31)
Income taxes	-	-	-	-	1
Profit (loss) for the period	26	10	13	15	(32)

Condensed Consolidated Interim Financial Statements as of June 30, 2023 (Unaudited)

14.4. Yes Television and Communication Services Ltd. (Yes)

Data from the statement of financial position:

	June 30, 2023	June 30, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions
Current assets	236	213	196
Non-current assets	270	253	241
Total assets	506	466	437
Current liabilities	429	419	395
Long-term liabilities	72	82	74
Total liabilities	501	501	469
Capital (deficit in equity)	5	(35)	(32)
Total liabilities and equity (deficit in equity)	506	466	437

Data from the statement of income:

	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Revenue	665	632	336	316	1,277
Operating expenses					
Operating and general expenses	446	429	218	223	867
Salary	96	96	46	46	199
Depreciation, amortization and impairment	98	97	46	47	200
Other expenses, net	(1)	2	-	2	3
Total operating expenses	639	624	310	318	1,269
Operating profit (loss)	26	8	26	(2)	8
Financing expenses (income)					
Financing expenses	5	5	3	3	8
Financing income	(14)	(10)	(7)	(7)	(14)
Financing expenses (income), net	(9)	(5)	(4)	(4)	(6)
Profit before income taxes	35	13	30	2	14
Income taxes	-	1	-	-	1
Profit for the period	35	12	30	2	13

15. Material current and subsequent events

- 15.1. During the month of March 2023, Bezeq raised funds by way of expansion of series 13 and 14 in the amount of approximately NIS 415 million.
- 15.2. On May 9, 2023, Bezeq published a new shelf prospectus further to obtaining the permit.
- 15.3. See Note 4.3.2 above regarding the distribution of a cash dividend by Bezeq on May 11, 2023.
- 15.4. On June 22, 2023, the Company issued to institutional entities and the public approximately NIS 538 million in series F debentures for approximately NIS 500 million net (after issuance expenses). The net proceeds of the issuance of the series F debentures were used by the Company for the full and final early repayment of the balance of series C debentures (plus accrued interest until maturity) on July 20, 2023.
- 15.5. Further to the hosting services agreement with Server Farm that Bezeq International signed in October 2021, Bezeq International received during the second quarter its share in the Bnei Zion server farm property, for which a right-of-use asset and a lease liability of NIS 197 million were recorded. For more details, see also Note 8.5 to the annual report.
- 15.6. On August 6, 2023 and on August 8, 2023, the Bezeq Board of Directors Audit Committee and the Bezeq Board of Directors (respectively) approved an amendment to the collective agreement between Bezeq and the Histadrut workers' organization ("the Amendment"). The Amendment states, among other things, that a special bonus will be paid to Bezeq employees in the amount of NIS 75 million, for past services, most of which is conditional on the dates and conditions stipulated in the agreement depending on the change in the percentage of holdings of the current control permit holders in Bezeq (or the expiration/cancellation/transfer of the control permit) ("**the Conditions**"). The amendment to the agreement also requires the approval of the general meeting of Bezeq's shareholders. After signing the Amendment to the agreement (subject to its approval) Bezeq is expected to register a one-time provision in the amount of NIS 75 million for the full amount of the special grant.
- 15.7. Regarding the resolution of the Bezeq Board of Directors dated August 8, 2023 to recommend to the General Assembly of Bezeq shareholders the distribution of a cash dividend to the Bezeq shareholders and the Company's share of said dividend, see Note 4.3.3.
- 15.8. Regarding the plan for the buyback of the Company's shares, which was approved by the Company's Board of Directors on August 8, 2023, see Note 7.1.



**B. Communications Ltd.
Condensed Separate Interim
Financial Information
As of June 30, 2023
(Unaudited)**

Condensed Separate Interim Financial Information as of June 30, 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 June 30, 2023 and for the period of six and three months that ended on that date. The separate financial information is within the responsibility of the Company’s Board of Directors and Management. It is our responsibility to provide a conclusion on the separate interim financial information for said interim periods based on our review.

Scope of our review

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

Conclusion

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

Emphasis paragraph (drawing attention)

Without limiting our above conclusion, we draw attention to what is stated in Note 4 of the attached financial information which refers to Note 1.3 in the annual consolidated 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 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

August 8, 2023

Condensed Separate Interim Financial Information as of June 30, 2023 (unaudited)

Condensed Interim Financial Data as of				
		June 30, 2023	June 30, 2022	December 31, 2022
		(Unaudited)	(Unaudited)	(Audited)
		NIS millions	NIS millions	NIS millions
Assets				
Cash and cash equivalents		49	4	13
Restricted cash	4.2	500	-	-
Short-term investments and deposits		23	100	63
Other receivables		2	13	1
Total current assets		574	117	77
Long-term deposits		27	27	27
Investment in investee company		1,979	1,827	1,864
Total non-current assets		2,006	1,854	1,891
Total assets		2,580	1,971	1,968
Liabilities				
Current maturities of debentures	4.2	497	-	-
Trade and other payables		18	10	9
Provisions	4.1	20	-	-
Total current liabilities		535	10	9
Debentures		1,929	1,905	1,905
Total non-current liabilities		1,929	1,905	1,905
Total liabilities		2,464	1,915	1,914
Equity		116	56	54
Total liabilities and equity		2,580	1,971	1,968

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Itzik Tadmor
CFO

Date of approval of the financial statements: August 8, 2023

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

Condensed Separate Interim Financial Information as of June 30, 2023 (unaudited)

Condensed Interim Income Data					
	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Costs					
Salary	2	2	1	1	5
Operating and general expenses	3	3	2	1	7
Other expenses (Note 4.1)	19	-	19	-	-
Total costs	24	5	22	2	12
Operating loss	(24)	(5)	(22)	(2)	(12)
Financing expenses (income) (See Note 2)					
Financing expenses	59	57	36	32	106
Financing income	(1)	(6)	(1)	-	(9)
Financing expenses (income), net	58	51	35	32	97
Profit (loss) after financing expenses, net	(82)	(56)	(57)	(34)	(109)
Share in profits of equity-accounted investee, net	177	158	94	83	267
Net profit for the period	95	102	37	49	158

Condensed Interim Comprehensive Profit Data					
	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Profit for the period	95	102	37	49	158
Other comprehensive profit (loss) items, net of tax	(1)	9	(2)	(1)	13
Total comprehensive profit for the period	94	111	35	48	171

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

Condensed Separate Interim Financial Information as of June 30, 2023 (unaudited)

Condensed Interim Cash Flows Data					
	For period of six months ended June 30		For period of three months ended June 30		For year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cash flows from current activities					
Net profit for the period	95	102	37	49	158
Adjustments:					
Share in profits of equity-held investee companies, net	(177)	(158)	(94)	(83)	(267)
Financing expenses, net	60	52	38	32	94
Share-based compensation	-*	-	-*	-	1
Change in other payables	(2)	(1)	(1)	-	3
Change in trade payables	(2)	-	(2)	-	2
Change in provisions	20	-	20	-	-
Net cash used for current activities	(6)	(5)	(2)	(2)	(9)
Cash flows from investing activities					
Change in deposits and investments, net	40	124	(15)	65	163
Classification as restricted cash	(500)	-	(500)	-	-
Investment in investee	(27)	-	(27)	-	(15)
Interest and dividend received in cash	-	-	-	-	2
Dividend received from investee	66	64	66	64	143
Net cash derived from (used for) investing activities	(421)	188	(476)	129	293
Cash flows for financing activities					
Repayment of debentures principal	-	(98)	-	(98)	(100)
Net proceeds from repayment of debentures	500	-	500	-	-
Buyback of shares	-	(67)	-	(56)	(121)
Interest paid	(37)	(39)	(37)	(39)	(75)
Net cash derived from (used for) financing activities	463	(204)	463	(193)	(296)
Increase (decrease) in cash and cash equivalents	36	(21)	(15)	(66)	(12)
Cash and cash equivalents at the beginning of the period	13	25	64	70	25
Cash and cash equivalents at the end of the period	49	4	49	4	13

(*) Represents an amount lower than NIS 1 million.

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

Condensed Separate Interim Financial Information as of June 30, 2023 (unaudited)

Notes to condensed interim financial information

1. Method of preparation of the financial data

1.1. Definitions

"The Company" - "B Communications" Ltd.

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

1.2. Main methods of preparing the financial data

The following is the condensed financial data from the condensed consolidated interim statements of the Group as of June 30, 2023 (hereinafter: the "Consolidated Statements"), attributed to the Company itself ("hereinafter: the "Condensed Separate Interim Financial Information") presented in accordance with the provisions of Regulation 38D (hereinafter - the "Regulation") and Schedule 10 to the Securities Regulations (Periodic and Immediate Reports), 5770-1970 (hereinafter – "Schedule 10") regarding the Condensed Separate Interim Financial Information of the Corporation. This Condensed Separate Interim Financial Information should be read alongside the Consolidated Statements as of the day and year ended December 31, 2022 and alongside the condensed consolidated interim statements as of June 30, 2022 (hereinafter: the "Consolidated Statements").

The accounting policy in this Condensed Separate Interim Financial Information is in accordance with the accounting policy rules which are specified in the Consolidated Statements as of the day and year ended December 31, 2022.

2. Financing expenses, net

	For period of six months ended		For period of three months		For year ended
	June 30		ended June 30		December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Interest expenses in respect of financial debt	59	50	36	27	98
Change in the fair value of financial assets measured at fair value through income	-	7	-	5	8
Total financing expenses	59	57	36	32	106
Interest income from investments in marketable securities and bank deposits	1	-	1	-	3
Income from exchange of debentures	-	6	-	-	6
Total financing income	1	6	1	-	9
Financing expenses, net	58	51	35	32	97

3. Contingent liabilities

For information regarding claims against the Company, see Note 6 in the Consolidated Statements as well as Note 4.1 below.

4. Material current and subsequent events

- 4.1. On May 23, 2023, the Company signed a settlement agreement in the amount of approximately USD 5.5 million (approx. NIS 20 million) in respect of two motions for the approval of class action lawsuits filed in June 2017, *inter alia*, against the company, Bezeq, officers in Bezeq Group as well as companies from the then controlling group of the Company and Bezeq regarding the transaction to purchase DBS shares by Bezeq from Eurocom DBS Ltd. The settlement amount does not include offsetting the insurance company's participation by virtue of the officers' insurance.

At this stage, the settlement agreement has been submitted for approval by the District Court in Tel Aviv (Economic Department) and there is no certainty that it will be approved. To the extent that the settlement agreement is approved, this will end the involvement of the Company and Shaul Elovitch (in his capacity as the Company's former controlling shareholder and Chairman of the Board of Directors only) and Or Elovitch (in his capacity as a former director in the Company only) in the motions for approval.

The provision in the Company's books for the aforementioned settlement minus the expected receipt from the insurance company in the amount of approx. NIS 19 million was imputed to other expenses in the income statement in the second quarter of 2023.

- 4.2. On June 22, 2023, the Company issued to institutional entities and the public approximately NIS 538 million in series F debentures for approximately NIS 500 million net (after issuance expenses). The net proceeds of the issuance of the series F debentures were used by the Company to perform full and final early repayment of the balance of Series C debentures (plus interest accrued by the maturity date) on July 20, 2023.
- 4.3. During the second quarter of 2023, the Company purchased 7,807,995 ordinary shares of the subsidiary Bezeq for a total amount of approximately NIS 37 million (of which approximately NIS 10 million were paid after the balance sheet date). After the aforementioned purchases, the Company owns 27.08% of the issued share capital and voting rights in Bezeq.
- 4.4. For information regarding the distribution of a dividend by Bezeq during the second quarter of 2023 and its share in the said dividend and a distribution subject to the approval of the Bezeq General Assembly, see Note 4.3 to the Consolidated Statements.
- 4.5. Regarding the plan for the buyback of the Company's shares, which was approved by the Company's Board of Directors on August 8, 2023, see Note 7.1 to the Consolidated Financial Statements.
- 4.6. Regarding an amendment to the special collective agreement with Bezeq employees, see Note 15.6 to the Consolidated Statements.
- 4.7. For information regarding the investigation by the Securities Authority and the Israel Police, see Note 1.2 to the Consolidated Statements.
- 4.8. Regarding loss from impairment in respect of Bezeq International and Yes, see Note 5 to the Consolidated Statements.



Chapter E

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

Period ended June 30, 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 regarding the effectiveness of the internal control over the financial reporting and the disclosure which was attached to the quarterly report for the period ending on March 31, 2023 (hereinafter - the quarterly report regarding the latest internal control), the internal control was found to be effective.

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

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

Regarding the investigations by the Israel Securities Authority and the Israel Police, as detailed in Section 1.1.7 of the chapter describing the Corporation's business in the periodic report for 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 quarterly report of B Communications Ltd. (hereinafter – the “Corporation”) for the second quarter of 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: August 8, 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 second 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: August 8, 2023

Itzik Tadmor, Chief Financial Officer