August 9, 2022

Bezeq - The Israel Telecommunication Corporation Ltd.

Quarterly Report for the Period Ended June 30, 2022

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2021

Directors Report on the State of the Company's Affairs for the period ended June 30, 2022

Condensed Interim Financial Statements as at June 30, 2022

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

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2021

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

Update to Chapter A (Description of Company Operations) [1] to the Periodic Report for 2021 (the "Periodic Report") Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company")

1. General development of the Group's business

Section 1.1.5 – Structural changes – restructuring of the subsidiaries

Regarding the establishment of ISP activity in DBS – Following the application of DBS to the Ministry of Communications in April 2022 for a special license for internet access services (ISP), in June 2022, DBS received the license and started to provide these services as part of the combined bundles for customers.

On May 17, 2022, the Company's Board of Directors approved the appointment of Ilan Sigal as CEO of the subsidiaries Pelephone, DBS, and Bezeq International, replacing Ran Guron, who was appointed as Company CEO (see the update to section 2.9.5). Until Ilan Sigal takes office (August 28, 2022), Dganit Kramer, Deputy CEO and VP of Private Customers in these subsidiaries serves as Acting CEO.

Section 1.1.6 – Investigation by the Israel Securities Authority and Israel Police

Further to subsection 1.1.6.3 regarding the filing of an indictment against former officers in the Group, referring to fraudulent payment of the consideration for the acquisition of DBS shares by the Company, and fraudulent conduct of the independent committees established by the Company to review the transactions of the Company's interested parties – On July 20, 2022, the Economic Department of the Tel Aviv-Jaffa District Court announced its ruling on the motion filed by some of the defendants to dismiss charges in the case (the "Ruling"). Under the Ruling, the second and third charges in the indictment (fraudulent conduct of the independent committees in the "Bezeq-yes" transaction and the "yes-Spacecom" transaction) were dismissed against all the defendants in these charges: the former controlling owner of the Company, Shaul Elovitch; former officers of the Company – Or Elovitch, Amikam Shorer, and Linor Yochelman; and against the companies in these charges – Eurocom Group companies. The Ruling further stipulates, among other things, that the claim made by Shaul Elovitch cannot be accepted, whereby the indictment reveals no culpability with the first charge (fraudulent receipt of advance payments on account of the second contingent consideration in the "Bezeq-yes" transaction). The Ruling further emphasizes that it has no implications whatsoever on the civil aspect and on pending proceedings in this context (it should be noted that a number of civil cases are pending against the Company and/or its former officers regarding the transactions underlying the Ruling, as set out in section 2.18.1 of the Description of Corporate Affairs in the Company's Periodic Report for 2021). The Company is assessing the Ruling and its consequences.

Section 1.4.2 – Dividend distribution

For details about the dividend distributed by the Company in May 2022, and about the recommendation of the Company's Board of Directors to the general meeting of the Company's shareholders regarding the distribution of a dividend, see Note 7.2 to the Financial Statements.

Distributable profits as at the reporting date: NIS 1,731 million (retained earnings accumulated in the last two years after deduction of the distribution in May 2022).

[1] The update is in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or developments that have occurred in the Company's business in any matter that must be described in the Periodic Report. The update refers to the Company's Periodic Report for 2021 and refers to the section numbers in Chapter A (Description of Company Operations) in that Periodic Report.

Section 1.5.4 – Main results and operational data

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

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

(1) EBITDA (earnings before interest, taxes, depreciation and amortization) is a financial metric that is not based on generally accepted accounting principles. The Company presents this as an additional metric for assessing its business results since this is a generally accepted metric in the Company's area of operations that offsets aspects arising from the variance in the capital structure, various tax aspects and methods, and the amortization period for fixed assets and intangible assets. This metric is not a substitute for metrics based on GAAP and it is not used as a sole metric for assessing the results of the Company's operations or cash flows. Additionally, the metric presented in this report may be calculated differently from corresponding metric in other companies. The Company's EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from the impairment of fixed assets and intangible assets. To present fairly its financial activity, the Company presents continuing losses from the impairment of fixed assets and intangible assets in DBS and Bezeq International under depreciation and amortization, and continuing losses from the impairment of broadcasting rights under general and operating expenses (in the statement of income). For further information, see Note 5 to the financial statements and section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

(2) Free cash flow is a financial metric that is not based on GAAP. Free cash flow is defined as cash from operating activities less cash for the purchase/sale of fixed assets and intangible assets, net, and from 2018, with the application of IFRS 16, lease payments are also deducted. The Company presents free cash flow as an additional

metric for assessing its business results and cash flows, since the Company believes that free cash flow is an important indicator of liquidity that reflects cash resulting from operating activities after cash investments in infrastructure and other fixed assets and intangible assets. For further information, see section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

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

(4) Calculated according to average number of lines for the period. For further information, see also section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

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

(6) The number of telephony subscribers (gross) who left Bezeq Fixed Line during the period divided by the average number of registered telephony subscribers in the period. See also section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

(7) The total number of internet lines includes retail and wholesale lines. Retail – direct internet lines provided directly by the Company. Wholesale – internet lines provided through a wholesale service to other communications providers.

(8) Revenue from retail internet services is divided by the average number of retail customers in the period. For further information, see also section 7 of the chapter Description of Company Operations in the Periodic Report for 2021. As from the second quarter of 2022, this figure also includes revenues for internet access service (ISP).

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

B. Pelephone

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

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

(2) Subscriber figures include Pelephone subscribers (excluding subscribers from other operators hosted on the Pelephone network and excluding IOT subscribers), and do not include inactive subscribers connected to Pelephone's service for six months or more. An inactive subscriber is one who in the past six months has not received one call, has not made one call / sent one SMS, or has performed no browsing activity, or has not paid for Pelephone services. Prepaid subscribers are included in the number of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if the subscriber makes no outgoing use of the device for six months or more. It should be noted that a customer may have more than one subscriber number ("line"). Subscribers include subscribers who use various services (such as data for vehicle media systems), with an average revenue that is significantly lower than for other subscribers. It should be noted that Pelephone markets bundles with an increased browsing volume adapted also for 5G requirements, and shortly before the publication date of the report, Pelephone has 702 thousand subscribers for such bundles.

(3) Monthly ARPU (postpaid and prepaid). The metric is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period. See also section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

(4) The churn rate is calculated at the ratio of subscribers who disconnected from Pelephone's services and subscribers who became inactive in the period, to the average number of active subscribers in the period. See also section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

C. Bezeq International

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

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

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

(3) The number of internet subscribers who left Bezeq International in the period, divided by the average number of registered internet subscribers in the period. See also section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

D. DBS

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenues (NIS million)	316	316	322	318	315	315
Operating profit (loss) (NIS million)	(2)	10	(14)	30	22	(6)
Depreciation, amortization and continuing impairment (NIS million)	46	50	52	45	45	61
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	44	60	38	75	67	55
Net profit (loss) (NIS million)	2	10	(17)	29	18	0
Cash flow from operating activities (NIS million)	43	78	42	73	56	62
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)	49	46	55	38	42	43
Lease payments	6	6	7	6	7	6
Free cash flow (NIS million) (1)	(12)	26	(20)	29	7	13
Number of subscribers (at the end of the period, in thousands) (2)	567	564	563	560	560	559
Of which, IP subscribers (3)	280	253	226	198	173	147
Of which, STINGTV subscribers	94	89	84	79	74	70
Monthly average revenue per user (ARPU) (NIS)(4)	184	186	190	188	186	187
Churn rate (5)	2.9%	3.7%	3.4%	3.7%	3.7%	4.3%

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

(2) Subscriber – a single household or small business customer. In the case of a business customer with more than a certain number of decoders (such as a hotel, kibbutz, or gym), the number of subscribers is standardized. The number of subscribers listed for business customers that are not small businesses, is calculated by dividing the total payment received from all the business customers that are not small businesses by the average revenue per small business customer, which is determined periodically.

(3) As at the publication date of the report, 291 thousand DBS subscribers use yes and STINGTV broadcasts over the internet (of which 97 thousand are STINGTV subscribers) (as set out in sections 5.2.2.1 and 5.2.2.2 of the chapter Description of Company Operations in the Periodic Report for 2021), representing 51% of all DBS subscribers. This figure also includes subscribers using satellite services as well.

(4) Monthly ARPU is calculated by dividing total DBS revenues (excluding revenues from the sale of content to external broadcasting entities and revenue from end equipment) by the average number of customers in the period. See also section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

(5) Number of DBS subscribers who left DBS during the period, divided by the average number of registered DBS subscribers in the period. See also section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

Section 1.6 – Medium-term forecast and aspirations for the Group

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

- Adjusted net earnings[2] for shareholders is expected to be between NIS 1.1 billion and 1.2 billion (compared with between NIS 1 billion and NIS 1.1 billion in the Original Forecast).
- Adjusted EBITDA[3] is expected to be between NIS 3.65 billion and NIS 3.75 billion (compared with NIS 3.7 billion in the Original Forecast).

[2] Adjusted net profit and adjusted EBITDA – net of other operating expenses/income, one-time losses/gains from impairment/appreciation, and equity compensation plan expenses.

[3] See footnote 2.

- CAPEX[4] is expected to be between NIS 1.7 billion and NIS 1.8 billion (no change compared with the Original Forecast).

In addition, for the deployment scope of the Company's fiber network – reaching 1.5 million households (compared with 1.4 million in the Original Forecast).

The Company's forecasts in this section are forward-looking information, as defined in the Israel Securities Law. The Group’s forecasts are based on the Company’s assessments, assumptions, and expectations, and among other things, on the Group’s assessments for the structure of competition in the telecommunications market and regulation in this sector, on the current economic situation, and accordingly, the Group's ability to implement its plans for 2022, and taking note of changes that may occur in the foregoing, in business conditions and the effects of regulatory decisions, technology changes, or developments in the structure of the telecommunications market, or insofar as one or more of the risk factors listed in the Periodic Report for 2021 materialize.

Section 1.7 – General environment and the effect of outside factors on the Group's activity

Section 1.7.2 – Activities of Bezeq Group as a communications group and the structural separation restrictions

Subsection 1.7.2.4 – Marketing a joint service bundle of internet infrastructure with ISP – Regarding the elimination of the separation between broadband infrastructure service and internet access service (ISP), further to the section, on April 3, 2022 (the effective date), the Company began marketing and providing a unified infrastructure and ISP service.

Section 1.7.4 – Regulatory aspects relevant to the entire Group or to a number of Group companies

Subsection 1.7.4.1 – On June 28, 2022, an amendment to interconnect regulations was published, stipulating that the transfer of interconnect payments for telephony calls terminated on cellular or domestic carrier networks will be gradually reduced over three years as follows:

1. On June 15, 2023: for a call terminating on a cellular network, a maximum rate of 4 agorot per minute, for a call terminating on a domestic carrier network, 0.7 agorot per minute, and for an outgoing international call – based on the network from which it originated (domestic carrier or cellular).
2. On June 15, 2024: for a call ending on a cellular network, a maximum rate of 2 agorot per minute, for a call ending on a domestic carrier network, 0.4 agorot per minute, and for an outgoing international call – based on the network from which it originated (domestic carrier or cellular).
3. On June 15, 2025, a related arrangement will come into effect, according to which each operator will bear its own costs and interconnect fees will no longer be transferred between cellular and domestic carrier license holders for call minutes, calls terminating in the networks of cellular operators and on domestic carrier networks (a bill and keep arrangement), and an international operator will not pay for forwarding an outgoing international call.

For incoming international calls on a cellular or domestic operator network, the payment by an international operator will be according to the cellular or domestic operator requirement, respectively (effective from July 28, 2022).

At this stage, this is the same as SMS interconnect fees.

The change in the interconnect fees as set out above is not expected to have a material effect on the Group.

Subsection 1.7.4.6 regarding the notice of the Consumer Protection Authority of February 2021, on the intention to impose a financial sanction of NIS 6.75 million on the Company for an alleged violation of Section 2(A)(1) of the Consumer Protection Law, claiming that the Company did not provide the minimum speed promised to many consumers who purchased a TOP 100 browsing package. Subsequently, in April 2022, the Company received a demand for payment of a financial sanction in the

[4] CAPEX – payments (gross) for investment in property plant and equipment and intangible assets.

amount of NIS 6.9 million, which in effect rejects the Company's position. The Company paid the financial sanction and appealed the demand for payment.

Subsection 1.7.4.10 regarding the change in the regulation for providing telecommunication services

On July 4, 2022, an amendment to the Communications Law (the “Amendment to the Law") was published. Under the Amendment to the Law that will come into effect on October 2, 2022, the existing regulation for telecommunications will be modified, among other things, such that the requirement to obtain a specific license prior to performing any telecommunications activity, which was the key tool for regulating communication services in Israel, will be revoked, and instead the default regulatory requirement will be registration in the registry. The registry will be administered by the Director General of the Ministry of Communications, following a review of threshold conditions. The Amendment to the Law specified cases in which the requirement to obtain a license will continue to apply (for further information, see the description in the 2021 reports for this section). The Amendment to the Law is expected to lower regulatory entry barriers to the communications market, and new entities seeking to operate in the market will not require a license and will be able to operate after registration, other than in the cases set out in the Amendment to the Law.

Furthermore, on July 18, 2022, the Ministry of Communications published Draft Regulations (Communications Regulations) (Telecommunications and Broadcasting) (General Permit for Providing Telecommunications Services), 2022) for public comments, to implement the amendment to the regulation (the “Draft Regulations"). According to the letter of the Director General of the Ministry of Communications attached to the Draft Regulations, many of the entities currently providing telecommunications services will be transferred from an arrangement through a license to an arrangement through registration in a dedicated registry and subject to regulations. The regulations regulate registration in the registry and the provisions applicable to registered telecommunication service providers. The main activity of the Group companies will not be regulated through registration in the registry and will remain subject to licenses. According to the letter, notwithstanding the fundamental change in the manner of regulation, some of the provisions of the regulations are the same as or similar to the license provisions currently in effect. The letter from the Director General of the Ministry of Communications further states that the licenses of the license holders will not be automatically canceled and will continue to apply (including, as aforesaid, licenses in the Group companies), will be amended on an individual basis and are required to conform to the new arrangement method and the provisions of the regulations, and that the Ministry is considering two options in this context: (1) the provisions of the Draft Regulations will also apply to the license holders and in any contradiction – the provisions of the Draft Regulations will prevail; (2) the provisions of the Draft Regulations will not apply at all to the license holders until implementation of amendments are completed. In addition, under the Draft Regulations, it is proposed to establish a requirement to disconnect "dormant subscribers" from internet access services (subscribers who continue to pay a monthly fee to authorized suppliers without using services) if they do not use the service for six months. If this requirement is established, it is not expected to have a material effect on the Group.

The effect of the amendment to the law on the Group companies depends, among other things, on how it is implemented by the Ministry of Communications, including the final wording of the Draft Regulations, which is being reviewed by the Company.

Subsection 1.7.4.14 regarding a hearing on the preparation for cyber defense management – On May 12, 2022, the licenses of the Company, Pelephone, and Bezeq International were amended to include regulation of most of the issues raised in the hearing and to include the addition of a section and an appendix to the license regarding cyber protection management. The Company, Pelephone, and Bezeq International are acting to implement the amendments to the licenses.

Section 1.7.6 – Pandemic – COVID-19 outbreak

In this regard, see also Note 1.2 to the Financial Statements.

Section 1.8.3 – Streamlining and promoting synergies between the subsidiaries

Regarding the implementation of measures to advance and implement streamlining and synergy among the subsidiaries – The scope of implementing streamlining and synergy processes is being negotiated as part of the renewal of the collective agreements with the employees’ representatives of Bezeq International and Pelephone.

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

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

Subsection 2.6.6.6 regarding the Company's Be router – As at the publication date of the report, 715 thousand Company customers use the Be router (70% of the Company's retail internet customers). In addition, the Company marketed 392 thousand units of products to improve the reception range of Be Spot and Be Mesh home internet networks.

Section 2.9.5 – Officers and senior management in the Company

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

On April 28, 2022, the general meeting of the Company's shareholders approved, among other things, an updated compensation policy for three (3) years, effective from January 1, 2022, which includes clarification of amendments for reimbursement of compensation paid due to incorrect financial information, adjustment of the compensation policy to allow the granting of performance-based variable compensation to the chairperson of the Company's Board of Directors, as well as amendments to wording and other technical corrections.

Section 2.11 – Working capital

For information about the Company's working capital, see section 1.3 in the Directors Report.

Section 2.13 – Financing

Regarding the shelf prospectus published by the Company on April 7, 2020 – In April 2022, the Israel Securities Authority approved an extension of the period for offering securities under the shelf prospectus until April 7, 2023. According to the Authority's approval, in view of the enforcement proceedings regarding the Company, if the Company wishes to publish a shelf offering report under the shelf prospectus in the period stated and as long as the proceedings are ongoing, any such shelf offering report will be subject to a permit from the Israel Securities Authority under Article 2(8) of the Israel Securities Regulations (Cases in which the Publication of a Shelf Offering Report will be Subject to a Permit from the Israel Securities Authority), 2016.

Section 2.13.6 – Credit rating

On May 10, 2022, Maalot affirmed its ilAA-/Stable rating of the Company and its debentures. In addition, on May 15, 2022, Midroog affirmed its Aa3.il rating of the Company's debentures with stable outlook. For further information see the Company's immediate reports dated May 10, 2022 and May 15, 2022, included in this report by way of reference, and section 3 in the Directors Report.

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

On May 16, 2022, the Company received a call for proposals published by the Ministry of Communications for the provision of communications services to the business sector, in which the Ministry is calling on companies in the communication market that provide communications services to the medium-large business sector, to describe their activities in the field and the barriers to expanding their activities. This is to advance regulation that will increase competition in the sector. According to the call for public comments, the medium-large business customer market is characterized by a significant economy of scale and significant barriers to entry and expansion that also limit the long-standing players. In addition, the Company's market share in the sector and the rate of change in these market shares indicate a low level of competition in the sector that affects prices and the level of services received by businesses in Israel, and therefore, the Ministry is taking steps to assess the state of competition and barriers in the sector and is asking for the opinions of the players. On June 20, 2022, the Company submitted its reference to the call for public comments, according to which the communication sector for large and medium-sized businesses is a competitive market with no barriers to entry and expansion and no market failures, and in such circumstances regulatory intervention is not required.

Section 2.16.1 – Control over Company tariffs

Subsection 2.16.1.8 – regarding the hearing to set a maximum rate for access service to passive infrastructure (duct access) and dark fiber service in incentive areas published by the Ministry of Communications on February 21, 2022 – On July 19, 2022, the Company received the resolution of the Minister of Communications, including signed regulations and the recommendation of the Economics Department at the Ministry of Communications regarding the setting of a reduced rate for use of the Company's passive infrastructure in incentive areas and infrastructure in transition areas to incentive areas. According to the resolution, the Minister set the maximum payments for incentive areas and for transition areas to incentive areas, as follows:

– For access service to passive infrastructure: NIS 105 per km per month (compared with NIS 409)

– For dark fiber service: NIS 193 per km per month (compared with NIS 501)

For payments for services in transition areas to incentive areas, such payments will come into effect after determining regulation regarding identification of usage in these areas. As stated in the resolution, together with a new pricing process for all wholesale rates planned for 2022, the supervised rates will also be reviewed.

The Company believes that the direct financial effect due to the setting of the reduced rates is not expected to be material.

Section 2.18.1 – Pending legal proceedings

Subsection A regarding a class action for compensation for losses allegedly incurred by the Company's shareholders due to the Company's reporting omissions, and partial certification of the claim as a class action – The parties to the proceeding are negotiating to end the proceeding in a settlement in which the plaintiffs will be paid a total amount of NIS 75 million (including compensation and attorney's fees) by the D&O insurance company and at no cost to the Company and the defendant officers. It should be noted that at this stage, these are negotiations only, and there is no certainty that a binding agreement will be reached. In addition, a settlement agreement in this matter, if signed, will be subject to the approval of the court in which the case is heard. However, under accounting standards, the Company's interim financial statements for the first quarter of 2022 included a provision in the amount of the settlement, and on the other hand, due to full insurance coverage, an indemnity asset in the amount of the provision was recognized in the financial statements, such that recognition of the provision has no effect on the Company's results.

Subsections B, D, E (including the procedure set out in footnote 45), F, G – regarding the continued delay of the proceedings in these cases due to the investigation by the Israel Securities Authority and the proceedings arising therefrom – At the request of the state, these cases have been suspended, at this stage, until September 1, 2022 (for subsection C (the application of March 2018) – the state was granted a 30-day extension from July 20, 2022 to submit an updated notice on its behalf in the matter).

Subsection I regarding a motion for disclosure and inspection of documents prior to filing a derivative claim against the Company and Bezeq International, seeking to issue an order for disclosure and inspection of documents for asset balances in the financial statements of Bezeq International – On March 25, 2022, the court approved an agreed motion for the applicants to withdraw the motion for disclosure and inspection of documents by way its dismissal.

Subsection M regarding a claim and motion for its certification as a class action filed against the Company alleging the Company's misrepresentation in connection with the B144 service – On March 23, 2022, a judgment was handed down dismissing the motion for certification while stating that the applicants did not provide any evidentiary or factual basis, even minimal, to show grounds for the claim.

Subsection N regarding a motion for certification of a class action claiming that the Company overcharged for telephony services during the COVID-19 crisis – On June 21, 2022, a judgment was handed down certifying the agreed motion for dismissal from the motion for certification of a class action after clarification that the Company had fully compensated its customers who were overcharged in the amount of NIS 2.5 million. The judgment includes payment of compensation, fees, and expenses in the total amount of NIS 500 thousand.

Section 2.20 – Discussion of risk factors

In view of the rising inflation in recent months (see also section 1.5 of the Directors Report), the Company estimates the effect of the risk of exposure to exchange rate fluctuations, inflation, and interest as having a moderate effect.

3. Cellular – Pelephone Communication Ltd. ("Pelephone")

Section 3.9.4 – Collective agreement

The term of the special collective agreement of November 13, 2019 ended on June 30, 2022. However, a number of issues were settled from the outset in an agreement for a longer period, until the end of 2022. The employees' representatives and the management of Pelephone announced that they are requesting amendments to the collective agreement and the parties are holding negotiations on the matter. Under the provisions of the law (Section 13 of the Collective Agreements Law, 1957), the current collective agreement continues to apply in the meantime as an agreement for an indefinite period.

Section 3.15.2 – Material agreements

Regarding the agreement for the provision of cellular services to state employees – In May 2022, the state chose to exercise the option in the agreement for an additional extension, and the agreement was extended for another nine months, until May 2, 2023.

Section 3.16.1 – Pending legal proceedings

Subsections B and D regarding the dismissal of motions for certification of class actions filed (among others) against Pelephone on the grounds that Pelephone discriminates between Pelephone customers and other customers, and the filing of appeals against the (consolidated) judgment by the applicants of the motions for certification of the class actions – On July 7, 2022, the Supreme Court handed down a judgment dismissing the appeals filed by the applicants.

Subsection E regarding a motion for certification of a class action filed against Pelephone and another cellular company claiming that they do not allow their subscribers to take full advantage of "overseas packages" purchased in advance – On April 26, 2022, a judgment was handed down dismissing the applicants' appeal on the dismissal of the motion for certification.

Section H regarding a motion for certification of a class action filed against Pelephone regarding warranty repair service – On July 21, 2022, a judgment was handed down approving the settlement, which refers mainly to certain amendments to the warranty repair service and granting benefits to relevant customers in a total amount of NIS 640 thousand.

Section 3.19.1.2 – COVID-19 and the supply chain

In 2022, the airline and international tourism sector continued to recover, resulting in increased revenues from roaming services.

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

Section 4.8 – Human resources

The term of the special collective agreement of July 11, 2019 ended on December 31, 2021. The employees' representatives and the management of Bezeq International announced that they are requesting amendments to the collective agreement and the parties are holding negotiations on the matter. Under the provisions of the law (Section 13 of the Collective Agreements Law, 1957), the current collective agreement continues to apply at Bezeq International in the meantime (other than the sections defined specifically in the agreement as having limited validity) as an agreement for an indefinite period.

Further to the update in section 1.1.5 of the Description of Company Operations for the period ended December 31, 2021, regarding the resolution of the boards of directors of the Company and Bezeq International to cancel the merger/split plan with and into DBS and adopt a plan for an alternative outline to reduce the ISP activity of Bezeq International, such that at the end of the process, Bezeq International will become an ICT company focused on growth – The management and employees' representatives of Bezeq International are holding negotiations with the aim of signing a collective agreement adapted to the updated plan. In view of the above, some of the interim agreements reached between the parties to the collective labor relations on November 11, 2021 (when the split/merger plan with DBS was on the agenda) will be revised or adjusted as required. If agreements are reached that will allow the signing of a collective agreement, the agreements will be submitted to the Board of Directors for approval. At this stage, Bezeq International is unable to estimate whether the negotiations will lead to the signing of a collective agreement or what the cost that will be.

Section 4.12.1 – Pending legal proceedings

Subsection A regarding a class-action lawsuit against Bezeq International regarding content filtering services – On June 15, 2022, a judgment was handed down approving the settlement agreement signed by the parties, the main issue being payment by Bezeq International of a total amount of NIS 15 million (of which up to NIS 2.6 million as a service credit benefit).

Regarding the withdrawal of the application for disclosure and inspection of documents prior to filing a derivative claim against the Company and Bezeq International regarding asset balances in the financial statements of Bezeq International – see the update to section 2.18.1(I).

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

Section 5.1 – General information on the operating segment

In May 2022, DBS signed an agreement with a corporation from the Walt Disney Group ("Disney"), according to which, as part of Disney's entry into the Israeli market, DBS, Pelephone, and Bezeq International (the "Subsidiaries") will be permitted to distribute the Disney+ streaming service in Israel (the "Disney+ Service"), together the communication bundles marketed by them, under the prescribed terms, for three years from the date of launching the Disney+ Service by Disney in Israel, in June 2022 (the "Agreement"). Disney will be entitled to payment based on the number of subscribers of the Subsidiaries purchasing the Disney+ Service, which will not be less than the amounts set out in the Agreement, and which are not material to the Company. The Agreement provides DBS with a number of marketing advantages, some of which are subject to Competition Authority approval. However, in June 2022, DBS withdrew its application for Competition Authority approval for the exclusive provisions in the Agreement, and Disney and DBS canceled these provisions.

Section 5.1.2 – Restrictions, legislation and special constraints in the area of activity

Further to the Folkman Committee report and the decision of the Minister of Communications of September 2021, on August 9, 2022, the Ministry of Communications announced a hearing for public comment by October 2022 regarding the Draft Bill on Principles for Regulating Public Broadcasting of Audio-visual Content, 2022, (the "Hearing" and the "Draft Bill", respectively). According to the Hearing and explanatory notes to the Draft Bill, based on the Folkman Committee recommendations, the Bill is intended to amend legislation and revise the obligations and rights that apply to all players operating in the audio-visual content market, in a number of ways, and includes the following principles:

1. A new authority will be established in place of the Council, the Council of the Second Authority, whose role will be to regulate the entire audio-visual content market and which will be authorized to issue directives for preventing actions that may impair competition in the sector (the "Authority").
2. A set of minimum core obligations will apply to the significant players operating in this market, and will include registration, investment in local productions, distribution of the Israel Broadcasting Corporation and Knesset channel content, and directives relating to ethics and consumerism, whereby the scope of such obligations will vary according to the income level of the content provider.
3. The existing restrictions on the economic models in the audio-visual content market will be lifted (while maintaining some of the interchange costs). The existing restrictions on the economic models in the audio-visual content market will be lifted (while maintaining some of the interchange costs). As far as the traditional platforms are concerned, the obligation to provide broadcast channels and allocate channels for broadcasting that apply to them, as well as applicable prohibitions with regard to broadcasting of commercials and news company holdings, will be abolished. Furthermore, the obligation to provide free broadcast channels for the traditional platforms will be cancelled. On this

matter, a transitional provision was established according to which these changes will come into force three years after publication of the law (and two years after the publication of the law the Authority's board may cut this period short).

4. Separate regulations will be established for providing news content to the public.

5. Regulations will be set out regarding public broadcast of sports content to avoid broadcast of significant sports channels through a single content provider, and to ensure that high demand or special interest sports channels will be accessible to the public.

6. Obligations will be defined for investing in local productions, which will apply with the required changes, to all local and international content providers whose scope of activity in Israel is significant, as well as to independent Israeli commercial channels.

DBS is reviewing the hearing document and its implications. As the Hearing was published shortly before the approval of these reports, and since this is just a hearing and it is uncertain whether the hearing will develop into binding legislation, or what its content and regulations will be, it is difficult at this stage to assess the extent of the impact of legislation and regulations that will be established following the hearing (if it is adopted), on the business of DBS.

Section 5.6 – Competition

In June 2022, approval of the Second Authority was received for the activity of Keshet Broadcasting Ltd., which operates, among other things, a commercial TV channel via DBS broadcasts ("Keshet) in a joint venture between RGE Group Ltd. ("RGE") to set up and operate a multichannel broadcasting platform, with the acquisition of non-controlling interests in RGE by Keshet, subsequent to an exemption from a restrictive arrangement of the Competition Authority for the venture, for the period up to September 2025. To the best of DBS's knowledge, project activity is due to begin by the end of 2022, and this is expected to intensify competition in the sector, in particular due to the identity of the project companies (for information about Sports Channel Ltd. which is part of RGE – see section 5.10.2 of the chapter Description of Company Operations in the Company's Periodic Report for 2021).

Section 5.13 – Financing

In August 2022, the Company approved a credit facility or capital investment in DBS for a total amount of up to NIS 40 million, for 15 months from July 1, 2022. This approval is instead of similar approval given in August 2022 (and not in addition to it).

Section 5.18 – Goals and strategy

Section 5.18.1 regarding the migration of DBS from satellite broadcasts to internet broadcasts (OTT) – see the update to section 1.5.4(D) (comment 3).

Section 5.18.3 regarding a restructuring plan and the establishment of ISP activity in DBS – see the update to section 1.1.5.

August 9, 2022	
Date	Bezeq The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:
Gil Sharon, Chairperson of the Board of Directors
Ran Guron, CEO

Chapter B –

Board of Directors' Report on the State of the Company's Affairs for the Period Ended June 30, 2022

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

Board of Directors' Report on the State of the Company's Affairs for the Period Ended June 30, 2022

We hereby present the Board of Directors' report on the state of affairs of Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") and the consolidated Group companies (the Company and the consolidated companies, jointly – the "Group"), for the six months ended June 30, 2022 ("Period") and for the three months ended on the same date ("Quarter").

The Board of Directors' report includes a condensed review of its subject-matter, and was prepared taking into account that the Board of Directors' report as of December 31, 2021 is also available to the reader.

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

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

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

1. **Domestic Fixed-Line Communications**
2. **Cellular Communications**
3. **ISP, International Communications and NEP Services and ICT Solutions (hereinafter: "Bezeq International Services)**
4. **Multichannel Television**

The Group's results were as follows:

	1-6/2022	1-6/2021	Change		4-6/2022	4-6/2021	Change	
	NIS million		NIS million	%	NIS million		NIS million	%
Profit	**589**	702	(113)	(16.1)	**307**	294	13	4.4
EBITDA *	**1,829**	1,996	(167)	(8.4)	**921**	934	(13)	(1.4)
Adjusted EBITDA*	**1,882**	1,862	20	1.1	**924**	944	(20)	(2.1)

* Regarding non-GAAP financial measures, see below.

The decrease in profit for the Period was mainly due to a capital gain on the sale of a real estate property in the Domestic Fixed-Line Communications segment that was recognized in the prior-year period, and higher provision expenses for legal claims. The decrease was primarily moderated by rising profit in the Cellular Communications segment.

For further information see section 1.2 below.

*** Non-GAAP Financial Measures**

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

These measures include:

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

The metrics were calculated as follows:

	1-6/2022	1-6/2021	4-6/2022	4-6/2021
	NIS million			
Operating profit	**923**	1,055	**463**	469
Net of depreciation, amortization and impairment	**906**	941	**458**	465
EBITDA	**1,829**	1,996	**921**	934
Net of other operating expenses (income), net	**49**	(150)	**3**	2
Net of equity compensation plan expenses	**4**	16	**-**	8
Adjusted EBITDA	**1,882**	1,862	**924**	944

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

1.1. Financial position – Assets

	June 30, 2022	June 30, 2021	Change		Explanation
	NIS million			%	
Cash and current investments	**2,377**	1,646	731	44.4	The increase was mainly attributable to increased current investment reserves in the Domestic Fixed-Line Communications segment. For more information, see Section 1.3 below.
Current and non-current trade and other receivables	**2,262**	2,369	(107)	(4.5)	The decrease was mainly due to the advancement of the crediting dates with the credit card companies in the Domestic Fixed-Line Communications segment, the Cellular Communications segment and the Bezeq International Services segment, along with lower trade receivables in the "Others" segment, offset by an increase in other receivables in respect of an insurer's obligation for indemnification coverage for a provision for legal claims in the Domestic Fixed-Line Communications segment (see Note 6.2 to the financial statements).
Inventory	**92**	82	10	12.2	The growth in inventory was mainly attributable to stocking up in the Cellular Communications segment.
Broadcasting rights	**62**	60	2	3.3	
Right-of-use assets	**1,797**	1,786	11	0.6	
Fixed assets	**6,459**	6,267	192	3.1	The increase was largely attributable to the Domestic Fixed-Line Communications segment, due, among other things, to the progress made by the fiber network deployment project.
Intangible assets	**923**	938	(15)	(1.6)	
Deferred tax assets	**-**	42	(42)	-	
Deferred costs and non-current investments	**231**	323	(92)	(28.5)	The decrease was primarily due to the redemption of a long-term shekel deposit in the Domestic Fixed-Line Communications segment.
Total assets	**14,203**	13,513	690	5.1	

1.1 Financial position (cont.) – Liabilities and Equity

	June 30, 2022	June 30, 2021	Change		Explanation
	NIS million			%	
Debt to financial institutions and debenture holders	**8,014**	8,312	(298)	(3.6)	The decrease in debt was due to debenture and loan repayments (including early repayments), offset by the receipt of loans and issuance of debenture Series 13 and 14 in the Domestic Fixed-Line Communications segment.
Lease liabilities	**1,943**	1,909	34	1.8	
Trade and other payables	**1,748**	1,567	181	11.6	The increase stemmed primarily from the reclassification of the liability for payment of the cost of 5G frequencies in the Cellular Communications segment to a current liability, coupled with higher terminal equipment suppliers balances due to stocking up on inventory.
Employee benefits	**601**	688	(87)	(12.6)	The decrease was due to payments for employee retirement and efficiency plans across the Group and a higher discount rate on employee liabilities, offset by an increased provision for termination of employment by way of early retirement during 2021.
Provisions	**215**	133	82	61.7	The increase was attributable to an increase in provisions for legal claims in the Domestic Fixed-Line Communications segment.
Deferred tax liabilities	**57**	40	17	42.5	
Derivatives and other non-current liabilities	**140**	273	(133)	(48.7)	The decrease stemmed mainly from reclassification of the liability for payment of the cost of 5G frequencies in the Cellular Communications segment as a current liability, as well as from a decrease in derivatives in the Domestic Fixed-Line Communications segment.
Total liabilities	**12,718**	12,922	(204)	(1.6)	
Total equity	**1,485**	591	894	151.3	Equity accounts for 10.5% of the total balance sheet, compared to 4.4% of the total balance sheet on June 30, 2021.
Total liabilities and equity	**14,203**	13,513	690	5.1	

1.2. Results of operations

1.2.1. Highlights

	1-6/2022	1-6/2021	Change		4-6/2022	4-6/2021	Change		Explanation
	NIS million			%	NIS million			%	
Revenues	**4,480**	4,421	59	1.3	**2,225**	2,200	25	1.1	The increase in revenues was attributable to the Domestic Fixed-Line Communications segment and Cellular Communications segment, offset by lower revenues in the "Others" segment and Bezeq International Services segment.
General operating expenses	**1,661**	1,628	33	2.0	**834**	797	37	4.6	The increase stemmed from all main Group segments, except for a decrease in expenses in the Cellular Communications segment.
Salaries	**941**	947	(6)	(0.6)	**467**	467	-	-	The decrease was primarily attributable to a decrease in the "Others" segment, which was offset by an increase in the Domestic Fixed-Line Communications segment.
Depreciation, amortization and impairment	**906**	941	(35)	(3.7)	**458**	465	(7)	(1.5)	The decrease in the Group's expenses was partially offset by higher expenses in the Domestic Fixed-Line Communications segment.
Other operating expenses (income), net	**49**	(150)	199	-	**3**	2	1	50.0	The change during the Period was due to higher provision expenses for legal claims in the Domestic Fixed Line Communications segment compared to a decrease in said expenses a year earlier, plus the fact that the prior-year period included a capital gain on the sale of a real estate property. See Note 10 to the financial statements.
Operating profit	**923**	1,055	(132)	(12.5)	**463**	469	(6)	(1.3)	
Financial expenses, net	**152**	135	17	12.6	**67**	84	(17)	(20.2)	The change was mainly attributable to the Domestic Fixed-Line Communications segment. See Note 11 to the financial statements.
Income tax	**182**	218	(36)	(16.5)	**89**	91	(2)	(2.2)	
Profit for the period	**589**	702	(113)	(16.1)	**307**	294	13	4.4	

1.2.2 Operating segments

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

	1-6/2022		1-6/2021		4-6/2022		4-6/2021	
	NIS million	% of total revenues	NIS million	% of total revenues	NIS million	% of total revenues	NIS million	% of total revenues
Revenues by operating segment								
Domestic Fixed-Line Communications	**2,163**	**48.3**	2,093	47.3	**1,067**	**48.0**	1,039	47.2
Cellular Communications	**1,199**	**26.8**	1,146	25.9	**599**	**26.9**	576	26.2
Bezeq International Services	**609**	**13.6**	622	14.1	**302**	**13.6**	310	14.1
Multichannel Television	**632**	**14.1**	630	14.3	**316**	**14.2**	315	14.3
Others and adjustments	**(123)**	**(2.8)**	(70)	(1.6)	**(59)**	**(2.7)**	(40)	(1.8)
Total	**4,480**	**100**	4,421	100	**2,225**	**100**	2,200	100

	1-6/2022		1-6/2021		4-6/2022		4-6/2021	
	NIS million	% of segment revenues	NIS million	% of segment revenues	NIS million	% of segment revenues	NIS million	% of segment revenues
Operating profit by operating segment								
Domestic Fixed-Line Communications	**779**	**36.0**	1,000	47.8	**393**	**36.8**	407	39.2
Cellular Communications	**116**	**9.7**	12	1.0	**52**	**8.7**	15	2.6
Bezeq International Services	**13**	**2.1**	8	1.3	**17**	**5.6**	16	5.2
Multichannel Television*	**(14)**	**(2.2)**	(21)	(3.3)	**(7)**	**(2.2)**	(3)	(1.0)
Others and adjustments	**29**	**-**	56	-	**8**	**-**	34	-
Consolidated operating profit/ % of Group revenues	**923**	**20.6**	1,055	23.9	**463**	**20.8**	469	21.3

*** Results of the Multichannel Television segment are presented net of the total effect of impairment recognized as of the fourth quarter of 2018 (for further information, see Notes 5.1 and 13 to the financial statements). This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 14.3 for condensed selected information from DBS's financial statements.**

1.2.2. Operating segments (cont.)

B. Domestic Fixed-Line Communications segment

	1-6/2022	1-6/2021	Change		4-6/2022	4-6/2021	Change		Explanation
	NIS million			%	NIS million			%	
Internet infrastructure	**877**	801	76	9.5	**443**	403	40	9.9	Retail ARPU increased primarily due to customer services over the fiber network and supplementary terminal equipment, as well as the provision of internet access (ISP) services as of April 2022, coupled with a rise in the number of retail internet lines and higher wholesale Internet service rates, offset by a decrease in the number of wholesale internet lines.
Fixed-line telephony	**409**	471	(62)	(13.2)	**189**	229	(40)	(17.5)	The decrease was attributable to lower average revenue per telephone line (ARPL), owing primarily to a reduction in telephony rates as of April 2022, as well as a lessening of the impact of the COVID-19 pandemic on telephone use, plus a decrease in the number of lines.
Transmission, data communications and other	**713**	663	50	7.5	**352**	331	21	6.3	The increase was mainly due to growth in revenues from transmission services for ISPs and businesses, and from work done for payment.
Digital and cloud services	**164**	158	6	3.8	**83**	76	7	9.2	
Total revenues	**2,163**	2,093	70	3.3	**1,067**	1,039	28	2.7	
General operating expenses	**357**	317	40	12.6	**179**	162	17	10.5	The increase was largely due to higher subcontractor expenses arising from the deployment of the fiber network and from work done for payment.
Salaries	**491**	466	25	5.4	**245**	233	12	5.2	The increase was mainly due to the hiring of employees, higher salaries and a decrease in salaries recognized in investments, offset by the retirement of employees along with a decrease in share-based payments and in actuarial provisions.
Depreciation and amortization	**487**	454	33	7.3	**248**	231	17	7.4	The increase stemmed, inter alia, from investments in the advancement of the fiber-network deployment project.
Other operating expenses (income), net	**49**	(144)	193	-	**2**	6	(4)	(66.7)	The change during the Period was due to higher provision expenses for legal claims compared to a decrease in said expenses in the corresponding period, and the fact that the prior-year period included a capital gain on the sale of a real estate property. See Note 10 to the financial statements.
Operating profit	**779**	1,000	(221)	(22.1)	**393**	407	(14)	(3.4)	
Financial expenses, net	**170**	158	12	7.6	**76**	90	(14)	(15.6)	The change was mainly attributable to financing income from employee benefits due to a higher discount rate, exchange rate differentials arising from a higher dollar exchange rate, and lower interest costs due to a reduction in debt, offset by higher linkage differentials on debentures due to a CPI increase, coupled with costs for early repayment of debentures (Series 9) in the current period. See Note 11 to the financial statements.
Income tax	**148**	204	(56)	(27.4)	**74**	79	(5)	(6.3)	
Segment profit	**461**	638	(177)	(27.7)	**243**	238	5	2.1	

1.2.2 Operating segments (cont.)

C. Cellular Communications segment

	1-6/2022	1-6/2021	Change	Change	4-6/2022	4-6/2021	Change	Change	Explanation
	NIS million			%	NIS million			%	
Services	**883**	801	82	10.2	**446**	409	37	9.0	The increase was primarily due to recovery from the effects of the COVID-19 pandemic, reflected in higher revenues from roaming services and continued growth in the subscriber base, including subscribers to 5G bundles.
Sales of terminal equipment	**316**	345	(29)	(8.4)	**153**	167	(14)	(8.4)	The decrease was mainly attributable to a change in the device sales mix in light of the timing of the launch dates for new models and a reduction in wholesale sales.
Total revenues	**1,199**	1,146	53	4.6	**599**	576	23	4.0	
General operating expenses	**668**	693	(25)	(3.6)	**335**	341	(6)	(1.8)	The decline was largely due to a decrease in the costs of terminal equipment sales in parallel with lower revenues, as well as a reduction in IT costs as a result of the recognition of cloud computing system integration in the prior year period. The decrease was partially offset by increased roaming costs in parallel with higher revenues.
Salaries	**159**	158	1	0.6	**77**	79	(2)	(2.5)	
Depreciation and amortization	**258**	286	(28)	(9.8)	**136**	144	(8)	(5.6)	The decrease for the Period was chiefly due to a decrease in the cost of right-of-use assets at cellular sites and to assets whose amortization period has expired. The decline for the Quarter was mainly due to assets whose amortization period has expired.
Other operating income, net	**(2)**	(3)	1	(33.3)	**(1)**	(3)	2	(66.7)	
Operating profit	**116**	12	104	-	**52**	15	37	-	
Financial income, net	**16**	21	(5)	(23.8)	**7**	11	(4)	(36.4)	The decrease in net financial income was primarily attributable to higher financial expenses in respect of exchange rate differentials, offset in part by higher interest income from loans given to the parent company.
Income tax	**30**	5	25	-	**13**	6	7	116.7	
Segment profit	**102**	28	74	264.3	**46**	20	26	130.0	

1.2.2 Operating segments (cont.)

D. Bezeq International Services

	1-6/2022	1-6/2021	Change		4-6/2022	4-6/2021	Change		Explanation
	NIS million			%	NIS million			%	
Revenues	**609**	622	(13)	(2.1)	**302**	310	(8)	(2.6)	The decrease stemmed primarily from a decline in revenues due to a shrinking number of subscribers, in revenues from equipment and licensing for businesses due to longer delivery times for customers, and in revenues from international calls. The decrease was offset by rising revenues from business services.
General operating expenses and impairments	**413**	402	11	2.7	**197**	191	6	3.1	The increase for the Period was primarily due to higher expenses from business services in parallel with rising cloud licensing sales and higher expenses in respect of internet activity, resulting from growing broadband volume consumption. The increase in these expenses was partially offset by lower expenses on sales of equipment and licenses to businesses coupled with reduced revenues from this area.
Salaries	**115**	118	(3)	(2.5)	**59**	58	1	1.7	The decrease for the Period was mainly due to continued downsizing of the Company's workforce, offset by a decrease in the capitalization of sales incentives.
Depreciation, amortization and impairments	**67**	95	(28)	(29.5)	**29**	46	(17)	(37.0)	The decrease was chiefly attributable to a decrease in net asset impairments (see Note 5.2 to the financial statements), plus lower expenses on amortization of the subscriber acquisition asset and amortization of other property.
Other operating expenses (income), net	**1**	(1)	2	-	**-**	(1)	1	-	
Operating profit	**13**	8	5	62.5	**17**	16	1	6.3	
Financial expenses, net	**3**	1	2	-	**2**	1	1	-	
Income tax	**-**	4	(4)	(100)	**-**	4	(4)	(100)	
Segment profit	**10**	3	7	233.3	**15**	11	4	36.4	

1.2.2. Operating segments (cont.)

E. Multichannel Television (Proforma) *

	1-6/2022	1-6/2021	Change		4-6/2022	4-6/2021	Change		Explanation
	NIS million			%	NIS million			%	
Revenues	**632**	630	2	0.3	**316**	315	1	0.3	
General operating expenses	**416**	412	4	1.0	**208**	199	9	4.5	The increase was largely due to higher marketing expenses, and for the Quarter also due to rising content consumption costs.
Salaries	**94**	91	3	3.3	**45**	44	1	2.3	
Depreciation and amortization	**134**	150	(16)	(10.7)	**68**	75	(7)	(9.3)	The decrease was mainly due to fully amortized assets and revised depreciation estimates.
Other operating expenses (income), net	**2**	(2)	4	-	**2**	-	2	-	
Operating loss	**(14)**	(21)	7	(33.3)	**(7)**	(3)	(4)	133.3	
Financial (income) expenses, net	**(5)**	(3)	(2)	66.7	**(4)**	4	(8)	-	The change stemmed primarily from a change in the fair value of financial assets.
Income tax	**1**	1	-	-	**-**	-	-	-	
Segment loss	**(10)**	(19)	9	(47.4)	**(3)**	(7)	4	(57.1)	

* **The results of the Multichannel Television segment are presented net of the overall effect of impairment recognized as of the fourth quarter of 2018 (for more information, see Notes 5.1 and 13 to the financial statements). This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment.**

In addition, see Note 14.3 to the financial statements for a summary of selected data from DBS's financial statements and also the following table.

DBS Results – A Comparison between Accounting Profit & Loss and Proforma Profit & Loss

	1-6/2022		1-6/2021		4-6/2022		4-6/2021	
	Accounting Profit & Loss	Proforma Profit & Loss	Accounting Profit & Loss	Proforma Profit & Loss	Accounting Profit & Loss	Proforma Profit & Loss	Accounting Profit & Loss	Proforma Profit & Loss
	NIS million							
Revenues	**632**	**632**	630	630	**316**	**316**	315	315
General operating expenses	**429**	**416**	415	412	**223**	**208**	203	199
Salaries	**97**	**94**	95	91	**47**	**45**	45	44
Depreciation and amortization	**96**	**134**	106	150	**46**	**68**	45	75
Other operating (income)	**2**	**2**	(2)	(2)	**2**	**2**	-	-
Operating profit (loss)	**8**	**(14)**	16	(21)	**(2)**	**(7)**	22	(3)
Financial income, net	**(5)**	**(5)**	(3)	(3)	**(4)**	**(4)**	4	4
Income tax	**1**	**1**	1	1	**-**	**-**	-	-
Profit (loss)	**12**	**(10)**	18	(19)	**2**	**(3)**	18	(7)

1.3. Cash Flow

	1-6/2022	1-6/2021	Change		4-6/2022	4-6/2021	Change		Explanation
	NIS million			%	NIS million			%	
Net cash from operating activities	**1,968**	1,294	674	52.1	**872**	594	278	46.8	The increase in net cash from operating activities stemmed from changes in working capital, mainly due to the advancement of the crediting dates vis-à-vis the credit card companies, and with respect to the Period - also due to the deferral of collection from customers from the fourth quarter of 2021 to the first quarter of 2022, owing to sanctions by employees in the Cellular Communications segment and the Bezeq International Services segment. Additionally, lower income tax was paid in the Domestic Fixed Line Communications segment.
Net cash used in investing activities	**(1,237)**	(802)	(435)	54.2	**(910)**	(493)	(417)	84.6	The increase in net cash used in investing activities stemmed from a higher net investment in bank deposits, and with respect to the Period – also from a decrease in proceeds from the sale of fixed assets in the Domestic Fixed-Line Communications segment.
Net cash used in financing activities	**(710)**	(425)	(285)	67.1	**(194)**	(318)	124	(39.0)	The change in net cash used in financing activities was largely due to receipt of a loan, offset in the Quarter by payment of a NIS 240 million dividend, and offset in the Period also by partial early repayment at the Company's initiative of debentures (Series 9) of NIS 370 million, and by early repayment costs.
Net increase (decrease) in cash	**21**	67	(46)	(68.7)	**(232)**	(217)	(15)	6.9	

<u>Average volume in the reported Period</u>
Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 7,881 million
Supplier credit: NIS 970 million
Short-term credit to customers: NIS 1,627 million
Long-term credit to customers: NIS 269 million

The Company has surplus working capital (according to the separate financial statements) as of June 30, 2022 amounting to NIS 585 million, compared with surplus working capital of NIS 258 million as of June 30, 2021.
The Group's surplus working capital as of June 30, 2022 amounted to NIS 560 million, compared with surplus working capital of NIS 296 million as of June 30, 2021.

The increase in the surplus working capital of the Group and Company was mainly attributable to increased current investment reserves, offset primarily by a decrease in trade receivables due to advancement of the crediting dates vis-à-vis the credit card companies and an increase in current financial debt.

1.4. Update on the effects of the COVID-19 pandemic

Further to Note 1.4 to the Annual Financial Statements for 2021 regarding the outbreak of COVID-19, it is noted that the decline in infection rates, the economy's return to full operation, and the easing of restrictions on travel abroad have led to a significant recovery in Pelephone's revenues from roaming services in the reporting period, with these having reached near pre-pandemic levels. The supply chain disruptions and global chip shortage have continued to negatively affect equipment delivery times and prices of the main suppliers for the Group companies, but with no substantial impact on the continuity of business operations.

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

1.5 Update on the effects of the inflation and rising interest rate on the results of operations of the Group

As stated in Note 30.5.1 to the Annual Financial Statements, inflation rate changes impact the Group's profitability and future cash flows primarily due to its CPI-linked liabilities. The Group implements a policy for the partial reduction and hedging of exposure to the CPI and dollar-shekel exchange rate, through the execution of forward transactions. See details regarding the hedging transactions in Note 30.6 to the annual report.

In the six months ended June 30, 2022, the CPI increase impacted the Group's financial expenses by NIS 64 million (NIS 50 million after hedging), compared with the prior-year period. It should be noted that the net effect of the interest rate increase in the economy on the Group's results of operations was immaterial in the reporting period.

Based on the amount of the CPI-linked debt of the Group as of June 30, 2022, a 1% increase in the CPI is expected to cause the Group's financial expenses to grow by NIS 30 million, and this before weighting of the hedging transactions effect. In addition, a 1% change in the Bank of Israel interest rate is not expected to materially affect the Group's results of operations.

2. Disclosure Concerning the Company's Financial Reporting

2.1. Disclosure on valuations

Below are details of a very material valuation and a material valuation pursuant to Regulation 8B(9) of the Securities Regulations (Periodic and Immediate Reports), 1970.
For additional information see Note 5 to the financial statements.

<table>
<tr><th></th><th>DBS (**)
Very material valuation
Attached to the financial statements as at June 30, 2022</th><th>Bezeq International
Material valuation</th></tr>
<tr><td>Subject of valuation</td><td>Testing for impairment of assets of DBS Satellite Services (1998) Ltd. as of June 30, 2022.</td><td>Testing for impairment of assets of Bezeq International Ltd. as of June 30, 2022.</td></tr>
<tr><td>Date of valuation</td><td>June 30, 2022;
The valuation was signed on August 8, 2022</td><td>June 30, 2022;
The valuation was signed on August 8, 2022</td></tr>
<tr><td>Value prior to the valuation had GAAP, including depreciation and amortization, not required a change in value in accordance with the valuation</td><td>Carrying amount before impairment as of June 30, 2022 is a negative NIS 36 million.</td><td>Carrying amount before impairment as of June 30, 2022 is NIS 19 million.</td></tr>
<tr><td>Value set in the valuation</td><td>Total enterprise value (EV) of DBS is a negative NIS 152 million. Given the negative EV, the net value of DBS's assets and liabilities was set at the higher of their fair value or zero. Accordingly, DBS's equity, which is obtained by stating the balance sheet items at fair value, in accordance with IAS 36 requirements, is a negative NIS 115 million.
Based on the valuation, in the six and three months ended June 30, 2022, the Group recognized an impairment loss of NIS 144 million and NIS 79 million, respectively.</td><td>Total enterprise value (EV) of Bezeq International is a negative NIS 692 million (*). Given the negative EV, the net value of Bezeq International's assets and liabilities was set at the higher of their fair value or zero. Accordingly, Bezeq International's equity, which is obtained by stating the balance sheet items at fair value, in accordance with IAS 36 requirements, is a negative NIS 2 million.
Based on the valuation, in the six and three months ended June 30, 2022, the Group recognized an impairment loss of NIS 55 million and NIS 21 million, respectively.</td></tr>
<tr><td>Appraiser's identity and profile</td><td colspan="2">The valuation was prepared by Prof. Hadas Gelander, Partner and Head of Valuations and Economic Modeling in the Economic Department at Ernst Young (Israel) Ltd.
Prof. Gelander holds a Bachelor's Degree in Accounting from the College of Management – Academic Studies, Rishon Lezion; an MBA from the Hebrew University of Jerusalem; and a PhD (with honors) from the Ben Gurion University, Beer Sheva; and is a Certified Public Accountant in Israel.
In her position, Prof. Gelander oversees projects of leading companies in Israel and the world, in various sectors such as: technology, finance, pharmaceuticals, energy, infrastructures, real estate and industry. As part of her duties, she assists and advises companies in the preparation of valuations for business purposes (fair value valuations and opinions) and for accounting purposes (purchase price allocation, valuation of intangible assets, valuation of employee options, etc.), and has provided professional financial opinions as an expert court witness.
The appraiser is not dependent on the Company.
The Company undertook to indemnify the appraiser for damages above three times the fee she was paid, except if she acted with malicious intent or gross negligence.</td></tr>
</table>

2.1 Disclosure on valuations (cont.)

	DBS (**) Very material valuation Attached to the financial statements as at June 30, 2022	**Bezeq International** Material valuation
Valuation model	First stage – The value-in-use was revised using the discounted cash flow (DCF) method compared with the valuation as of March 31, 2022. Second stage – The net fair value less costs to sell was determined for DBS's assets and liabilities as of June 30, 2022.	First stage – The value-in-use was calculated using the discounted cash flow (DCF) method as of June 30, 2022. Second stage – The net fair value less costs to sell was determined for Bezeq International's assets and liabilities as of June 30, 2022.
Assumptions used in the valuation	Assumptions were made concerning the fair value less costs to sell of DBS's assets. In calculating the revised value-in-use by the DCF method, the following parameters were used: Discount rate – 9.5% (post-tax); Terminal growth rate – 1%	Assumptions were made concerning the fair value less costs to sell of Bezeq International's assets. In calculating the value-in-use by the DCF method, the following parameters were used: Discount rate – 10.7% (post-tax); Terminal growth rate – 3%

(*) It should be noted that disregarding the streamlining assumptions, in accordance with accounting standards IAS36 and IAS37, led to an anomalous and non-representative value amounting to a negative NIS 692 million, which was based on the assumptions of Bezeq International's latest multi-year work plan, whereby business operations are expected to shrink throughout the forecast years, but without taking into account the economic benefits expected to arise from the streamlining, due to the restrictions of the aforementioned accounting standards.

(**) Despite the negative enterprise value of DBS, the Company supports DBS by approving credit facilities or investing in DBS's capital (see Note 4.2 to the financial statements). The Company's support of DBS as aforesaid is due, among other things, to the Multichannel Television segment's current and expected contribution to the Bezeq Group's overall operations.

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

3. Details related to debt certificate series

On January 23, 2022, the Company made an early repayment, at its own initiative, of debentures (Series 9) in the amount of NIS 370 million par value.

On May 10, 2022, S&P Maalot affirmed an ilAA-/Stable rating for the Company and its debentures (see Immediate Report). In addition, on May 15, 2022, Midroog affirmed a rating of Aa3.il with a stable outlook for the Company's debentures (see Immediate Report).

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

4. Miscellaneous

For information concerning the balance of liabilities of the reporting corporation and those companies consolidated in its financial statements as of June 30, 2022, see the Company's reporting form that will be posted on the MAGNA system on August 10, 2022.

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

Gil Sharon Chairman of the Board of Directors	Ran Guron Chief Executive Officer

Signed: August 9, 2022

Chapter C:

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

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

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Auditors' Review Report to the Shareholders of

Bezeq - The Israel Telecommunication Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of Bezeq -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – "Group") comprising the condensed consolidated interim statement of financial position as of June 30, 2022 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three-month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting" and are also responsible for the preparation of the financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

Scope of Review

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

Conclusion

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

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

Explanatory Paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 1.3 of the financial information, which refers to that stated in Note 1.3 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) and the Israel Police investigation of the suspicion

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of committing offenses under the Securities Law and Penal Code, with respect inter alia to transactions related to the former controlling shareholder, and notifying the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of the company's prosecution and holding a hearing on suspicion of bribery and reporting in order to mislead a reasonable investor, and as mentioned in that note, regarding the indictment filed against the former controlling shareholder for various offenses, including bribery and misleading information in an immediate report and regarding the filing of an indictment against the former controlling shareholder in the company and former senior executives in the Bezeq Group, which accuses the defendants of receiving anything fraudulently in aggravated circumstances, and reporting offenses under the Securities Law. In addition, subsequent to the investigation opening, a number of civil legal proceedings were initiated against the company, former officers of the company as well as companies from the group that previously controlled the company, including requests for approval of class actions. As stated in the above note, the Company is unable to assess the effects of the investigations, their findings and their results on the Company, and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

In addition, without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the group which in this stage cannot be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 6.

Somekh Chaikin

Certified Public Accountants (Isr.)

August 9, 2022

Condensed Consolidated Interim Statements of Financial Position

		June 30, 2022	June 30, 2021	December 31, 2021
		(Unaudited)	(Unaudited)	(Audited)
Assets	**Note**	**NIS million**	**NIS million**	**NIS million**
Cash and cash equivalents		**994**	907	973
Investments	12.1	**1,383**	739	954
Trade receivables		**1,461**	1,661	1,859
Other receivables		**365**	195	279
Inventory		**92**	82	74
Total current assets		**4,295**	3,584	4,139
Trade and other receivables		**436**	513	433
Broadcasting rights		**62**	60	60
Right-of-use assets		**1,797**	1,786	1,828
Fixed assets		**6,459**	6,267	6,312
Intangible assets		**923**	938	912
Deferred expenses and non-current investments		**231**	323	226
Deferred tax assets		**-**	42	24
Total non-current assets		**9,908**	9,929	9,795
Total assets		**14,203**	13,513	13,934

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

Condensed Consolidated Interim Statements of Financial Position (cont.)

		June 30, 2022	June 30, 2021	December 31, 2021
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	**Note**	**NIS million**	**NIS million**	**NIS million**
Debentures, loans and borrowings		**959**	743	980
Current maturities of lease liabilities		**466**	432	466
Trade and other payables		**1,748**	1,567	1,748
Employee benefits		**390**	462	510
Provisions	6	**172**	84	69
Total current liabilities		**3,735**	3,288	3,773
Loans and debentures		**7,055**	7,569	7,082
Lease liabilities		**1,477**	1,477	1,511
Employee benefits		**211**	226	243
Derivatives and other liabilities		**140**	273	142
Deferred tax liabilities		**57**	40	38
Provisions		**43**	49	49
Total non-current liabilities		**8,983**	9,634	9,065
Total liabilities		**12,718**	12,922	12,838
Total equity	7	**1,485**	591	1,096
Total liabilities and equity		**14,203**	13,513	13,934

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

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

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

Condensed Consolidated Interim Statements of Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 8)	**4,480**	4,421	**2,225**	2,200	8,821
Operating expenses					
General operating expenses (Note 9)*	**1,661**	1,628	**834**	797	3,257
Salaries	**941**	947	**467**	467	1,882
Depreciation, amortization and impairment*	**906**	941	**458**	465	1,889
Other operating expenses (income), net (Note 10)	**49**	(150)	**3**	2	(77)
Total operating expenses	**3,557**	3,366	**1,762**	1,731	6,951
Operating profit	**923**	1,055	**463**	469	1,870
Financial expenses (income) (Note 11)					
Financial expenses	**235**	166	**116**	92	349
Financial income	**(83)**	(31)	**(49)**	(8)	(44)
Financial expenses, net	**152**	135	**67**	84	305
Profit before income tax	**771**	920	**396**	385	1,565
Income tax	**182**	218	**89**	91	382
Net profit for the period attributable to shareholders of the Company	**589**	702	**307**	294	1,183
Basic and diluted earnings per share (NIS)	**0.21**	0.25	**0.11**	0.11	0.43

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	**2021**	**2022**	**2021**	**2021**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Net profit for the period	**589**	702	**307**	294	1,183
Remeasurement of a defined benefit plan, net of tax **(items that will not be reclassified to profit or loss)**	***37**	-	***11**	-	(1)
Additional items of other comprehensive income (loss), net of tax	**(1)**	23	**(13)**	1	37
Total comprehensive income for the period attributable to shareholders of the Company	**625**	725	**305**	295	1,219

* Other comprehensive income was recognized due to an update of the discount rate used to calculate the net defined benefit obligation, as of June 30, 2022.

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Capital reserve for employee options	Other reserves	Accumulated deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to shareholders of the Company						
Six months ended June 30, 2022 (unaudited)							
Balance at January 1, 2022	3,878	384	390	27	(26)	(3,557)	1,096
Profit for the period	**-**	**-**	**-**	**-**	**-**	**589**	**589**
Other comprehensive income (loss) for the period, net of tax	**-**	**-**	**-**	**-**	**(1)**	**37**	**36**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(1)**	**626**	**625**
Transactions with shareholders recognized directly in equity							
Dividend to the Company's shareholders (Note 7)	**-**	**-**	**-**	**-**	**-**	**(240)**	**(240)**
Share-based payment	**-**	**-**	**-**	**4**	**-**	**-**	**4**
Balance at June 30, 2022	**3,878**	**384**	**390**	**31**	**(27)**	**(3,171)**	**1,485**
Six months ended June 30, 2021 (unaudited)							
Balance at January 1, 2021	3,878	384	390	-	(63)	(4,739)	(150)
Profit for the period	-	-	-	-	-	702	702
Other comprehensive income for the period, net of tax	-	-	-	-	23	-	23
Total comprehensive income for the period	-	-	-	-	23	702	725
Transactions with shareholders recognized directly in equity							
Share-based payment	-	-	-	16	-	-	16
Balance at June 30, 2021	3,878	384	390	16	(40)	(4,037)	591
Three months ended June 30, 2022 (unaudited)							
Balance at April 1, 2022	3,878	384	390	31	(14)	(3,249)	1,420
Profit for the period	**-**	**-**	**-**	**-**	**-**	**307**	**307**
Other comprehensive income (loss) for the period, net of tax	**-**	**-**	**-**	**-**	**(13)**	**11**	**(2)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(13)**	**318**	**305**
Transactions with shareholders recognized directly in equity							
Dividend to the Company's shareholders (Note 7)	**-**	**-**	**-**	**-**	**-**	**(240)**	**(240)**
Balance at June 30, 2022	**3,878**	**384**	**390**	**31**	**(27)**	**(3,171)**	**1,485**
Three months ended June 30, 2021 (unaudited)							
Balance at April 1, 2021	3,878	384	390	8	(41)	(4,331)	288
Profit for the period	-	-	-	-	-	294	294
Other comprehensive income for the period, net of tax	-	-	-	-	1	-	1
Total comprehensive income for the period	-	-	-	-	1	294	295
Transactions with shareholders recognized directly in equity							
Share-based payment	-	-	-	8	-	-	8
Balance at June 30, 2021	3,878	384	390	16	(40)	(4,037)	591

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

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

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Capital reserve for employee options	Other reserves	Accumulated deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to shareholders of the Company						
Year ended December 31, 2021 (audited)							
Balance at January 1, 2021	3,878	384	390	-	(63)	(4,739)	(150)
Profit for the year 2021	-	-	-	-	-	1,183	1,183
Other comprehensive income (loss) for the year, net of tax	-	-	-	-	37	(1)	36
Total comprehensive income for the year 2021	-	-	-	-	37	1,182	1,219
Transactions with shareholders recognized directly in equity							
Share-based payment	-	-	-	27	-	-	27
Balance at December 31, 2021	3,878	384	390	27	(26)	(3,557)	1,096

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

Condensed Consolidated Interim Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**589**	702	**307**	294	1,183
Adjustments:					
Depreciation, amortization and impairment loss	**906**	941	**458**	465	1,889
Financial expenses, net	**182**	141	**76**	85	324
Capital loss (gain), net	**3**	(127)	**1**	(2)	(175)
Share-based payment	**4**	16	**-**	8	27
Income tax expenses	**182**	218	**89**	91	382
Change in trade and other receivables	**344**	(47)	**126**	12	(229)
Change in inventory	**(29)**	(15)	**8**	3	(19)
Change in trade and other payables	**(19)**	(158)	**(108)**	(184)	(41)
Change in provisions	**28**	(32)	**(15)**	(3)	(47)
Change in employee benefits	**(112)**	(130)	**(29)**	(93)	(65)
Change in other liabilities	**(8)**	3	**(6)**	1	(5)
Net income tax paid	**(102)**	(218)	**(35)**	(83)	(385)
Net cash provided by operating activities	**1,968**	1,294	**872**	594	2,839
Cash flow for investing activities					
Purchase of fixed assets	**(673)**	(679)	**(338)**	(323)	(1,328)
Investment in intangible assets and deferred expenses	**(184)**	(197)	**(89)**	(95)	(363)
Investment in bank deposits	**(1,179)**	(715)	**(770)**	(204)	(1,031)
Proceeds from repayment of bank deposits	**772**	600	**273**	126	800
Proceeds from the sale of fixed assets	**21**	184	**6**	1	278
Miscellaneous	**6**	5	**8**	2	(2)
Net cash used in investing activities	**(1,237)**	(802)	**(910)**	(493)	(1,646)

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

Condensed Consolidated Interim Statements of Comprehensive Income (cont.)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow for financing activities					
Issue of debentures and receipt of loans	**300**	-	**300**	-	695
Repayment of debentures and loans	**(429)**	(103)	**(59)**	(103)	(1,067)
Principal and interest payments for leases	**(203)**	(194)	**(92)**	(92)	(387)
Interest paid	**(112)**	(128)	**(103)**	(123)	(254)
Dividend paid	**(240)**	-	**(240)**	-	-
Costs for early repayment of loans and debentures	**(26)**	-	**-**	-	(15)
Payment for expired hedging transactions	**-**	-	**-**	-	(30)
Miscellaneous	**-**	-	**-**	-	(2)
Net cash used in financing activities	**(710)**	(425)	**(194)**	(318)	(1,060)
Increase (decrease) in cash and cash equivalents	**21**	67	**(232)**	(217)	133
Cash and cash equivalents at the beginning of the period	**973**	840	**1,226**	1,124	840
Cash and cash equivalents at the end of the period	**994**	907	**994**	907	973

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

1. General

1.1 Reporting entity

Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The condensed consolidated financial statements of the Company as of June 30, 2022 include those of the Company and its subsidiaries (jointly – the "Group"). The Group is a major provider of communications services in Israel (see also Note 13 – Segment Reporting).

1.2 Update on the effects of the COVID-19 pandemic

Further to Note 1.4 to the Annual Financial Statements for 2021 regarding the outbreak of COVID-19, it is noted that the decline in infection rates, the economy's return to full operation, and the easing of restrictions on travel abroad have led to a significant recovery in Pelephone's revenues from roaming services in the reporting period, with these having reached near pre-pandemic levels. The supply chain disruptions and global chip shortage have continued to negatively affect equipment delivery times and prices of the main suppliers for the Group companies, but with no substantial impact on the continuity of business operations.

1.3 Investigations by the Israel Securities Authority and the Israel Police

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

On July 20, 2022, the Economic Division of the Tel Aviv-Yafo District Court issued a decision on the motion filed by some of the defendants to dismiss charges in the case ("the Decision"). Pursuant to the Decision, charges two and three in the indictment (fraud relating to the conduct of the independent committees in the Bezeq-yes transaction and yes-Spacecom transaction) were dismissed against all the defendants charged with these charges: the former controlling shareholder of the Company, Shaul Elovitch; former officers of the Company – Or Elovitch, Amikam Shorer and Linor Yochelman; and the companies charged with said charges – Eurocom Group companies. The Decision further states that Shaul Elovitch's claim that the indictment reveals no culpability with regard to charge one (fraudulent receipt of advance payments on account of the second contingent consideration in the Bezeq-yes transaction) is not acceptable. The Decision also emphasizes that in no way does it influence the civil aspect of the case and the pending proceedings in this regard (it is noted that there are several pending civil proceedings against the Company and/or former officers with respect to the transactions that are the subject of the Decision, as described in Note 17 to the Annual Financial Statements and in Note 6 below). The Company is studying the Decision and its implications.

As mentioned in Note 1.3.3 to the Annual Financial Statements, the Company does not have complete information about the investigations, their content, or the material and evidence in the possession of the law enforcement authorities on this matter Accordingly, the Company is unable to assess the effects, if any, of the investigations, their findings and their results on the Company, on its financial statements and on the estimates used in the preparation of the financial statements.

2. Basis of Preparation

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

2.2 The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and they should be read in the context of the annual financial statements of the Company and its subsidiaries as of December 31, 2021 and for the year then ended, and their accompanying notes (the "Annual Financial Statements"). The notes to the condensed consolidated interim financial statements include only the material changes that have occurred from the date of the most recent Annual Financial Statements until the date of these consolidated interim financial statements.

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on August 9, 2022.

2.4 Use of estimates and judgments

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

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

3. Reporting Principles and Accounting Policy

3.1 The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual Financial Statements, except for that stated in Note 3.2 below.

3.2 First-time application of the Amendment to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" regarding onerous contracts

The Group began applying the Amendment to IAS 37 regarding onerous contracts on January 1, 2022. As per the amendment, in assessing whether a contract is onerous, the costs of fulfilling a contract that should be considered comprise the costs that relate directly to the contract, which include the following:

A. Incremental costs; and

B. An allocation of other costs that relate directly to fulfilling contracts (such as depreciation expenses on property, plant or equipment used in fulfilling the contract being assessed and other additional contracts).

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

4. Group Entities

A detailed description of the Group entities appears in Note 12 to the Annual Financial Statements. Below is a description of the material changes that occurred in connection with the Group entities since the publication of the Annual Financial Statements.

4.1 Structural change in the Subsidiaries

As stated in Note 12.1.2 to the Annual Financial Statements, on March 16, 2022, the Company's Board of Directors decided, pursuant to the resolutions passed on the same day by the Subsidiaries' boards of directors, to cancel the Merger/Spin-off Plan (a previous plan for a structural change in the Subsidiaries, whereby Bezeq International's consumer activity was to be merged with and into DBS, while Bezeq International's ICT activity was to be spun off into a new wholly owned subsidiary of the Company), and to approve an alternative outline, whereby Bezeq International's ISP activity in the consumer sector would be reduced following cancellation of the separation of broadband infrastructure services and Internet access (ISP) services, while ISP activity would be established at DBS for the sale of "Triple Play" packages to customers ("the Alternative Outline"), with a view to achieving, insofar as possible, the strategic, business and financial objectives underlying the decision to promote the structural change, namely, adapting the activity to the structure of the industry and to the evolving regulation, focusing on increasing revenues and growth, and boosting operational synergy and efficiency.

Under the Alternative Outline, the business objectives that underpinned the Merger/Spin-off Plan will be achieved, since DBS is set to become a sales arm for the “Triple Play” package, which combines fiber-optics and television, while Bezeq International will become a growth-focused ICT company at the conclusion of the process. Moreover, the Alternative Outline has the potential to substantially reduce Bezeq International's ISP costs and investments, in parallel with an accelerated reduction in this activity.

The Company and the Subsidiaries are currently unable to estimate whether and when all the requisite conditions for implementing the Alternative Outline will be in place. Accordingly, there is no certainty as to whether the Alternative Outline will be realized in the manner described above, or at all.

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

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

4.2.2 On April 27, 2022, the Company's Board of Directors approved a credit facility or investment in the capital of DBS in the amount of NIS 40 million for 15 months, as of April 1, 2022 until June 30, 2023, instead of a similar undertaking from November 2021. It should be noted that thus far in 2022, DBS has not made any use of the credit facilities provided by the Company.

In August 2022, the Company's Board of Directors approved a credit facility or investment in the capital of DBS in the overall amount of up to NIS 40 million, for 15 months, as of July 1, 2022. This approval is in lieu of the approval given in April 2022 (and not in addition to it).

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

4.2.3 See Note 5.1 below for information about an impairment of assets recognized by DBS in the financial statements as of June 30, 2022.

4.3 Bezeq International Ltd.

See Note 5.2 below for information about an impairment of assets recognized by Bezeq International in the financial statements as of June 30, 2022.

5. Impairment

5.1 Impairment of the Multichannel Television segment (DBS)

Further to Note 10.5 to the Annual Financial Statements regarding impairment recognized in 2021, the valuation as of December 31, 2021 presented a value-in-use significantly lower than the carrying amount of DBS.

Due to expected changes in the sale of combined TV and Internet packages to customers and in the distribution costs of DBS's IP broadcasts, and in view of the projected increase in market competition, DBS revised its forecasts for 2022 and the coming years and estimated the recoverable amount as at June 30, 2022.

Based on the valuation that was carried out by an external appraiser on June 30, 2022, DBS's enterprise value is negative and lower than both its carrying amount and the net fair value of its assets and liabilities

In light of the negative enterprise value, as determined in the valuation as of June 30, 2022, DBS reduced its assets to their net fair value.

Accordingly, in the three- and six-month periods ended June 30, 2022, the Group recognized an impairment loss of NIS 144 million and NIS 79 million, respectively. The impairment loss was attributable to fixed assets, broadcasting rights, intangible assets and prepaid expenses, as set out below, and was included in the item of depreciation, amortization and impairment and the item of general operating expenses in the statement of income.

Provided below are details regarding DBS's enterprise value and the net fair value of the assets and liabilities as determined by an external appraiser, as well as impairment losses that were recognized:

	Enterprise value of DBS (by the DCF method)	**Net fair value of DBS assets and liabilities**	**Net carrying amount of DBS assets and liabilities, before impairment recognition**	**Impairment loss**
	NIS million	**NIS million**	**NIS million**	**NIS million**
As of June 30, 2022 and for the three months ended on the same date (unaudited)	**(152)**	**(115)**	**(36)**	**(79)**
As of March 31, 2022 and for the three months ended on the same date (unaudited)	(282)	(125)	(60)	(65)
Total impairment recognized in the six months ended June 30, 2022				**(144)**
As of December 31, 2021 and for the year ended on the same date (audited)	(271)	(109)		(288)

It should be noted that an assessment of DBS's value-in-use is sensitive to the net cash flow in the representative year in general, and to an assessment of the ARPU (average revenue per user) and subscriber base at the end of the forecast range in particular. (A change of 1 NIS in the ARPU throughout the forecast years (and in the terminal year) leads to a change of NIS 86 million in the enterprise value, and a change of 5,000 subscribers throughout the forecast years (and in the terminal year) leads to a change of NIS 100 million in the enterprise value.)

Allocation of impairment loss to Group assets:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Broadcasting rights*	**79**	66	**47**	29	146
Fixed assets**	**38**	40	**18**	12	91
Intangible assets**	**21**	27	**11**	13	48
Other receivables (prepaid expenses)*	**4**	5	**3**	2	4
Rights of use of leased assets **	**2**	-	**-**	-	(1)
Total impairment recognized	**144**	138	**79**	56	288

* The expense was presented under general operating expenses

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

For information about the method used by DBS to measure the fair value (Level 3) of the assets less costs to sell, see Note 10.5 to the Annual Financial Statements.

5.2 Impairment in the ISP, International Communications and NEP Services and ICT Services segment (Bezeq International)

Further to Note 10.6 to the Annual Financial Statements regarding impairment of the ISP, International Communications and NEP Services and ICT Services cash-generating unit in 2021 – the valuation as of December 31, 2021 presented a significantly lower value-in-use than the carrying amount of Bezeq International. Due to expected changes in the sale of ISP services and in the ICT activity profitability forecast, Bezeq International revised its forecasts for 2022 and the coming years and estimated the recoverable amount as at June 30, 2022.

Based on the valuation that was carried out on June 30, 2022, Bezeq International's enterprise value is negative and lower than both its carrying amount and the net fair value of its assets and liabilities.

In the valuation, significant changes were made to management's assumptions and forecasts relating to the streamlining of manpower. It should be noted that disregarding the streamlining assumptions, in accordance with accounting standards IAS36 and IAS37, led to an anomalous and non-representative value amounting to a negative NIS 692 million, which was based on the assumptions of Bezeq International's latest work plan, whereby business operations are expected to shrink throughout the forecast years, but without taking into account the economic benefits expected to arise from the streamlining, due to the restrictions of the aforementioned accounting standards.

In light of the negative enterprise value, as determined in the valuation as of June 30, 2022, Bezeq International reduced its assets to their net fair value.

The net fair value of Bezeq International's assets and liabilities less costs to sell, as of June 30, 2022, amounted to a negative NIS 2 million. Accordingly, in the three- and six-month periods ended June 30, 2022, the Group recognized an impairment loss of NIS 55 million and NIS 21 million, respectively.

Provided below are details regarding Bezeq International's enterprise value and the net fair value of the assets and liabilities as determined by an external appraiser, as well as impairment losses that were recognized:

	Enterprise value of Bezeq International (by the DCF method)	Net fair value of Bezeq International assets and liabilities	Net carrying amount of Bezeq International assets and liabilities, before impairment recognition	Impairment loss
	NIS million	NIS million	NIS million	NIS million
As of June 30, 2022 and for the three months ended on the same date (unaudited)	**(692)**	**(2)**	**19**	**(21)**
As of March 31, 2022 and for the three months ended on the same date (unaudited)	(174)	(15)	19	(34)
Total impairment recognized in the six months ended June 30, 2022				(55)
As of December 31, 2021 and for the year ended on the same date (audited)	(196)	70		(122)

Allocation of impairment loss to Group assets:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Fixed assets and intangible assets **	**38**	48	**14**	25	75
Short-term and long-term prepaid expenses *	**11**	1	**3**	-	28
Long-term prepaid expenses for bandwidth capacity**	**6**	8	**4**	3	17
Rights of use of leased assets **	**-**	-	**-**	-	2
Total impairment recognized	**55**	57	**21**	28	122

* The expense was presented under general operating expenses.

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

For information about the method used by Bezeq International to measure the fair value (Level 3) of the assets less costs to sell, see Note 10.6 to the Annual Financial Statements.

6. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, *inter alia*, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions of NIS 166 million, where provisions are required to cover the exposure arising from such Legal Claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond those provisions) as of June 30, 2022, for Legal Claims filed against Group companies on various matters, which are unlikely to be realized, amounts to NIS 3 billion. There is also additional exposure of NIS 2.6 billion for Legal Claims the chances of which cannot yet be assessed. In addition, motions to certify class actions have been filed against the Group companies, which do not specify the exact amount of the claim and for which the Group has additional exposure beyond the aforesaid.

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

For updates on changes after the reporting date, see section 6.3 below.

6.2 Following are details of the Group's contingent liabilities as of June 30, 2022, classified into groups with similar characteristics:

Claims group	Nature of the claims	Balance of provision	Additional exposure	Exposure for claims whose chances cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions (and claims by virtue thereof) on grounds of unlawful collection of payment and faulty service provided by the Group companies.	**91**	**2,237**	**723**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or investments.	**(1)75**	**677**	**(2)1,813**
Claims of employees and former employees of Group companies	Mainly individual lawsuits filed by employees and former employees of the Group, regarding various payments.	**-**	**1**	**1**
Miscellaneous	Other lawsuits, including claims in tort (excluding claims whose insurance coverage is not disputed), or claims related to real estate, infrastructure, suppliers, etc.	**-**	**36**	**14**
Total legal claims against the Company and subsidiaries		**166**	**2,951**	**2,551**

(1) The balance of provision was recognized as an indemnification asset in the full amount of the provision, in view of the existence of insurance coverage. The asset was presented under the item "Other receivables" in the statement of financial position as of June 30, 2022, pursuant to the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets."

(2) The amount includes two motions to certify class actions for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's controlling shareholder at the time, with respect to the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed, in view of the criminal proceeding that is being conducted following the investigation by the Securities Authority (described in Note 1.3) and at the request of the Attorney General, until September 1, 2022.

(3) In addition, see also Note 6.6 to the Annual Financial Statements.

6.3 Subsequent to the date of the financial statements, claims for which exposure amounted to NIS 358 million were concluded.

7. Equity

7.1 Share capital

	June 30, 2022	June 30, 2021	December 31, 2021
	Number of shares	Number of shares	Number of shares
	(Unaudited)	(Unaudited)	(Audited)
Authorized share capital	**2,849,485,753**	2,849,485,753	2,849,485,753
Issued and paid-up share capital	**2,765,543,598**	2,765,485,753	2,765,485,753

7.2 Dividends

7.2.1 On April 28, 2022, the General Meeting of shareholders of the Company approved (pursuant to the recommendation of the Company's Board of Directors from March 22, 2022) the distribution of a cash dividend to the Company's shareholders for a total of NIS 240 million (representing as of the effective date of the distribution NIS 0.0867823 per share). The dividend was paid on May 16, 2022.

7.2.2 On August 9, 2022, the Company's Board of Directors decided to recommend to the General Meeting of shareholders of the Company to distribute a cash dividend to the Company's shareholders, totaling NIS 294 million. As of the date of approval of the financial statements, this dividend has not yet been approved by the General Meeting.

8. Revenues

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Domestic fixed-line communications – Bezeq fixed-line					
Internet infrastructure	**846**	769	**428**	388	1,562
Fixed-line telephony	**400**	458	**185**	222	891
Transmission and data communication	**445**	422	**225**	214	844
Cloud and digital services	**164**	158	**83**	76	318
Other services	**137**	115	**65**	53	230
	1,992	1,922	**986**	953	3,845
Cellular communications– Pelephone					
Cellular services and terminal equipment	**865**	783	**437**	400	1,606
Sale of terminal equipment	**312**	341	**151**	164	643
	1,177	1,124	**588**	564	2,249
Multichannel television – DBS	**632**	629	**316**	314	1,270
ISP, international communications and NEP services, and ICT services– Bezeq International	**582**	598	**289**	299	1,186
Other	**97**	148	**46**	70	271
Total revenues	**4,480**	4,421	**2,225**	2,200	8,821

9. General Operating Expenses

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Terminal equipment and materials	**394**	421	**191**	200	803
Interconnectivity and payments to domestic and international telecommunications operators	**362**	362	**179**	180	717
Content costs (including content impairment)	**280**	277	**149**	133	553
Marketing and general	**259**	251	**129**	127	538
Maintenance of buildings and sites	**115**	119	**60**	59	238
Services and maintenance by subcontractors	**220**	168	**109**	82	348
Vehicle maintenance	**31**	30	**17**	16	60
Total general operating expenses	**1,661**	1,628	**834**	797	3,257

10. Other Operating Expenses (Income), Net

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital loss (gain) (mainly from the sale of real estate)	**3**	(127)	**1**	(2)	(175)
Provision (reversal of provision) for claims	**45**	(28)	**2**	2	(23)
Employee termination expenses for early retirement at the Company	**4**	8	**2**	6	95
Employee termination expenses for early retirement and efficiency agreement at Pelephone, Bezeq International and DBS	**-**	-	**-**	-	37
Amounts received under a settlement agreement	**-**	-	**-**	-	(5)
Other income	**(3)**	(3)	**(2)**	(4)	(6)
Total other operating expenses (income), net	**49**	(150)	**3**	2	(77)

11. Financial Expenses, Net

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	**102**	119	**51**	60	230
Financial expenses for lease liabilities	**20**	19	**10**	10	40
Linkage and exchange rate differences	**79**	20	**51**	16	49
Costs for early repayment of loans and debentures	**26**	-	**-**	-	15
Other financial expenses	**8**	3	**4**	1	8
Change in fair value of financial assets measured at fair value through profit or loss	**-**	-	**-**	3	-
Financial expenses for employee benefits	**-**	5	**-**	2	7
Total financial expenses	**235**	166	**116**	92	349
Financial income from employee benefits*	**30**	-	**10**	-	-
Income from credit in sales	**12**	15	**6**	7	28
Change in fair value of financial assets at fair value through profit or loss	**24**	4	**18**	-	-
Other financial income	**17**	12	**15**	1	16
Total financial income	**83**	31	**49**	8	44
Financial expenses, net	**152**	135	**67**	84	305

* Financial income that was recognized due to an update of the discount rate used to calculate employee benefit obligations, as of June 30, 2022.

12. Financial Instruments

12.1 Composition of investments

	June 30, 2022	June 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Shekel bank deposits (1)	**1,234**	720	934
Foreign currency bank deposits (2)	**29**	19	20
Investment in money funds	**100**	-	-
Derivative instruments	**20**	-	-
	1,383	739	954

(1) Shekel bank deposits are set to mature by May 2023.

(2) US dollar bank deposits are set to mature by March 2023.

12.2 Fair value

A. Financial instruments at fair value for disclosure purposes only

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

	June 30, 2022		June 30, 2021		December 31, 2021	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Loans from banks and financial institutions (unlinked)	**1,554**	**1,542**	2,015	2,137	1,612	1,713
Debentures issued to the public (CPI-linked)	**3,000**	**3,099**	3,222	3,492	2,913	3,249
Debentures issued to the public (unlinked)	**2,845**	**2,816**	3,030	3,235	3,222	3,415
	7,399	**7,457**	8,267	8,864	7,747	8,377

B. Fair value hierarchy

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

	June 30, 2022	June 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1 –Investment in money funds at fair value through profit or loss	**100**	-	-
Level 2–Forward contracts	**23**	(68)	(19)

13. Segment Reporting

	Six months ended June 30, 2022 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	Bezeq International services	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	**1,992**	**1,177**	**582**	**632**	**97**	**-**	**4,480**
Inter-segment revenues	**171**	**22**	**27**	**-**	**5**	**(225)**	**-**
Total revenues	**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**	**22**	**923**
Financial expenses	**231**	**16**	**5**	**5**	**-**	**(22)**	**235**
Financial income	**(61)**	**(32)**	**(2)**	**(10)**	**-**	**22**	**(83)**
Total financial expenses (income), net	**170**	**(16)**	**3**	**(5)**	**-**	**-**	**152**
Segment profit (loss) after financial expenses, net	**609**	**132**	**10**	**(9)**	**7**	**22**	**771**
Income tax	**148**	**30**	**-**	**1**	**3**	**-**	**182**
Segment results – net profit (loss)	**461**	**102**	**10**	**(10)**	**4**	**22**	**589**

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

* Results of the Multichannel Television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018. This is in accordance with the way the Group’s chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 14.3 for condensed selected information from DBS's financial statements.

	Three months ended June 30, 2022 (Unaudited)						
	Domestic fixed-line communi-cations	**Cellular communi-cations**	**Bezeq International services**	**Multichannel television***	**Other**	**Adjustments**	**Consolidated**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues from external sources	**986**	**588**	**289**	**316**	**46**	**-**	**2,225**
Inter-segment revenues	**81**	**11**	**13**	**-**	**5**	**(110)**	**-**
Total revenues	**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**	**5**	**463**
Financial expenses	**110**	**9**	**3**	**3**	**-**	**(9)**	**116**
Financial income	**(34)**	**(16)**	**(1)**	**(7)**	**-**	**9**	**(49)**
Total financial expenses (income), net	**76**	**(7)**	**2**	**(4)**	**-**	**-**	**67**
Segment profit (loss) after financial expenses, net	**317**	**59**	**15**	**(3)**	**3**	**5**	**396**
Income tax	**74**	**13**	**-**	**-**	**2**	**-**	**89**
Segment results – net profit (loss)	**243**	**46**	**15**	**(3)**	**1**	**5**	**307**

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

* Results of the Multichannel Television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 14.3 for condensed selected information from DBS's financial statements.

	Year ended December 31, 2021 (Audited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	Bezeq International services	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,845	2,249	1,186	1,270	271	-	8,821
Inter-segment revenues	337	40	51	-	6	(434)	-
Total revenues	4,182	2,289	1,237	1,270	277	(434)	8,821
Depreciation, amortization and impairment	938	577	173	292	4	(95)	1,889
Segment results – operating profit (loss)	1,748	42	22	(41)	27	72	1,870
Financial expenses	357	23	5	4	-	(40)	349
Financial income	(15)	(65)	(3)	(3)	-	42	(44)
Total financial expenses (income), net	342	(42)	2	1	-	2	305
Segment profit (loss) before income tax	1,406	84	20	(42)	27	70	1,565
Income tax expenses (income)	343	20	12	1	6	-	382
Segment results – net profit (loss)	1,063	64	8	(43)	21	70	1,183

* Results of the Multichannel Television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018. This is in accordance with the manner in which the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 14.3 for condensed selected information from DBS's financial statements.

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

14.1 Pelephone Communications Ltd.

Selected data from the statement of financial position:

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

Selected data from the statement of income:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**883**	801	**446**	409	1,642
Revenues from sales of terminal equipment	**316**	345	**153**	167	647
Total revenues from services and sales	**1,199**	1,146	**599**	576	2,289
Operating expenses					
General operating expenses	**668**	693	**335**	341	1,346
Salaries	**159**	158	**77**	79	315
Depreciation and amortization	**258**	286	**136**	144	577
Total operating expenses	**1,085**	1,137	**548**	564	2,238
Other operating expenses (income), net	**(2)**	(3)	**(1)**	(3)	9
Operating profit	**116**	12	**52**	15	42
Financial expenses (income)					
Financial expenses	**16**	11	**9**	5	23
Financial income	**(32)**	(32)	**(16)**	(16)	(65)
Financial income, net	**(16)**	(21)	**(7)**	(11)	(42)
Profit before income tax	**132**	33	**59**	26	84
Income tax expenses	**30**	5	**13**	6	20
Profit for the period	**102**	28	**46**	20	64

14.2 Bezeq International Ltd.

Selected data from the statement of financial position:

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

Selected data from the statement of income:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**609**	622	**302**	310	1,237
Operating expenses					
General operating expenses and impairment	**413**	402	**197**	191	799
Salaries	**115**	118	**59**	58	237
Depreciation, amortization and impairment	**67**	95	**29**	46	173
Other expenses (income), net	**1**	(1)	**-**	(1)	6
Total operating expenses	**596**	614	**285**	294	1,215
Operating profit	**13**	8	**17**	16	22
Financial expenses (income)					
Financial expenses	**5**	3	**3**	1	5
Financial income	**(2)**	(2)	**(1)**	-	(3)
Financial expenses, net	**3**	1	**2**	1	2
Profit before income tax	**10**	7	**15**	15	20
Income tax expenses	**-**	**4**	**-**	4	12
Profit for the period	**10**	3	**15**	11	8

14.3 DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position:

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

Selected data from the statement of income:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**632**	630	**316**	315	1,270
Operating expenses					
General operating expenses and impairment	**429**	415	**223**	203	835
Depreciation, amortization and impairment	**96**	106	**46**	45	203
Salaries	**97**	95	**47**	45	188
Other operating expenses (income), net	**2**	(2)	**2**	-	12
Total operating expenses	**624**	614	**318**	293	1,238
Operating profit (loss)	**8**	16	**(2)**	22	32
Financial expenses (income)					
Financial expenses	**5**	2	**3**	7	4
Financial income	**(10)**	(5)	**(7)**	(3)	(3)
Financial expenses (income), net	**(5)**	(3)	**(4)**	4	1
Profit before income tax	**13**	19	**2**	18	31
Income tax expenses	**1**	1	**-**	-	1
Profit for the period	**12**	18	**2**	18	30

Condensed Separate Interim Financial Information as of June 30, 2022

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

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

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970 of Bezeq - The Israel Telecommunication Corporation Ltd. (hereinafter - "the Company") as of June 30, 2022 and for the six and three-month periods then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

Scope of Review

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

Conclusion

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

Explanatory Paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 6 of the financial information, which refers to Note 1.3 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) and the Israel Police investigation of the suspicion of committing offenses under the Securities Law and Penal Code, with respect inter alia to transactions related to the former controlling shareholder, and notifying the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of the company's prosecution and holding a hearing on suspicion of bribery and reporting in order to mislead a reasonable investor, and as mentioned in that note, regarding the filing of an indictment against the former controlling shareholder for various offenses, including bribery and misleading information in an immediate report and regarding the filing of an indictment against the former controlling shareholder in the company and former senior executives in the Bezeq Group, which accuses the defendants of receiving anything fraudulently in aggravated circumstances, and reporting offenses under the Securities Law. In addition, subsequent to the investigation opening, a number of civil legal proceedings were initiated against the company, former officers

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of the company as well as companies from the group that previously controlled the company, including requests for approval of class actions. As stated in the above note, the Company is unable to assess the effects of the investigations, their findings and their results on the Company, and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

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

Somekh Chaikin
Certified Public Accountants (Isr.)

August 9, 2022

Condensed Separate Interim Information on Financial Position

	June 30, 2022	June 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**532**	582	702
Investments	**1,375**	739	954
Trade receivables	**717**	793	776
Other receivables	**196**	95	122
Total current assets	**2,820**	2,209	2,554
Trade and other receivables	**227**	219	222
Fixed assets	**5,528**	5,339	5,400
Intangible assets	**247**	246	243
Goodwill	**265**	265	265
Investment in investees	**3,133**	2,948	3,001
Right-of-use assets	**661**	641	656
Non-current and other investments	**156**	218	139
Deferred tax assets	**-**	48	31
Total non-current assets	**10,217**	9,924	9,957
Total assets	**13,037**	12,133	12,511

Condensed Separate Interim Information on Financial Position (cont.)

	June 30, 2022	June 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**958**	743	980
Trade and other payables	**713**	680	725
Loans from subsidiaries	**-**	-	130
Employee benefits	**324**	388	425
Current maturities of lease liabilities	**111**	91	105
Provisions (Note 5)	**129**	49	28
Total current liabilities	**2,235**	1,951	2,393
Debentures and loans	**7,055**	7,569	7,082
Loans from subsidiaries	**1,430**	1,165	1,100
Employee benefits	**177**	195	204
Lease liabilities	**583**	575	583
Derivatives and other liabilities	**72**	87	53
Total non-current liabilities	**9,317**	9,591	9,022
Total liabilities	**11,552**	11,542	11,415
Equity			
Share capital	**3,878**	3,878	3,878
Share premium	**384**	384	384
Reserves	**394**	366	391
Accumulated deficit	**(3,171)**	(4,037)	(3,557)
Total equity (accumulated deficit) attributable to the Company owners	**1,485**	591	1,096
Total liabilities and equity	**13,037**	12,133	12,511

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

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

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

Condensed Separate Interim Information on Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 2)	**2,163**	2,093	**1,067**	1,039	4,182
Operating expenses					
Salaries	**491**	466	**245**	233	934
Depreciation and amortization	**487**	454	**248**	231	938
General operating expenses (Note 3)	**357**	317	**179**	162	667
Other operating expenses (income), net (Note 4)	**49**	(144)	**2**	6	(105)
Total operating expenses	**1,384**	1,093	**674**	632	2,434
Operating profit	**779**	1,000	**393**	407	1,748
Financial expenses (income)					
Financial expenses	**231**	171	**110**	91	357
Financial income	**(61)**	(13)	**(34)**	(1)	(15)
Financial expenses, net	**170**	158	**76**	90	342
Profit after financial expenses, net	**609**	842	**317**	317	1,406
Share in profits (losses) of investees, net	**128**	64	**64**	56	120
Profit before income tax	**737**	906	**381**	373	1,526
Income tax	**148**	204	**74**	79	343
Profit for the period attributable to the Company owners	**589**	702	**307**	294	1,183

Condensed Separate Interim Information on Comprehensive Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	**589**	702	**307**	294	1,183
Items of other comprehensive income (loss), net of tax	**36**	23	**(2)**	1	36
Total comprehensive income for the period attributable to the Company owners	**625**	725	**305**	295	1,219

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

Condensed Separate Interim Information on Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**589**	702	**307**	294	1,183
Adjustments:					
Depreciation and amortization	**487**	454	**248**	231	938
Share in profits of investees, net	**(128)**	(64)	**(64)**	(56)	(120)
Financial expenses, net	**177**	136	**73**	78	301
Capital loss (gain), net	**1**	(127)	**-**	(2)	(173)
Share-based payment	**4**	10	**2**	5	15
Income tax expenses	**148**	204	**74**	79	343
Change in trade and other receivables	**9**	(40)	**(11)**	(10)	(24)
Change in trade and other payables	**12**	(69)	**(45)**	(105)	(3)
Change in provisions	**26**	(30)	**(17)**	(2)	(50)
Change in employee benefits	**(92)**	(105)	**(25)**	(83)	(63)
Miscellaneous	**5**	(3)	**3**	(2)	-
Net cash provided by operating activities due to transactions with subsidiaries	**19**	19	**21**	9	45
Net income tax paid	**(82)**	(223)	**(25)**	(82)	(368)
Net cash provided by operating activities	**1,175**	864	**541**	354	2,024
Cash flows from investing activities					
Investment in intangible assets and other investments	**(81)**	(78)	**(36)**	(39)	(148)
Proceeds from the sale of fixed assets	**19**	182	**5**	-	273
Investment in bank deposits	**(1,179)**	(715)	**(770)**	(204)	(1,031)
Proceeds from repayment of bank deposits	**772**	600	**273**	126	800
Purchase of fixed assets	**(483)**	(519)	**(243)**	(246)	(1,007)
Miscellaneous	**8**	10	**6**	4	9
Net cash provided by investing activities with subsidiaries	**-**	-	**-**	-	10
Net cash used in investing activities	**(944)**	(520)	**(765)**	(359)	(1,094)
Cash flows from financing activities					
Issue of debentures and receipt of loans	**300**	-	**300**	-	695
Repayment of debentures and loans	**(428)**	(103)	**(58)**	(103)	(1,067)
Costs for early repayment of loans and debentures	**(26)**	-	**-**	-	(15)
Interest paid	**(112)**	*(129)	**(103)**	*(124)	*(255)
Dividend paid	**(240)**	-	**(240)**	-	-
Payment of principal and interest for a lease	**(69)**	(53)	**(33)**	(24)	(116)
Payment for expired hedging transactions	**-**	-	**-**	-	(30)
Net cash provided by financing activities due to transactions with subsidiaries	**174**	*92	**53**	*37	*129
Net cash used in financing activities	**(401)**	(193)	**(81)**	(214)	(659)
Net increase (decrease) in cash and cash equivalents	**(170)**	151	**(305)**	(219)	271
Cash and cash equivalents at the beginning of the period	**702**	431	**837**	801	431
Cash and cash equivalents at the end of the period	**532**	582	**532**	582	702

* Reclassified

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

Notes to the Condensed Separate Interim Financial Information

1. Manner of Preparing Financial Information

1.1 Definitions

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

"Associate," the "Group," "Investee" – as these terms are defined in the Company's Consolidated Financial Statements for 2021.

1.2 Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38D (the "Regulation") of the Securities Regulations (Periodic and Immediate Reports),1970 and the Tenth Schedule to those regulations (the "Tenth Schedule"), concerning a corporation's condensed separate interim financial information. It should be read in conjunction with the separate financial information as of and for the year ended December 31, 2021 and in conjunction with the condensed consolidated interim financial statements as of June 30, 2022 (the "Consolidated Statements").

The accounting policies used in preparing this condensed separate interim financial information are consistent with the accounting policies set out in the separate financial information as of and for the year ended December 31, 2021, except as stated in Note 3.2 to the Consolidated Statements..

2. Revenues

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Internet infrastructure	**877**	801	**443**	403	1,624
Fixed-line telephony	**409**	471	**189**	229	913
Transmission and data communications	**573**	544	**287**	276	1,087
Cloud and digital services	**164**	158	**83**	76	318
Other services	**140**	119	**65**	55	240
Total revenues	**2,163**	2,093	**1,067**	1,039	4,182

3. General Operating Expenses

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**54**	54	**27**	27	111
Marketing and general	**88**	91	**42**	51	187
Interconnectivity and payments to telecommunications operators	**52**	53	**26**	25	104
Services and maintenance by subcontractors	**89**	55	**48**	27	134
Vehicle maintenance	**17**	17	**10**	8	35
Terminal equipment and materials	**57**	47	**26**	24	96
Total general operating expenses	**357**	317	**179**	162	667

4. Other Operating Expenses (Income), Net

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital loss (gain) from the sale of fixed assets (mainly real estate)	**1**	(127)	**-**	(2)	(173)
Employee termination expenses for early retirement	**4**	8	**2**	6	95
Other expenses (income) (mainly reversal of provision for claims)	**44**	(25)	**-**	2	(27)
Total other operating income, net	**49**	(144)	**2**	6	(105)

5. Contingent Liabilities

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

In the opinion of the Company's management, based, *inter alia*, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions in the amount of NIS 129 million, where provisions are required to cover the exposure arising from such Legal Claims.

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

Breakdown of the Company's contingent liabilities as of June 30, 2022:

Balance of provision	Additional exposure*	Exposure for claims whose chances cannot yet be assessed*
NIS million		
(1)**129**	**1,322**	(2)**2,477**

* Nominal

(1) An indemnification asset of NIS 75 million was recognized against a provision of NIS 75 million, in view of the existence of insurance coverage. The asset was presented under the item "Other receivables"

in the statement of financial position as of June 30, 2022, pursuant to the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets."

(2) The exposure includes:

The amount includes two motions to certify class actions for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's controlling shareholder at the time, with respect to the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed, in view of the criminal proceeding that is being conducted following the investigation by the Securities Authority, as described in Note 1.3 of the Consolidated Statements, and at the request of the Attorney General, until September 1, 2022.

5.2 See Note 6.6 to the Annual Consolidated Statements regarding long-term other receivables and authorities in an amount of NIS 106 million for permit fees and betterment tax paid by the Company to the Israel Land Authority and the Or Yehuda local authority for the sale of the Sakia property in 2019.

5.3 Subsequent to the date of the financial statements, claims were concluded for which the exposure amounted to NIS 25 million.

For further information concerning contingent liabilities, see Note 6 to the Consolidated Statements.

6. Events in and Subsequent to the Reporting Period

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

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

6.3 For information on a plan for structural change in the Subsidiaries, see Note 4.1 to the Consolidated Statements.

6.4 In August 2022, the Company's Board of Directors approved a credit facility or capital investment in DBS for a total of up to NIS 40 million for 15 months as of July 1, 2022. This approval is instead of an approval granted in April 2022 (not in addition thereto).

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

6.6 In March 2022, loans received from Pelephone for a total of NIS 815 million were replaced by a new loan that includes a postponement of the maturity dates from 2022-2025 to 2026-2030. Furthermore, in March 2022, Pelephone granted the Company an additional loan of NIS 130 million.

6.7 See Note 7 to the Consolidated Statements regarding a dividend distribution by the Company subsequent to the date of the financial statements.

Chapter E:

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

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

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

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

For this matter, the members of Management are:

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

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

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

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

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

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

In the quarterly report on the effectiveness of internal control over financial reporting and disclosure that was attached to the quarterly report for the period ended March 31, 2022 (the "Last Quarterly Report on Internal Control"), internal control was found to be effective.

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[1] The tenure of Dudu Mizrahi ended on June 15, 2022.
The tenure of Ran Guron began on June 19, 2022.

[2] Regarding the transfer of the CEO's authority in matters connected with investees of the Company to the Board of Directors – see Section 1.1.3 of the Description of Company Operations chapter in the Periodic Report for 2021.

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

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

Concerning the investigations of the Israel Securities Authority and the Israel Police, as detailed in section 1.1.6 of the Description of Company Operations chapter in the periodic report for 2021, the Company does not have complete information about the investigations, their content, or the material and evidence in the possession of the law enforcement authorities on this matter (although in January 2021 the Company received the core investigation material in connection with Case 4000, further to an invitation it received to a hearing in this matter). Accordingly, the Company is unable to assess the effects, if any, of the investigations, their findings and their outcome on the Company, on its financial statements and on the estimates used in the preparation of the financial statements.

2. Declaration of Executives:

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

I, Ran Guron, declare that:

1. I have reviewed the quarterly report of Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") for the second quarter of 2022 (the "Reports").
2. To the best of my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.
3. To the best of my knowledge, the financial statements and other financial information in the Reports reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.
4. I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:
   A. All the significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;
   B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure
5. I, alone or together with others in the Company:
   A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;
   B. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;
   C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was brought to my attention that would change the conclusion of the Board of Directors and Management concerning the effectiveness of internal control over the Company's financial reporting and disclosure.

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

Date: August 9, 2022

Ran Guron, CEO

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

I, Tobi Fischbein, declare that:

1. I have reviewed the interim financial statements and other financial information included in the reports for the interim period of Bezeq - The Israel Telecommunication Corporation Ltd, (the "Company") for the second quarter of 2022 (the "Reports" or the "Reports for the Interim Period").
2. To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period do not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.
3. To the best of my knowledge, the financial statements and other financial information included in the Reports for the Interim Period reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports:
4. I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:
   A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as it relates to the interim financial statements and other financial information included in the Reports for the Interim Period, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;

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

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

   C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was brought to my attention, in respect of the interim financial statements and any other financial information included in the Reports for the Interim Period, that would, in my opinion, change the conclusion of the Board of Directors and Management concerning the effectiveness of internal control over the Company's financial reporting and disclosure.

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

Date: August 9, 2022

Tobi Fischbein, CFO Bezeq Group