August 8, 2023

“Bezeq” - The Israel Telecommunication Corp. Ltd.

Quarterly Report for the Period Ended June 30, 2023

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2022

Directors Report on the State of the Company's Affairs for the Period Ended June 30, 2023

Condensed Interim Financial Statements as at June 30, 2023

Quarterly Report on the Effectiveness of Internal Control Over Financial Reporting and Disclosure for the Period Ended June 30, 2023

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

Update to Chapter A (Description of Company Operations) [1] to the Periodic Report for 2022 (the "Periodic Report") "Bezeq" - The Israel Telecommunication Corporation Ltd. (the "Company")

1. General development of the Group's business

On April 23, 2023, the name of DBS Satellite Services (1998) Ltd. was changed to YES TV AND COMMUNICATIONS SERVICES LTD. ("**yes**").

Section 1.1.2 – Control in the Company

Regarding the approval of the amendment to the Communications Order (Telecommunications and Broadcasting) (Determination of an Essential Service Provided by Bezeq The Israel Telecommunications Corp. Ltd.), 2022, by the Government of Israel – on March 30, 2023, the Economic Committee of the Knesset approved the amendment and it will come into effect after the Prime Minister and the Minister of Communications sign the amendment and it is published in the Official Gazette.

Section 1.3 – Investments in the Company's capital and transactions in its shares; section 1.1.1– General, and section 1.1.2 – Control in the Company

Below is a breakdown of the acquisition of the Company's shares by B Communications in accordance with its reports to the Company:

Date	No. of shares	Total consideration (NIS millions)	Average price per share (NIS)
April 3, 2023	2,100,000	10	4.75
May 28, 2023	1,417,995	6.8	4.77
May 30, 2023	2,090,000	10	4.79
June 28, 2023	1,100,000	5	4.54
June 29,2023	1,100,000	5	4.57

Subsequent to the acquisition, as at the publication date of the report, B Communications holds 27.08% (26.58% fully diluted) of the Company's shares.

Section 1.1.5 – Charges regarding transactions of the former controlling shareholder and former officers of the Company

Section 1.1.5.3 regarding the ruling of the Economic Department of the Tel Aviv-Jaffa District Court on the dismissal of some of the charges in the indictment filed against former officers in the Group (referring to payment of the consideration for the purchase of the shares of the subsidiary yes TV and Communication Services Ltd. by the Company, and referring to the conduct of independent committees established to review the transactions of interested parties), and the filing of an appeal on the decision by the State – on July 13, 2023, the Supreme Court handed down the judgment on the appeal, according to which the State's appeal regarding all respondents (with the exception of Eurocom Holdings (1979) Ltd.) was accepted and the case was returned to the district court for further evidentiary investigation.

Section 1.4.2 – Dividend distribution

For information about the dividend distributed by the Company in May 2023 and the recommendation of the board of directors to the general meeting of the Company's shareholders of August 8, 2023 regarding the distribution of a dividend for profits of the first half of 2023, see Note 7 to the financial statements.

[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 relates to the Company's Periodic Report for 2022 and refers to the section numbers in Chapter A (Description of Company Operations) in the Periodic Report.

Distributable profits as at the reporting date: NIS 1.355 billion (retained earnings accumulated in the last two years after deduction of the distribution in the period).

Section 1.5.4 – Main results and operational data

Section 1.5.4.1 – Bezeq Fixed-Line (the Company's operations as a domestic carrier)

Financial data (NIS millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	1,130	1,111	1,057	1,086	1,067	1,096
Operating profit	418	403	293	388	393	386
Depreciation and amortization	256	245	266	252	248	239
EBITDA (earnings before interest, taxes, depreciation, and amortization) (1)	674	648	559	640	641	625
Net profit	261	249	153	235	243	218
Cash flow from operating activities	602	608	628	427	541	634
Payments for investments in fixed assets and intangible assets and other investments	281	312	277	294	279	285
Proceeds from the sale of fixed assets and intangible assets	1	29	9	8	5	14
Lease payments	35	40	35	34	33	36
Free cash flow (2)	287	285	325	107	234	327
Performance data						
Number of active telephony subscriber lines at the end of the period (thousands)(3)	1,473	1,488	1,503	1,522	1,542	1,563
Average monthly revenue per line (NIS) (4)	39	41	40	41	41	47
Number of outgoing minutes (millions)	658	705	682	740	726	801
Number of incoming minutes (millions)	852	918	921	986	951	1,080
Telephony churn rate (6)	2.6%	2.5%	2.5%	2.8%	2.6%	3.0%
Total number of internet lines at the end of the period (thousands) (7)	1,505	1,505	1,504	1,505	1,511	1,519
Of which, the number of subscribers connected to the fiber network at the end of the period (thousands) (9)	424	351	267	212	160	124
Of which, the number of internet lines at the end of the period – retail (thousands) (7)	1,028	1,031	1,032	1,024	1,021	1,024
Of which, the number of subscribers connected to the fiber network at the end of the period – retail (thousands) (7)	289	246	198	157	118	93
The number of internet lines at the end of the period – wholesale (thousands) (7)	477	474	472	481	490	495
Of which, the number of subscribers connected to the fiber network at the end of the period – wholesale (thousands) (7)	135	105	69	55	42	31
Average monthly revenue per internet subscriber (NIS) – retail (ARPU) (8)	122	120	117	116	113	110
Deployment of fiber optic network at the end of the period (thousands of households available for connection) (9)	1,835	1,689	1,526	1,442	1,308	1,193
Average package speed per internet subscriber – retail (Mbps)(5)	278	250	220	192	164	151
Number of Be routers used by the Company's customers (thousands)	801	786	764	733	708	688
Number of Be Mesh and Be Spot wifi extenders for home Wi-Fi (thousands)	430	425	416	402	386	374

(1) EBITDA (earnings before interest, taxes, depreciation and amortization) is a financial measure that is not based on generally accepted accounting principles. The Company presents this as an additional index for assessing its business results since thi s is a generally accepted measure 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 measure is not a substitute for measures based on GAAP and it is not used as a sole measure for assessing the results of the Company's operations or cash flows. Additionally, the measure presented in this report may be calculated differently from corresponding measures 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 yes 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 for 2022.

(2) Free cash flow is a financial measure 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 measure 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 resu lting from operating activities after cash investments in infrastructure and other fixed assets and intang ible assets. For further information, see section 7 of the chapter Description of Company Operations for 2022.

(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 for 2022.

(5) For packages with a range of speeds, the maximum speed per package 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. For further information, see also section 7 of the chapter Description of Company Operations for 2022.

(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. The number of wholesale internet lines includes subscribers of yes fiber. For further information see the yes table.

(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 for 2022. As from the second quarter of 2022, this figure also includes revenue for internet access service (ISP).

(9) As at the publication date of the report, deployment of the fiber optic network – 1,884 million households are available for connection, of which, 457 thousand subscribers are connected to the fiber network (of which, 308 thousand are retail and 149 thousand are wholesale).

Section 1.5.4.2 – Pelephone

Financial data (NIS millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue from services	452	445	441	467	446	437
Of which: revenue from services less interconnect revenue (6)	350	334	339	361	340	324
Revenue from the sale of terminal equipment	133	171	151	141	153	163
Total revenue	585	616	592	608	599	600
Operating profit	49	51	17	60	52	64
Depreciation and amortization	135	133	135	139	136	122
EBITDA (earnings before interest, taxes, depreciation, and amortization) (1)	184	184	152	199	188	186
Net profit	41	44	13	50	46	56
Cash flow from operating activities	98	133	149	203	244	278
Payments for investments in fixed assets, intangible assets, and other investments, net	82	57	0	157	66	72
Lease payments	49	70	62	58	47	61
Free cash flow (1)	(33)	6	87	(12)	131	145
Performance data						
Number of postpaid subscribers at the end of the period (thousands) (2)	2,166	2,159	2,149	2,137	2,122	2,093
Number of prepaid subscribers at the end of the period (thousands) (2)	427	426	431	538	514	490
Number of subscribers at the end of the period (thousands) (2)	2,593	2,585	2,580	2,675	2,636	2,583
Of which, G5 subscribers (thousands) (2)	898	834	784	738	677	605
Average monthly revenue per user (ARPU) (NIS) (5) (3)	58	57	57	58	57	57
Average monthly revenue per user (ARPU) net of interconnect fees (NIS) (6)	45	43	44	45	43	42
Churn rate (4)	5.9%	6.7%	6.1%	5.7%	5.5%	6.8%

(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 packages with an increased browsing volume adapted also for 5G requirements, and as at the publication date of the report, Pelephone has 920 thousand subscribers for such packages.

(3) Monthly ARPU (postpaid and prepaid). The index is calculated by dividing the average total monthly revenue from cellular services, from Pelephone subscribers and other telecom carriers, including revenue from cellular carriers who use Pelephone's network, repair services, and extended warranty in the period, by the average number of active subscribers in the same period. For further information see also section 7 of the chapter Description of Company Operations for 2022.

(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. For further information see also section 7 of the chapter Description of Company Operations for 2022.

(5) In Pelephone's assessment of the list of prepaid subscribers in the fourth quarter of 2022, it was found that 96 thousand subscribers were included in the list of subscribers even though they did not meet the definition of an active subscriber. Accordingly, the Company derecognized these subscriptions on a one-time basis. Derecognition of these subscribers resulted in an increase of NIS 2 in ARPU for the fourth quarter and the churn rate of subscribers in this quarter remained unchanged.

(6) Revenue from services net of interconnect revenue and ARPU net of interconnect revenue – as part of the reform to change the interconnect fees regime (the "Reform") which will be applied gradually from June 2023 until June 2025, Pelephone elected to present the average monthly revenue from services and ARPU net of interconnect revenue from cellular operators and domestic carrier license holders to which the reform applies.

Section 1.5.4.3 – Bezeq International

Financial data (NIS millions)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	293	312	319	311	302	307
Operating profit (loss)	16	14	(60)	17	17	(4)
Depreciation and amortization	33	30	35	32	29	38
EBITDA (earnings (loss) before interest, taxes, depreciation, and amortization) (1)	49	44	(25)	49	46	34
Net profit (loss)	13	13	(58)	16	15	(5)
Cash flow from operating activities	57	19	56	5	37	112
Payments for investments in fixed and intangible assets and other investments, net (2)	20	10	17	23	27	26
Lease payments	9	10	9	9	9	9
Free cash flow (1)	28	(1)	30	(27)	1	77
Performance data						
Churn rate (3)	10.0%	14.7%	15.0%	12.4%	12.9%	7.3%

(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) 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. For further information see also section 7 of the chapter Description of Company Operations for 2022.

Section 1.5.4.4 – yes

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

(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) Television 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) The number of television subscribers using yes+ and STINGTV streaming services. As at the publication date of the report, there are 370 thousand customers (of which 113 thousand are STINGTV subscribers), representing 64% of all yes subscribers. This figure also includes subscribers using satellite services as well.

(4) Monthly average revenue per television subscriber is calculated by dividing the total revenue of yes (excluding revenue from the sale of content to external broadcasting entities, revenue from end equipment, and revenue from ISP) by the average number of customers in the period. For further information see also section 7 of the chapter Description of Company Operations for 2022 .

(5) Number of television subscribers who left yes in the period, divided by the average number of registered television subscribers in the period. For further information see also section 7 of the chapter Description of Company Operations for 2022.

(6) As at the publication date of the report, 25 thousand subscribers are connected to the fiber network.

Section 1.6 – Updated forecast

On July 26, 2023, the Company updated the Group's forecast for 2023, based on the information available to it at that time, as follows:

* Adjusted net earnings for shareholders is expected to amount to NIS 1.32 billion (compared with NIS 1.2 billion in the original forecast). The change is mainly due to depreciation expenses and financing expenses, net.

Adjusted EBITDA is expected to amount to NIS 3.8 billion (unchanged compared with the original forecast).

CAPEX is expected to amount to NIS 1.75 billion (unchanged compared with the original forecast).

In addition, regarding the scope of the Company's fiber deployment – reaching 2 million households, and regarding financial stability – maintaining a high credit rating in the AA group (both unchanged compared with the original forecast).

The Company's forecasts set out above 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, on the Group's ability to implement its plans for 2023, 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 2022 materialize.

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

Regarding the temporary order, according to which in 2023, the rate of payment of obligated entities to the incentive fund will be 0% instead of 0.5% – see the update to section 2.16.5.

Section 1.7.4 – Change in regulation – Amendment 76 to the Communications Law and section 2.16.4 – Wholesale market

Regarding the use of passive infrastructure in wholesale service – on March 29, 2023, the Ministry of Communications (following the hearing on November 22, 2022) resolved to allow all authorized suppliers to make use of the passive infrastructure, including the Company's physical infrastructure, not only in the incentive areas, subject to compliance with security provisions.

Section 1.7.7 – Regulatory aspects relevant to the entire Group or several Group companies

Section 1.7.7.5 regarding a financial sanction in the amount of NIS 6.9 million imposed on the Company – on April 2, 2023, a judgment on the Company's appeal on the sanction approved the agreement of the parties that the amount of the financial sanction will be a reduced amount of NIS 3.4 million, and accordingly, the Consumer Protection Authority reimbursed the Company an amount of NIS 3.7 million (including linkage differences and interest).

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

Section 2.6.2 – The internet segment

Regarding the rate of the Company's end-to-end ISP customers out of the Company's retail customers – as at June 30, 2023, the rate was 65%.

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

Regarding the Company's Be router and upgrading the capacity of the Company's internet network, in May 2023, the Company, together with Nokia International, performed a trial, which demonstrated a capacity to provide speed of up to 25 gigabytes using advanced technologies, and at the same time, announced a future road map for the development of multi-gig speeds and services of up to 10 gigabytes in 2024 and up to 25 gigabytes in 2027, advanced Wi-Fi standards, and upgrades to the Company's Be router. Regarding the number of Be routers used by the Company's customers and marketing information about range extenders see the update to section 1.5.4.1 .

Section 2.9.4 – The nature of the employment agreements in the Company

Further to the move to amend the Communications Order regarding the holding of means of control in the Company (see the update to section 1.1.2) and to the negotiations between the Company and the employees' organization to amend the collective agreement in the Company as a result, on August 6, 2023 and August 8, 2023, the audit committee of the Company's board of directors and the Company's board of directors approved (respectively) the amendment (No. 7) (the "Agreement") to the special collective agreement of December 2006 and the amendments to it that were signed over the years (the "2006 Agreement"). The main points are as follows:

1. Maintaining the financial robustness of the Company, including maintaining the status of a public company, the current credit/debt rating of the Company, and the rate of holdings in Pelephone that will not fall below 50.01%
2. Distributing a dividend to the Company's shareholders subject to the law, while maintaining the current credit/debt rating of the Company, when a distribution that does not meet the profit test only requires the consent of the employees organization
3. Payment of a special bonus to the Company's employees in the amount of NIS 75 million, most of which is conditional on the dates and terms set out in the agreement depending on the change in the holdings rate of the current holders of the control permit holders in the Company (or the expiration/cancellation/transfer of the control permit) (the "Terms")
4. If the terms are met, the Company will pay a monthly NIS increment of NIS 2,400 linked to the CPI and the Company will cover the payment of management fees to the pension fund for long-term retirees who retired or will retire from the Company as from July 1, 2023.
5. If the terms are met and if there is no core control in the Company, the employees organization has the right to appoint an additional (second) representative from among the employees, if the number of board members exceeds eleven (11) (including external directors and an employee director).
6. The Agreement will be valid (subject to its approval) from July 1, 2023 until December 31, 2025, and for some of the arrangements a later validity is determined as set out in the Agreement. The Agreement covers all the claims of the parties and the parties will maintain industrial peace in the matters regulated therein for as long as it is in effect, and in any matter related to changes in the holdings of the present control permit holders, also after its validity expires.

The Agreement is also subject to the approval of the general meeting of the Company's shareholders. For this matter and for further information about the Agreement, see the Company's immediate report of August 9, 2023 regarding the notice of the general meeting issued at the same time as this report, which is included in this report by way of reference.

After the Agreement is signed (subject to its approval), the Company is expected to register a one time provision in the amount of NIS 75 million for the full amount of the special bonus.

The contents of this section and the approval of the Agreement do not indicate that the Company has any information about any possible change of control in the Company.

Section 2.9.5 – Officers and senior management in the Company

On April 20, 2023, the general meeting of the Company's shareholders approved, among other things, amendments to the Company's compensation policy, such that the compensation policy with the amendments will be valid for three years from the approval date. The amendments include application of the compensation policy for the chairman of the board of directors and the option of linking salaries to the CPI, grossing up expenses and related conditions, granting an adjustment period, and a signing bonus for officers. For further information about the revised compensation policy see the immediate report (amended) of April 4, 2023 on the convening of a meeting, included in this report by way of reference.

Section 2.10.3 – Dependence on suppliers

Regarding the possibility of depending on IBM for hardware and solutions for backup, restoration, system and infrastructure survivability, and storage equipment (the "Systems") – following the termination of the Company's contract with IBM and the Company's alternative contract with DELL, the Company is no longer dependent on IBM for the Systems, and instead, the Company may be dependent on DELL systems.

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

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

Section 2.13.1 – Average and effective interest rates on loans

As at June 30, 2023, the Company is not financed by any short-term credit (less than one year). The following table shows the updated distribution of long-term loans (including current maturities):

Loan term	Source of finance	Principal amount (NIS millions)	Currency or linkage	Type of interest and change mechanism	Average interest rate	Effective interest rate	Nominal interest range in 2023
Long-term loans	Banks	705	Unlinked NIS	Fixed	3.43%	3.37%	3.20%-4.30%
	Banks	700	Unlinked NIS	Variable, based on the annual prime interest rate *	6.71%	6.85%	5.78%-6.78%
	Non-bank sources	3,621	Unlinked NIS	Fixed	3.04%	3.15%	2.79%-4.00%
	Non-bank sources	2,775	CPI-linked NIS	Fixed	1.44%	1.48%	0.58%-2.20%

* Prime interest – 6.25% (as at August 2023)

Section 2.13.4 – Credit received in the reporting period; and Section 2.13.5 – Company debentures

On March 26, 2023, the Company completed a public offering of Debentures (Series 13 and 14), by way of expansion of the series traded on the TASE, under the shelf offering report dated March 22, 2023, which was published under the shelf prospectus published on April 7, 2020 and extended by the Israel Securities Authority to April 7, 2023. As part of this public offering, NIS 230,040,000 par value Debentures (Series 13) were issued for a consideration of NIS 182 million and NIS 278,363,000 par value Debentures (Series 14) were issued for a consideration of NIS 238 million. For further information see the Company's shelf offering report dated March 22, 2023 and the Company's immediate report dated March 26, 2023 regarding the offering results, which are included in this report by way of reference.

Section 2.13.6 – Credit rating

On May 3, 2023, Maalot affirmed its ilAA- rating of the Company, Pelephone, and yes and raised the rating outlook from stable to positive, due to the improvement in the Company's financial ratios. In addition, on May 15, 2023, Midroog affirmed its Aa3.il rating for the Company's debentures and upgraded the rating outlook from stable to positive. For further information see the Company's immediate reports dated May 3, 2023 and May 15, 2023, included in this report by way of reference, and section 3 in the Directors Report.

<u>Section 2.16.1 – Control of Company rates</u>

Section 2.16.1.4 regarding a hearing on the format for assessing margin squeeze by owners of fixed-line communication infrastructure – on March 27, 2023, the ruling in the hearing was published, according to which the format for assessing margin squeeze in an advanced fixed-line network will be the format published in the recommendation for the hearing, with a number of changes set out in the ruling, and this format will constitute the calculation method in accordance with Section 17(D) of the Communications Law. The ruling in the hearing is not expected to have a significant effect on the Company's business.

<u>Section 2.16.4 – Wholesale market</u>

Regarding the use of passive infrastructure in wholesale service – see the update to section 1.7.4.

<u>Section 2.16.5 – Advanced network – fiber</u>

2.16.5.1 regarding the incentive fund to encourage deployment in incentive areas – on July 31, 2023, the Communications Order (Telecommunications and Broadcasting) (Annual Payment Rate to the Incentive Fund) (Temporary Order), 2023 was published (subsequent to the approval of the Minister of Communications, the agreement of the Minister of Finance, and the approval of the Economic Committee of the Knesset) according to which, following the reassessment of the Ministry of Communications, it was determined that under the Temporary Order, in 2023, the annual payment of obligated entities to the incentive fund will be at a rate of 0% instead of 0.5%. Further to the Temporary Order, in 2023, a decrease of NIS 40 million is expected in the Group's expenses compared with 2022[2].

<u>Section 2.18.1 – Pending legal proceedings</u>

Subsection B regarding two motions (which were consolidated) for certification of class actions regarding the transaction for the Company's acquisition of yes shares from Eurocom DBS – on May 23, 2023, in the consolidated procedure together with B Communications and Shaul and Or Elovitch (the "Elovitches"), the applicants filed a motion for certification of a settlement in the consolidated procedure, in which B Communications agreed to pay the equivalent of USD 4.35 million (USD 5.5 million including legal fees, compensation, and other expenses) as compensation for exhausting the claims against it and against the Elovitches (as officers/controlling shareholders in B Communications). In the motion, it was emphasized that the waiver made does not derogate from the allegations regarding the Elovitches in respect of the Company. The court ordered the parties to the motion to approve the settlement, to publish a notice in the newspaper on the matter, and to inform the Attorney General and other parties that a notice has been published and to give their position.

Subsections B, D, E (including the procedure set out in footnote 46), F – regarding the continuation of the stay of proceedings in these cases due to the investigation by the Israel Securities Authority and the related proceedings – a ruling was handed down approving the State's requests for continuation of the deferral of addressing these cases until July 20, 2024 (subject to submission of reservations, which will be considered). Subsection C – regarding the application from November 2015, further to the State's request regarding the deferral of the procedure, the court scheduled an internal hearing on the case for January 9, 2024 and regarding the request from March 2018, the State was granted an extension to file an update notice on its behalf until September 5, 2023. Subsection G – further to the State's request to continue delaying the process of the case until July 20, 2024, the court ordered the parties to submit their position by September 7, 2024.

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[2] In accordance with the explanatory notes to the draft Order, the Company recently applied to the Ministry of Communications under Section 14E of the Communications Law, which allows it to expand the service area set out in the Company's license in accordance with Section 14B of the Communications Law, to up to 10% of the households in the areas included in the Company's notice under Section 14B(a) of the Communications Law. The Company asked to include the requirement to deploy an advanced network and provide internet access service on top of it, in all incentive areas remaining after the incentive tenders (first and second) other than in the Kafr Aqab area, which includes 5 thousand households (an additional 8 thousand households). According to the explanatory notes, from a preliminary review, it appears that the Company meets the terms under the law for approving the request, and in the near future, processing of the request is expected to be completed. It was also stated in the explanatory notes that the Ministry anticipates that some of the winners of the first tender will ask to return some of the winning bids in their winning areas in which they did not deploy. If these incentive zones are returned, the amounts allocated to them from the incentive fund in the first tender will be returned; however, from the Ministry's review, it emerges that it is highly likely that these amounts will not be enough to hold another tender and to prepare it, the collection of the mandatory payments will need to continue.

Section H regarding petitions for disclosure of documents under Section 198A of the Companies Law to review the motion for certification of a derivative claim regarding the ruling of the Competition Commissioner of September 4, 2019, that the Company has abused its position regarding the passive infrastructures – on June 4, 2023 the Haifa District Court handed down its judgment, in which it accepted the motion in part and ordered the disclosure and review of the appendixes of the report of the claims committee only and not the minutes of the committee's meeting.

In June 2023, two claims were filed against the Company together with a motion to certify them as a class action, alleging that the Company does not act in compliance with the law regarding sending notice on the termination of fixed-period transactions, in that it does not send a separate notice on the upcoming termination of the benefit period of the fixed-term transaction, and only notifies the customer of such in the monthly invoice and by sending a text message. In both motions, it was noted that the class action amounts to more than NIS 2.5 million, however an accurate estimate cannot be made. Similar claims were also filed against Pelephone (see the update to section 3.16.1) and yes (see the update to section 5.16).

3. Cellular – Pelephone Communications Ltd. (“Pelephone”)

Section 3.1.8 – Structure of competition in the sector and changes occurring in it

Section 3.1.8.4 –Further to the hearing held at the Ministry of Communications on the subject, on July 16, 2023, the Ministry published a policy document outlining the rules for allocation of a 26-GHz frequency band (and 2100 MHz narrowband) for use by entities other than cellular operators or domestic carriers, for the operation of local private networks (polygon area) per project. Implementation of the policy will require relevant regulatory adjustments and is not expected to have a significant effect on the Company's business.

Section 3.7 – Property, plant and equipment

Subsection 3.7.1.1 C regarding 2G technology – on June 6, 2023, an updated decision was received by the Minister stating that a license holder will be permitted to continue providing service on the 2G network for M2M (machine-to-machine) purposes only until December 31, 2028, subject to the approval of the administration. In addition, a license holder will be permitted to contact the administration with an additional request to extend the 2G technology service period for M2M purposes only, until December 31, 2030.

Section 3.7.2.2 regarding the permit agreement between Pelephone and the ILA for the use of ILA land for installing and operating telecommunication sites – further to the publication of the decision of the Israel Land Council to extend the umbrella agreement from December 31, 2019 to December 30, 2024, in January 2023, the parties signed an agreement.

Section 3.8.1 – Licenses

Subsection 3.8.2.4 regarding the ongoing tender for 5G 26-GHz frequency bands (the "Tender”) – on July 17, 2023, the tender committee informed Pelephone that it had won a series of frequencies in this area, further to its participation in the tender, as follows:

1. 800 M in the 26 GHz range (for 10 years), with the license period as a cellular operator remaining unchanged and it may be renewed under the provisions of the license (“Allocation of Frequencies).
2. Frequencies will be allocated after expansion of the license and against payment of a license fee in the amount of NIS 4,160 thousand. The payment date was scheduled for 60 working days after receiving notification of the Tender results from the Tender Committee.

Expansion of the license under the results of the Tender, subject to the approval of the Minister of Communications as set out in the Tender terms. Allocation of the Frequencies will allow Pelephone, among other things, to expand the range of advanced uses on the 5G cellular network, with emphasis on private networks and advanced services that require a particularly high broadband speed, such as hospitals. The cost of integrating this frequency range into 5G technology will be ongoing, and is not expected to be substantial.

Section 3.14.3 – Licensing of site construction

Construction of sites by entities that are not cellular operators – on July 17, 2023, the Ministry of Communications published a decision (and an amendment to the cellular operator license), regarding permitting entities that do not hold a cellular license to establish and lease cellular radio centers (communication sites) and to lease them to cellular operators. The sites will be operated and maintained by the cellular operators (operation and maintenance will be allowed by the parties as subcontractors of the cellular operators). Implementation of the decision requires legislative changes and the establishment of regulations for implementation and its limitations. As at the publication date of the report, and before the establishment of regulations on this matter, Pelephone believes that the decision is not expected to have a material effect on Pelephone's business.

Section 3.15 – Material agreements

Section 3.15.2 regarding the agreement between Pelephone and the Accountant General at the Ministry of Finance (the "Accountant General") – the parties agreed to extend the agreement to May 16, 2024.

Section 3.16.1 – Pending legal proceedings

Subsection C regarding a motion for certification as a class action filed against Pelephone on the grounds that Pelephone, unilaterally and without consent, changed the terms of the agreement by allowing continued internet use once the internet usage limit was reached, instead of blocking it, notwithstanding Pelephone's announcement on the matter – on April 28, 2023, a judgment was handed down approving the settlement between the parties, referring mainly to benefits and compensation in the amount of NIS 18 million.

In June 2023, two similar claims were filed against Pelephone at the Central District Court, together with motions for their certification as class actions. The claims refer to the fact that Pelephone does not act in compliance with the law regarding sending notice on the upcoming termination of fixed-period transactions. According to one of the claims, the amount of the class action is at least NIS 13.2 million, however an accurate estimate cannot be made, and according to the second claim, the amount of the class action is over NIS 2.5 million, and here too, an accurate estimate cannot be made. Similar claims were also filed against the Company (see the update to section 2.18.1) and yes (see the update to section 5.16).

4. Internet services, international communications, and ICT solutions – Bezeq International Ltd. (“Bezeq International”)

No update.

5. Multichannel TV – yes Television and Communication Services Ltd. ("yes")

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

Further to the hearing regarding the Draft Bill on Principles for Regulating Public Broadcasting of Audiovisual Content - 2022, (the "Hearing"), in July 2023 the Ministry of Communications published the Communications Memorandum of Law (Broadcasting), 2023 which includes the wording of the bill (the "Memorandum” and the “Bill”, respectively).

In accordance with the Bill and its explanatory notes, the Bill is intended to amend the legislation based on the recommendations of various committees over the years (the most recent of which was the Folkman Committee) and to revise the obligations and rights applicable to all players in the audiovisual market in several ways, including as set out below (according to which the Bill is scheduled to come into effect on January 2024, other than specific arrangements for which provisions were initially set for later dates as set out in the Memorandum):

1. A new authority will be established in place of the Cable and Satellite Broadcasting Council and the Second Authority for Television and Radio, which will regulate the entire audiovisual content market in a way that will disregard the manner and technology for distribution of content, oversee competition for the supply of audiovisual content, and will be authorized to issue directives for preventing actions that may impair competition in the sector.

2. A limited and focused set of core obligations will apply to the major players in the market, including registration (in this matter, it was proposed to set up three separate registers – for content providers, Israeli channels, and news providers), investment in local productions (see subsection 6 below), distribution of the Israel Broadcasting Corporation and Knesset channel content, and obligations relating to sport and consumerism, where the scope of such obligations will vary according to the level of the content provider's revenues.
3. The existing restrictions on the economic models in the audiovisual content market will be lifted (while maintaining some of the provisions regarding interchange costs). In all matters relating to the traditional platforms (including yes) – the prohibitions applicable to them regarding broadcasting of commercials and producing new content will be cancelled. In addition, a transitional provision was established, according to which holders of a television broadcasting license, as defined in the Second Authority Law, which are subject to the transfer arrangements set out in the Communications Law and the Broadcasting Law, will be required to allow the continued transfer of channels to registered licensed providers in accordance with these laws and with the required changes, until the beginning of 2027.
4. Separate regulations will be established for providing news content to the public.
5. Regulations will be established regarding public broadcast of sports content to avoid broadcast of significant sports channels through a single content provider, and to ensure the accessibility of sports channels with particular importance to the Israeli 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. For example, content providers with a medium volume of activity will be required to invest 2% of their annual revenue in local productions (in this regard, this will also include the revenue from the supply of audiovisual content in Israel of a corporation associated with the content provider), while content providers with a large volume of activity (such as yes) will be required to invest 4% of their revenue.
7. In addition, several changes were made to the Bill regarding the provisions included in the hearing, including transfer of the Idan+ system to an app and establishing related arrangements; prohibition of a content provider to promote news providers on the remote control; the obligation to provide declared sports events on a channel that is completely open; and the authority to ask for viewing data from the content providers. The Memorandum further stated that in the near future, another memorandum is expected to be published to complement the implementation of this Memorandum, referring to regulation of the radio sector.

yes is reviewing the Memorandum and its implications. Since this is a legislative memorandum, at this stage it is not known which of the provisions of the Memorandum, if any, will be anchored as binding legislation, and what the contents and arrangements of such legislation will be, therefore at this stage, it is difficult to estimate how yes will be affected by the legislation and the regulations that will be established following the Memorandum.

<u>Section 5.5.1 – Competition</u>

Section 5.5.1 regarding the competitors in the market – in April 2023, Keshet and RGE launched a joint venture to set up and operate a multichannel broadcasting platform, under the name FreeTV. In June 2023, the venture was launched commercially.

<u>Section 5.9.2 – Dependence on content suppliers</u>

As at the publication date of the report, yes is negotiating to extend the agreements with the local sports channel providers and yes believes that the agreements will be extended.

The assessment of yes is forward-looking information as defined in the Israel Securities Law, and it may not materialize, or it may materialize in a way that is materially different than anticipated, among other things, depending on whether the relevant parties reach the agreements for that purpose.

<u>Section 5.12 – Financing</u>

In August 2023, the Company approved a credit facility or capital investment in yes for a total amount of up to NIS 40 million, for 15 months from July 1, 2023. This approval is instead of similar approval given in May 2023 (and not in addition to it).

Section 5.14 – Restrictions and control over yes

Section 5.14.1.3 regarding the obligation to invest in local productions – see the update to section 5.16.

Section 5.16 – Legal proceedings

In April 2023, a petition was filed with the High Court of Justice on behalf of a number of organizations of creators, performers, producers, screenwriters, and editors against the Council, the chairman of the Council, yes, and Hot, petitioning the Court to order the Council and the chairman of the Council to respond and to explain why they will not order Hot and yes to include their revenue from additional services provided by them, which are not satellite or cable multichannel television services including telephony services, internet access services, and OTT multichannel television services, to calculate their obligations for annual investments in local productions under the Communications Law (see section 5.14.1.3 of the chapter Description of Company Operations for 2022). In July 2023, a judgment was handed down ordering the dismissal of the petition while retaining the claims of the parties.

In June 2023, a claim was filed against yes at the Central Lod District Court, together with a motion for certification as a class action. The claim refers to the allegation that yes does not act in compliance with the law regarding sending notice on the upcoming termination of fixed-period transactions, in that it does not send a separate and independent notice on the termination date of the benefit period, in addition to informing the customer of such in the monthly invoice and by sending a text message. In the motion, it is stipulated that at this stage, it is estimated that the class action amounts to more than NIS 2.5 million. It should be noted that similar motions on the same subject (failure to provide notice as required on the termination of a fixed-term transaction) were filed against the Company (see section 2.18.1) and Pelephone (see the update to section 3.16.1).

Section 5.17 – Goals and strategy

Section 5.17.1 regarding the gradual migration of yes from satellite broadcasts to internet broadcasts (OTT) – see the update to section 1.5.4.4 (comment 3).

August 8, 2023

Date Bezeq The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:
Gil Sharon, Chairman 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, 2023

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, 2023

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, 2023 (the "Period") and for the three months then ended (the "Quarter").

The Board of Directors' Report contains a condensed review of its subject matter and was prepared taking into account that the Board of Directors' Report as at December 31, 2022 is also available to the reader.

For further information about the investigation by the Israel Securities Authority and Israel Police, see Note 1.2 to the financial statements. The independent auditors have drawn attention to the matter in their opinion on the financial statements..

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

1. Domestic fixed line communications
2. Cellular communications
3. ISP, international telecommunications and ICT solutions ("Bezeq International Services")
4. Multichannel television

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

The Group's results:

	1-6.2023	1-6.2022	Change		4-6.2023	4-6.2022	Change	
	NIS million		NIS million	%	NIS million		NIS million	%
Net profit	654	589	65	11.0	343	307	36	11.7
EBITDA (1)	1,900	1,829	71	3.9	974	921	53	5.8
Adjusted EBITDA (1)	1,923	1,882	41	2.2	987	924	63	6.8

(1) For the non-GAAP financial measures, see below.

The increase in net profit is mainly attributable to the Domestic Fixed Line Communications segment (in the period, mainly due to a decrease in expenses of the provisions for legal claims and a decrease in financing expenses compared with the corresponding period), as well as an increase in the net profit of yes.

For further information see section 1.2 below.

Non-GAAP based financial measures

As at the reporting date, the Group's management uses non-GAAP financial performance measures for assessing and presenting the Group's financial performance. These measures are not a substitute for the information included in the Company's financial statements.

Breakdown of the indices:

Index	Calculation and objectives of the index
EBITDA (earnings before interest, taxes, depreciation and amortization)	Defined as earnings before financing expenses/income, taxes, depreciation and amortization. The EBITDA index is a generally accepted measure used in the Group's area of operations, which offsets effects arising from the variance in the capital structure, various taxation aspects, and the depreciation method and period for fixed and intangible assets. The Group's EBITDA is calculated as operating profit before depreciation, amortization and impairment (including ongoing 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 net operating expenses/income, non-recurring losses/gains from impairment/appreciation, and equity compensation plan expenses. The index allows comparison of operating performance of various periods by adjusting the effects of irregular non-recurring expenses/income. It should be noted that the EBITDA index should not be adjusted to indexes similarly designated by other companies due to a possible difference in the way the index is calculated.

Breakdown of the calculation of these indexes:

	1-6.2023	1-6.2022	4-6.2023	4-6.2022
	NIS million			
Operating profit	974	923	506	463
Depreciation, amortization and impairment	926	906	468	458
EBITDA	1,900	1,829	974	921
Other operating expenses, net	16	49	9	3
Expenses for equity based compensation	7	4	4	-
Adjusted EBITDA	1,923	1,882	987	924

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, 2023	June 30, 2022	Change		Explanation
	NIS millions			%	
Cash and current investments	**2,276**	2,377	(101)	(4.2)	For further information see section 1.3 below.
Current and non-current trade and other receivables	**2,186**	2,262	(76)	(3.4)	The decrease is mainly due to cancellation of insurance indemnification (in the amount of NIS 75 million) with respect to the provision for a legal claim in the Domestic Fixed Line Communications segment.
Inventories	**125**	92	33	35.9	The increase in inventory is mainly due to the timing of stocking up in the Cellular Communications segment.
Broadcasting rights	**53**	62	(9)	(14.5)	
Right-of-use assets	**1,924**	1,797	127	7.1	The increase is mainly due to the addition of contracts that came into effect in the Bezeq International Services segment (see Note 15.4 to the financial statements) and an increase in the CPI, offset by a decrease mainly in the Cellular Communications segment with respect to ongoing depreciation expenses.
Fixed assets	**6,725**	6,459	266	4.1	The increase is mainly due to the Domestic Fixed Line Communications segment, among other things, due to the progress made in the fiber network deployment project.
Intangible assets	**909**	923	(14)	(1.5)	
Deferred expenses and non-current investments	**246**	231	15	6.5	
Total assets	**14,444**	14,203	241	1.7	

1.1 Financial position (contd.) – Liabilities and equity

	June 30, 2023	June 30, 2022	Change		Explanation
	NIS millions			%	
Debt to financial institutions and debenture holders	**7,691**	8,014	(323)	(4.0)	The decrease in the debt is due to repayment of debentures and loans, offset mainly by the expansion of Debentures (Series 13 and 14) in the reporting period.
Liabilities for leases	**2,098**	1,943	155	8.0	The increase is mainly due to the addition of contracts that came into effect in the Bezeq International Services segment (see Note 15.4 to the financial statements) and an increase in the CPI.
Trade and other payables	**1,756**	1,748	8	0.5	
Employee benefits	**514**	601	(87)	(14.5)	The decrease is mainly due to employee severance payments and an increase in the discounted interest of employee liabilities, partially offset by an increase in provisions for early retirement and voluntary redundancy in the Group in 2022.
Provisions	**128**	215	(87)	(40.5)	The decrease is mainly due to the cancellation of the provision for a legal claim against the balance of insurance indemnification with respect to the Domestic Fixed Line Communications segment.
Deferred tax liabilities	**70**	57	13	22.8	
Derivatives and other non-current liabilities	**152**	140	12	8.6	
Total liabilities	**12,409**	12,718	(309)	(2.4)	
Total equity	**2,035**	1,485	550	37.0	Equity constitutes 14.1% of the total balance sheet compared with 10.5% of the total balance sheet as at June 30, 2022. The increase in equity is due to profits, offset by the distribution of dividends.
Total liabilities and equity	**14,444**	14,203	241	1.7	

1.2 Operating results

1.2.1 Highlights

	1-6.2023	1-6.2022	Change		4-6.2023	4-6.2022	Change		Explanation
	NIS million			%	NIS million			%	
Revenue	**4,607**	4,480	127	2.8	**2,299**	2,225	74	3.3	The increase is mainly attributable to the Domestic Fixed Line Communications and the Multichannel Television segments.
General and operating expenses	**1,727**	1,661	66	4.0	**843**	834	9	1.1	The increase in the period is mainly attributable to the Domestic Fixed Line Communications and the Multichannel Television segments.
Salaries	**964**	941	23	2.4	**473**	467	6	1.3	The increase is mainly attributable to the Domestic Fixed Line Communications segment, and in the period, due to the public sector salary agreement, among other factors.
Depreciation, amortization and impairment	**926**	906	20	2.2	**468**	458	10	2.2	The increase is mainly attributable to the Domestic Fixed Line Communications segment, and in the period also to the Cellular Communications segment.
Other operating expenses, net	**16**	49	(33)	(67.3)	**9**	3	6	200.0	The decrease in the period is mainly attributable to the Domestic Fixed Line Communications segment, due to a decrease in expenses relating to provisions for legal claims, see Note 10 to the financial statements.
Operating income	**974**	923	51	5.5	**506**	463	43	9.3	
Financing expenses, net	**128**	152	(24)	(15.8)	**63**	67	(4)	(6.0)	The decrease is mainly attributable to the Domestic Fixed Line Communications segment, see Note 11 to the financial statements.
Income taxes	**192**	182	10	5.5	**100**	89	11	12.4	
Profit for the period	**654**	589	65	11.0	**343**	307	36	11.7	

1.2.2 Operating segments

A. Breakdown of revenue and operating profit by Group operating segments:

	1-6.2023		1-6.2022		4-6.2023		4-6.2022	
	NIS million	% of total revenue	NIS million	% of total revenue	NIS million	% of total revenue	NIS million	% of total revenue
Revenue by operating segment								
Domestic Fixed Line Communications	**2,241**	**48.6**	2,163	48.3	**1,130**	**49.2**	1,067	48.0
Cellular Communications	**1,201**	**26.1**	1,199	26.8	**585**	**25.4**	599	26.9
Bezeq International Services	**605**	**13.1**	609	13.6	**293**	**12.7**	302	13.6
Multichannel television	**665**	**14.4**	632	14.1	**336**	**14.6**	316	14.2
Others and adjustments	**(105)**	**(2.2)**	(123)	(2.8)	**(45)**	**(2.0)**	(59)	(2.7)
Total	**4,607**	**100**	4,480	100	**2,299**	**100**	2,225	100

	1-6.2023		1-6.2022		4-6.2023		4-6.2022	
	NIS million	% of segment revenue	NIS million	% of segment revenue	NIS million	% of segment revenue	NIS million	% of segment revenue
Operating profit by operating segment								
Domestic Fixed Line Communications	**821**	**36.6**	779	36.0	**418**	**37.0**	393	36.8
Cellular Communications	**100**	**8.3**	116	9.7	**49**	**8.4**	52	8.7
Bezeq International Services	**30**	**5.0**	13	2.1	**16**	**5.5**	17	5.6
Multichannel television (2)	**8**	**1.2**	(14)	(2.2)	**13**	**3.9**	(7)	(2.2)
Others and adjustments	**15**	**-**	29	-	**10**	**-**	8	-
Consolidated operating profit / % of Group revenue	**974**	**21.1**	923	20.6	**506**	**22.0**	463	20.8

(2) 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 COO assesses the performance of the segment and decides about the allocation of resources for the segment. In addition, see Note 14.3 for selected condensed information from the financial statements of Yes TV and Communications Ltd.

1.2.2 Operating segments (contd.)

B. Domestic Fixed Line Communications

	1-6.2023	1-6.2022	Change		4-6.2023	4-6.2022	Change		Explanation
	NIS million			%	NIS million			%	
Internet revenue	**964**	877	87	9.9	**485**	443	42	9.5	The increase is mainly due to an increase in the retail ARPU, which is mainly due to an increase in the number of fiber network subscribers, supplementary terminal equipment, and the provision of ISP services since April 2022. In addition, there was an increase in the volume of wholesale fiber internet activities and the use of the Company's infrastructure.
Revenue from data communications, transmission and others	**743**	713	30	4.2	**380**	352	28	8.0	The increase in revenue is due to data communications and transmission services for businesses, and an increase in infrastructure projects. The increase was partially offset by a decrease in revenue from ISP transmission services resulting from subscribers switching to the Company due to the regulatory reform for end-to-end internet service.
Fixed line telephony revenue	**358**	409	(51)	(12.5)	**176**	189	(13)	(6.9)	The decrease is due to a decrease in the number of lines and a decrease in average revenue per telephone line (ARPL), due to a decrease in the volume of traffic, and in the period, also due to a reduction in telephony rates by the Ministry of Communications starting in April 2022.
Revenue from cloud and digital services	**176**	164	12	7.3	**89**	83	6	7.2	The increase is mainly due to virtual exchange and cloud services
Total revenue	**2,241**	2,163	78	3.6	**1,130**	1,067	63	5.9	
General and operating expenses	**392**	357	35	9.8	**197**	179	18	10.1	The increase is mainly due to an increase in subcontracting expenses mainly for paid for work and deployment of the fiber network.
Salaries	**516**	491	25	5.1	**253**	245	8	3.3	The increase is due to salary updates (including minimum wage), hiring of new employees and in the period, also due to a one-time bonus to permanent employees as a result of the public sector salary agreement, offset mainly by resignation of employees.
Depreciation and amortization	**501**	487	14	2.9	**256**	248	8	3.2	
Other operating expenses, net	**11**	49	(38)	(77.6)	**6**	2	4	200.0	The decrease in the period is mainly due to a decrease in provision expenses for legal claims compared with the corresponding period.
Operating income	**821**	779	42	5.4	**418**	393	25	6.4	
Financing expenses, net	**147**	170	(23)	(13.5)	**71**	76	(5)	(6.6)	The decrease in net financing expenses is mainly due to an increase in financing income from investments, a decrease in linkage differentials with respect to debentures, mainly due to a lower index increase and in the period also due to costs with respect to early redemption of debentures, which were recognized in the corresponding period. This was offset by a decrease in financing income with respect to employee benefits that were recognized in the corresponding period and quarter, and an increase in interest expenses with respect to loans, for further information see Note 11 to the financial statements.
Income taxes	**164**	148	16	10.8	**86**	74	12	16.2	
Segment profit	**510**	461	49	10.6	**261**	243	18	7.4	

1.2.2 Operating segments (contd.)

C. Cellular communications

	1-6.2023	1-6.2022	Change		4-6.2023	4-6.2022	Change		Explanation
	NIS million			%	NIS million			%	
Revenue from services less interconnect fees [3]	**684**	664	20	3.0	**350**	340	10	2.9	The increase is mainly due to an increase in revenue from roaming services and further growth in the number of subscribers, including subscribers to 5G packages. The increase was partially offset by a decrease in revenue from hosting services.
Interconnect revenue [3]	**213**	219	(6)	(2.7)	**102**	106	(4)	(3.7)	
Sale of terminal equipment	**304**	316	(12)	(3.8)	**133**	153	(20)	(13.1)	The decrease in the period is mainly due to a decrease in the number of devices sold, which was partially offset by an increase in wholesale sales. The decrease in the quarter is mainly due to a decrease in the number of devices sold and a decrease in wholesale sales.
Total revenue	**1,201**	1,199	2	0.2	**585**	599	(14)	(2.3)	
General and operating expenses	**670**	668	2	0.3	**319**	335	(16)	(4.8)	The change is mainly due to a decrease in terminal equipment costs and expenses attributable to interconnect revenue, together with the decrease in revenue as set out above. On the other hand, roaming expenses increased at the same time as the increase in revenue from this service, and network expenses increased, among other things, due to the increase in electricity rates and an increase in doubtful debt expenses.
Salaries	**164**	159	5	3.1	**80**	77	3	3.9	The increase is mainly due to the effects of the collective agreement signed in December 2022 and was partly offset by a decrease in the number of employees.
Depreciation and amortization	**268**	258	10	3.9	**135**	136	(1)	(0.7)	The increase in the period is mainly due to the revision of the estimated costs of right-of-use assets in the corresponding period with respect to past periods. This increase was partially offset by a decrease in depreciation in respect of fully depreciated assets and a revision of the estimated dismantling and clearing sites assets.
Other operating expenses (income), net	**(1)**	(2)	1	(50.0)	**2**	(1)	3	-	The increase in the quarter is mainly due to an increase in severance costs with respect to the streamlining under the collective agreement.
Operating income	**100**	116	(16)	(13.8)	**49**	52	(3)	(5.8)	
Financing income, net	**12**	16	(4)	(25.0)	**6**	7	(1)	(14.3)	The decrease in the period is mainly due to a decrease in interest revenue from the parent company as a result of repayment of loans, which was partially offset due to an increase in interest revenue from deposits.
Income taxes	**27**	30	(3)	(10.0)	**14**	13	1	7.7	
Segment profit	**85**	102	(17)	(16.7)	**41**	46	(5)	(10.9)	

(3) Interconnect revenue - under the reform of the regulated interconnect rates (the "Reform"), gradually from June 2023 through June 2025, interconnect revenue from MRT carriers and domestic operators for which the reform applies, will be presented separately.

1.2.2 Operating segments (contd.)

D. Bezeq International Services

	1-6.2023	1-6.2022	Change		4-6.2023	4-6.2022	Change		Explanation
	NIS million			%	NIS million			%	
Revenue	**605**	609	(4)	(0.7)	**293**	302	(9)	(3.0)	The decrease is mainly due to a decrease in revenue from ISP services in the private sector, which was mainly due to a decrease in the number of subscribers due to the regulatory reform for end-to-end internet service. Most of this decrease was offset by an increase in the overall business operations of the segment, mainly due to the consolidation of the subsidiary CloudEdge in the second quarter last year and an increase in its operations, due to the operation of international capacities and in the period also due to revenue from equipment, licensing and service contracts.
General and operating expenses	**397**	413	(16)	(3.9)	**189**	197	(8)	(4.1)	The decrease is mainly due to a decrease in expenses for the use of internet infrastructure in view of the decrease in the private activity in this segment. This decrease was partially offset, mainly by an increase in expenses due to the consolidation of CloudEdge's operations in the second quarter last year and an increase in these operations, and an increase in expenses for sale of equipment, licensing and service contracts.
Salaries	**109**	115	(6)	(5.2)	**55**	59	(4)	(6.8)	The decrease is mainly due to the ongoing downsizing of the Company's workforce, which was offset by the salary increase in the subsidiary, CloudEdge.
Depreciation, amortization and impairment of assets	**63**	67	(4)	(6)	**33**	29	4	13.8	The decrease in the period is due to the decrease in impairment of assets that were recognized in the current period compared with the corresponding period. The decrease was partially offset by an increase in the amortization of right-of-use assets and depreciation of fixed assets. The increase in the quarter was mainly due to an increase in expenses for amortization of right-of-use assets and depreciation of fixed assets.
Other operating expenses, net	**6**	1	5	-	**-**	-	-	-	The increase in the period is mainly due to updating the provision for legal claims.
Operating income	**30**	13	17	130.8	**16**	17	(1)	(5.9)	
Financing expenses, net	**4**	3	1	33.3	**3**	2	1	50.0	
Segment profit	**26**	10	16	160	**13**	15	(2)	(13.3)	

1.2.2 <u>Operating segments (contd.)</u>

E. Multichannel television (proforma) [(4)]

	1-6.2023	1-6.2022	Change		4-6.2023	4-6.2022	Change		Explanation
		NIS million		%		NIS million		%	
Revenue	**665**	632	33	5.2	**336**	316	20	6.3	The increase is mainly due to an increase in revenue from integrated television and fiber bundles as well as from new content packages, mainly from collaborations with international content providers.
General and operating expenses	**445**	416	29	7	**220**	208	12	5.8	The increase is mainly due to an increase in expenses for the fiber activities and due to expenses with respect to collaborations with international content providers.
Salaries	**94**	94	-	-	**44**	45	(1)	(2.2)	
Depreciation and amortization	**119**	134	(15)	(11.2)	**59**	68	(9)	(13.2)	The decrease is mainly due to assets that were fully depreciated and changes in the estimated useful life of assets.
Other operating expenses (income), net	**(1)**	2	(3)	-	**-**	2	(2)	(100)	
Operating profit (loss)	**8**	(14)	22	-	**13**	(7)	20	-	
Financing (income), net	**(9)**	(5)	(4)	80	**(4)**	(4)	-	-	The increase in the period is mainly due to an increase in the value of forward transactions as a result of changes in the USD exchange rate.
Income taxes	**-**	1	-	-	**-**	-	-	-	
Segment profit (loss)	**17**	(10)	27	-	**17**	(3)	20	-	

(4) Results of the Multichannel Television segment are presented net of the total effect of impairment recognized as at 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 COO assesses the performance of the segment and decides about the allocation of resources for the segment.
In addition, see Note 14.3 for selected condensed information from the financial statements of yes TV and Communications Ltd. and the table below.

1.2.2 Operating segments (contd.)

F. Results of yes TV and Communication Services Ltd. – Comparison between accounting profit or loss and proforma profit or loss

	1-6.2023		1-6.2022		4-6.2023		4-6.2022	
	Accounting profit or loss	Proforma profit or loss	Accounting profit or loss	Proforma profit or loss	Accounting profit or loss	Proforma profit or loss	Accounting profit or loss	Proforma profit or loss
	NIS million							
Revenue	**665**	**665**	632	632	**336**	**336**	316	316
General and operating expenses	**446**	**445**	429	416	**218**	**220**	223	208
Salaries	**98**	**94**	97	94	**46**	**44**	47	45
Depreciation and amortization	**96**	**119**	96	134	**46**	**59**	46	68
Other operating (income)	**(1)**	**(1)**	2	2	**-**	**-**	2	2
Operating profit (loss)	**26**	**8**	8	(14)	**26**	**13**	(2)	(7)
Financing income, net	**(9)**	**(9)**	(5)	(5)	**(4)**	**(4)**	(4)	(4)
Income tax	**-**	**-**	1	1	**-**	**-**	-	-
Profit (loss)	**35**	**17**	12	(10)	**30**	**17**	2	(3)

1.3 Cash flow

	1-6.2023	1-6.2022	Change		4-6.2023	4-6.2022	Change		Explanation
	NIS million			%	NIS million			%	
Net cash flow from operating activities	**1,628**	1,968	(340)	(17.3)	**775**	872	(97)	(11.1)	The decrease in net cash from operating activities is due to changes in working capital, mainly due to the bringing forward of the crediting dates with the credit card companies in the corresponding quarter in the Cellular Communications segment, and, in the period, due to the deferral of collection from customers from the fourth quarter of 2021 to the first quarter of 2022 as a result of sanctions by employees in the Cellular Communications segment and the Bezeq International Services segment in 2021.
Net cash used in investing activities	**(1,389)**	(1,237)	(152)	12.3	**(584)**	(910)	326	(35.8)	The increase in net cash flows used for investment activities in the period was due to a decline in proceeds from maturity of bank deposits, the decrease in the quarter is mainly due to a decrease in net investment in bank deposits in the Domestic Fixed Line Communications segment.
Net cash used in financing activities	**(228)**	(710)	482	(67.9)	**(504)**	(194)	(310)	159.8	The decrease in net cash flows used for financing activities in the period is mainly due to the partial early redemption of Debentures (Series 9) in the corresponding period, and to the expansion of Debentures (Series 13 and 14) in the current period. The increase in net cash flows used in financing activities in the quarter was mainly due to loans received in the corresponding quarter in the Domestic Fixed Line Communications segment.
Net increase (decrease) in cash	**11**	21	(10)	(47.6)	**(313)**	(232)	(81)	34.9	

<u>Average volume in the reporting period</u>

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 7,597 million

Supplier credit: NIS 968 million

Short-term customer credit: NIS 1,490 million; long-term customer credit: NIS 305 million

<u>Working capital</u>

As at June 30, 2023, the Company has (based on the separate financial information) surplus working capital in the amount of NIS 469 million, compared with surplus working capital in the amount of NIS 585 million at June 30, 2022.

The Group's surplus working capital as at June 30, 2023, amounted to NIS 471 million, compared with surplus working capital in the amount of NIS 560 million as at June 30, 2022.

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

1.4 Update of the effects of inflation and the rising interest rate on the results of the Group's operations

As noted in Note 30.5.1 to the annual financial statements, changes in the rate of inflation affect the Group's profitability and its future cash flows, mainly due to its CPI-linked liabilities. The Group implements a policy for reduction and partial hedging of exposure to the CPI and the USD-NIS exchange rate, through the execution of forward transactions. See further information regarding the hedging transactions in Note 30.6 to the annual report.

In the six months ended June 30, 2023, the increase in CPI was reflected in the Group's financing expenses by an amount of NIS 63 million (NIS 52 million after hedging), a decrease of NIS 28 million (NIS 18 million after hedging) compared with the corresponding period. It should be noted that the net effect of the increase in the interest rate in the market on the results of the Group's operations was not material in the reporting period.

Based on the volume of the Group's CPI linked debt as at June 30, 2023, every 1% increase in the CPI is expected to cause an increase in the Group's financing expenses of NIS 28 million, before weighting the effect of the hedging transactions. Furthermore, based on the Company's current debt at variable interest, every 1% change in the Bank of Israel interest rate is expected to increase the Group's annual financing costs by NIS 7 million and accordingly, is not expected to have a material effect on the results of the Group's operations.

2. Disclosure concerning the Company's financial reporting

2.1 Disclosure concerning valuations

Below is a breakdown concerning a very material valuation pursuant to Regulation 8B(9) of the Israel Securities Regulations (Periodic and Immediate Reports), 1970. For further information, see Note 5 to the financial statements).

	yes TV and Communication Services Ltd. ("yes") (5) **Very material valuation** **Attached to the financial statements as at June 30, 2023**
Subject of the valuation	Review of impairment of yes assets as at June 30, 2023
Date of the valuation	June 30, 2023; the valuation was signed on August 6, 2023
Value shortly before the valuation date if reevaluation based on the valuation had not been required under GAAP, including depreciation and amortization	The carrying amount prior to impairment as at June 30, 2023 is negative in the amount of NIS 27 million.
Value based on the valuation	The total value of yes operations is negative in the amount of NIS 129 million. In view of the negative value of operations, the net value of yes assets and liabilities was set at the higher of their fair value or zero. Accordingly, the recoverable amount of yes, which is obtained by stating the balance sheet items at fair value, net of selling costs, in accordance with IAS 36 requirements, amounted to a negative amount of NIS 85 million. Based on the valuation, in the six and three months ended June 30, 2023, the Group recognized impairment loss in the amount of NIS 127 million and NIS 58 million, respectively
Valuator's identity and profile	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; MBA from the Hebrew University of Jerusalem; 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 for leading companies in Israel and worldwide, in diverse 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 (including purchase price allocation, valuation of intangible assets, and valuation of employee options), and has provided professional financial opinions as an expert court witness. The valuator is not dependent on the Company. The Company undertook to indemnify the valuator for any damages in excess of three times her fee, other than if she acted with malicious intent or gross negligence.
Valuation model	First stage – the value in use was revised using the discounted cash flow (DCF) method, compared with the valuation as at December 31, 2022. Based on the valuation prepared by the valuator and the assessment of the management of yes, there were no changes in the period that could testify to material changes requiring revision of yes's forecasts that were used for preparing the valuation as at December 31, 2022. Nonetheless, the calculation of the value in use at June 30, 2023 was adjusted, mainly due to the timing differences in payments to suppliers. Second stage – the net fair value of yes assets and liabilities, net of selling costs, as at June 30, 2023, was determined.
Assumptions used by the valuator in the valuation	Discount rate – 10% (after tax) Permanent growth rate – 1% Scrap value percentage of total value set in the valuation – N/A In addition, assumptions were made concerning the fair value, net of selling costs, of yes assets.

(5) Notwithstanding the negative value of yes operations, the Company supports yes by approving credit facilities or by investing in the equity of yes (see Note 4.1 to the financial statements). The Company's support of yes is due, among other things, to the current and expected contribution of the operations of yes to the overall operations of the Bezeq Group.

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

2.3 Material events in the reporting period and subsequent material events

For further information about material events in the reporting period and subsequent to the date of the financial statements, see Notes 15 to the financial statements.

3. Information about a debenture series

In March 2023, the Company raised capital by way of expansion of Debentures (Series 13 and 14), in the amount of NIS 415 million.

On March 20, 2023 and March 22, 2023, Maalot announced a rating of ilAA- for the debentures issued by the Company under the expansion of Series 13 and 14. It should be noted that, in addition, on May 3, 2023, Maalot ratified the Company's rating of ilAA- and upgraded its rating outlook from stable to positive, in view of the improvement in the Company's financial ratios.

In addition, on March 19, 2023 and March 22, 2023, Midroog announced a rating of Aa3.il with stable outlook for Debentures (Series 13 and 14) issued by the Company under the expansion of Series 13 and 14. On May 15, 2023, Midroog ratified the Aa3.il rating for the Company's debentures and upgraded the rating outlook from stable to positive.

The rating reports are attached to this Board of Directors' Report by way of reference.

4. Miscellaneous

For further information about the liabilities of the Company and the companies consolidated in its financial statements as at June 30, 2023, see the reporting form to be posted by the Company on the MAGNA system on August 9, 2023.

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

Gil Sharon Chairman of the Board of Directors	Ran Guron CEO

Siged on: August 8, 2023

Chapter C:

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

Contents

Somekh Chaikin
8 Hartum Street, Har Hotzvim
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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, 2023 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.

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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 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 8, 2023

Condensed Consolidated Interim Statements of Financial Position

		June 30, 2023	June 30, 2022	December 31, 2022
		(Unaudited)	(Unaudited)	(Audited)
Assets	**Note**	**NIS million**	**NIS million**	**NIS million**
Cash and cash equivalents		**752**	994	741
Investments	12.1	**1,524**	1,383	910
Trade receivables		**1,501**	1,461	1,440
Other receivables		**274**	365	288
Inventory		**125**	92	85
Total current assets		**4,176**	4,295	3,464
Trade and other receivables		**411**	436	460
Broadcasting rights		**53**	62	57
Right-of-use assets		**1,924**	1,797	1,746
Fixed assets		**6,725**	6,459	6,542
Intangible assets		**909**	923	912
Deferred expenses and non-current investments		**246**	231	231
Total non-current assets		**10,268**	9,908	9,948
Total assets		**14,444**	14,203	13,412

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

Condensed Consolidated Interim Statements of Financial Position (cont.)

		June 30, 2023	June 30, 2022	December 31, 2022
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	**Note**	**NIS million**	**NIS million**	**NIS million**
Debentures, loans and borrowings		**1,088**	959	921
Current maturities of lease liabilities		**447**	466	456
Trade and other payables		**1,756**	1,748	1,590
Employee benefits		**320**	390	399
Provisions	6	**94**	172	168
Total current liabilities		**3,705**	3,735	3,534
Loans and debentures		**6,603**	7,055	6,352
Lease liabilities		**1,651**	1,477	1,452
Employee benefits		**194**	211	201
Derivatives and other liabilities		**152**	140	151
Deferred tax liabilities		**70**	57	61
Provisions		**34**	43	37
Total non-current liabilities		**8,704**	8,983	8,254
Total liabilities		**12,409**	12,718	11,788
Equity attributable to the Company's shareholders				
Share capital		**3,879**	3,878	3,878
Share premium		**386**	384	384
Capital Reserves		**396**	394	396
Equity deficit		**(2,627)**	(3,171)	(3,035)
Total equity attributable to the Company's shareholders		**2,034**	1,485	1,623
Non-controlling interests		**1**	-	1
Total equity		**2,035**	1,485	1,624
Total liabilities and equity		**14,444**	14,203	13,412

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 8, 2023

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
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 8)	**4,607**	4,480	**2,299**	2,225	8,986
Operating expenses					
General operating expenses (Note 9)*	**1,727**	1,661	**843**	834	3,389
Salaries	**964**	941	**473**	467	1,872
Depreciation, amortization and impairment*	**926**	906	**468**	458	1,868
Other operating expenses, net (Note 10)	**16**	49	**9**	3	220
Total operating expenses	**3,633**	3,557	**1,793**	1,762	7,349
Operating profit	**974**	923	**506**	463	1,637
Financial expenses (income) (Note 11)					
Financial expenses	**212**	235	**114**	116	424
Financial income	**(84)**	(83)	**(51)**	(49)	(123)
Financial expenses, net	**128**	152	**63**	67	301
Profit before income tax	**846**	771	**443**	396	1,336
Income tax	**192**	182	**100**	89	336
Net profit for the period attributable to the Company's shareholders	**654**	589	**343**	307	1,000
Basic and diluted earnings per share (NIS)	**0.24**	0.21	**0.12**	0.11	0.36

* 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**
	2023	**2022**	**2023**	**2022**	**2022**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Net profit for the period	**654**	589	**343**	307	1,000
Remeasurement of a defined benefit plan, net of tax	**-**	37	**(1)**	11	56
Additional items of other comprehensive income (loss), net of tax	**(4)**	(1)	**(6)**	(13)	(6)
Total comprehensive income for the period attributable to the Company's shareholders	**650**	625	**336**	305	1,050

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	Equity deficit	Total	Noncontrolling interests	Total equity
	NIS million	NIS million	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, 2023 (unaudited)									
Balance at January 1, 2023	**3,878**	**384**	**390**	**38**	**(32)**	**(3,035)**	**1,623**	**1**	**1,624**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**654**	**654**	**-**	**654**
Other comprehensive (loss) for the period, net of tax	**-**	**-**	**-**	**-**	**(4)**	**-**	**(4)**	**-**	**(4)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(4)**	**654**	**650**	**-**	**650**
Transactions with shareholders recognized directly in equity									
Dividend to the Company's shareholders (Note 7)	**-**	**-**	**-**	**-**	**-**	**(246)**	**(246)**	**-**	**(246)**
Share-based payment	**-**	**-**	**-**	**7**	**-**	**-**	**7**	**-**	**7**
Exercise of options to shares	**1**	**2**	**-**	**(3)**	**-**	**-**	**-**	**-**	**-**
Balance at June 30, 2023	**3,879**	**386**	**390**	**42**	**(36)**	**(2,627)**	**2,034**	**1**	**2,035**
Six months ended June 30, 2022 (unaudited)									
Balance at January 1, 2022	3,878	384	390	27	(26)	(3,557)	1,096	-	1,096
Profit for the period	-	-	-	-	-	589	589	-	589
Other comprehensive income for the period, net of tax	-	-	-	-	(1)	37	36	-	36
Total comprehensive income for the period	-	-	-	-	(1)	626	625	-	625
Transactions with shareholders recognized directly in equity									
Dividend to the Company's shareholders	-	-	-	-	-	(240)	(240)	-	(240)
Share-based payment	-	-	-	4	-	-	4	-	4
Balance at June 30, 2022	3,878	384	390	31	(27)	(3,171)	1,485	-	1,485

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	Equity deficit	Total	Noncontrolling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to shareholders of the Company								
Three months ended June 30, 2023 (unaudited)									
Balance at April 1, 2023	**3,879**	**386**	**390**	**38**	**(30)**	**(2,723)**	**1,940**	**1**	**1,941**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**343**	**343**	**-**	**343**
Other comprehensive (loss) for the period, net of tax	**-**	**-**	**-**	**-**	**(6)**	**(1)**	**(7)**	**-**	**(7)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(6)**	**342**	**336**	**-**	**336**
Transactions with shareholders recognized directly in equity									
Dividend to the Company's shareholders (Note 7)	**-**	**-**	**-**	**-**	**-**	**(246)**	**(246)**	**-**	**(246)**
Share-based payment	**-**	**-**	**-**	**4**	**-**	**-**	**4**	**-**	**4**
Balance at June 30, 2023	**3,879**	**386**	**390**	**42**	**(36)**	**(2,627)**	**2,034**	**1**	**2,035**
Three months ended June 30, 2022 (unaudited)									
Balance at April 1, 2022	3,878	384	390	31	(14)	(3,249)	1,420	-	1,420
Profit for the period	-	-	-	-	-	307	307	-	307
Other comprehensive income for the period, net of tax	-	-	-	-	(13)	11	(2)	-	(2)
Total comprehensive income for the period	-	-	-	-	(13)	318	305	-	305
Transactions with shareholders recognized directly in equity									
Dividend to the Company's shareholders	-	-	-	-	-	(240)	(240)	-	(240)
Balance at June 30, 2022	3,878	384	390	31	(27)	(3,171)	1,485	-	1,485

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	Equity deficit	Total	Noncontrolling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to shareholders of the Company								
Year ended December 31, 2022 (audited)									
Balance at January 1, 2022	3,878	384	390	27	(26)	(3,557)	1,096	-	1,096
Profit for the year 2022	-	-	-	-	-	1,000	1,000	-	1,000
Other comprehensive income (loss) for the year, net of tax	-	-	-	-	(6)	56	50	-	50
Total comprehensive income (loss) for the year 2022	-	-	-	-	(6)	1,056	1,050	-	1,050
Transactions with shareholders recognized directly in equity									
Dividend to the Company's shareholders	-	-	-	-	-	(534)	(534)	-	(534)
Share-based payment	-	-	-	11	-	-	11	-	11
Business combination	-	-	-	-	-	-	-	1	1
Balance at December 31, 2022	3,878	384	390	38	(32)	(3,035)	1,623	1	1,624

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
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**654**	589	**343**	307	1,000
Adjustments:					
Depreciation, amortization and impairment loss	**926**	906	**468**	458	1,868
Financial expenses, net	**142**	182	**73**	76	351
Capital loss (gain), net	**(2)**	3	**(1)**	1	(8)
Share-based payment	**7**	4	**4**	-	11
Income tax expenses	**192**	182	**100**	89	336
Change in trade and other receivables	**(116)**	344	**(12)**	126	342
Change in inventory	**(45)**	(29)	**11**	8	(21)
Change in trade and other payables	**45**	(19)	**(128)**	(108)	(56)
Change in provisions	**2**	28	**(2)**	(15)	24
Change in employee benefits	**(87)**	(112)	**(56)**	(29)	(91)
Change in other liabilities	**3**	(8)	**3**	(6)	18
Income tax paid, net	**(93)**	(102)	**(28)**	(35)	(271)
Net cash provided by operating activities	**1,628**	1,968	**775**	872	3,503
Cash flows for investing activities					
Purchase of fixed assets	**(675)**	(673)	**(340)**	(338)	(1,353)
Investment in intangible assets and deferred expenses	**(182)**	(184)	**(101)**	(89)	(346)
Investment in bank deposits and other financial investments	**(1,110)**	(1,179)	**(470)**	(770)	(1,835)
Proceeds from repayment of bank deposits and other financial investments	**509**	772	**300**	273	1,895
Proceeds from the sale of fixed assets	**35**	21	**2**	6	40
Payment to Ministry of Communications for frequencies	**-**	-	**-**	-	(88)
Government grant received for frequencies	**-**	-	**-**	-	74
Interest received from bank deposits	**28**	8	**21**	6	23
Miscellaneous	**6**	(2)	**4**	2	5
Net cash used in investing activities	**(1,389)**	(1,237)	**(584)**	(910)	(1,585)

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

Condensed Consolidated Interim Statements of Cash Flows (cont.)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows for financing activities					
Issue of debentures and receipt of loans	**415**	300	**-**	300	400
Repayment of debentures and loans	**(58)**	(429)	**(58)**	(59)	(1,320)
Principal and interest payments for leases	**(223)**	(203)	**(98)**	(92)	(420)
Interest paid	**(116)**	(112)	**(102)**	(103)	(232)
Dividend paid	**(246)**	(240)	**(246)**	(240)	(534)
Costs for early repayment of loans and debentures	**-**	(26)	**-**	-	(26)
Payment for expired hedging transactions	**-**	-	**-**	-	(18)
Net cash used in financing activities	**(228)**	(710)	**(504)**	(194)	(2,150)
Net increase (decrease) in cash and cash equivalents	**11**	21	**(313)**	(232)	(232)
Cash and cash equivalents at the beginning of the period	**741**	973	**1,065**	1,226	973
Cash and cash equivalents at the end of the period	**752**	994	**752**	994	741

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, 2023 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 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 summoning it to a hearing, see Note 1.3 to the Annual Financial Statements.

On July 13, 2023, the Supreme Court handed down a judgment on the State's appeal against dismissal of some of the charges in the indictment filed against former officers in the Group (referring to the consideration paid by the Company for the purchase of the shares of the subsidiary yes Television and Communication Services Ltd., and referring to the conduct of independent committees established to review the transactions of interested parties). The State's appeal was accepted regarding all respondents (except for Eurocom Holdings (1979) Ltd.) and the case was returned to the District Court for further evidentiary clarification.

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 reading the context of the annual financial statements of the Company and its subsidiaries as of December 31, 2022 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 8, 2023.

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

The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual 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 yes Television and Communications Services Ltd. ("yes")

4.1.1 As of June 30, 2023, yes has a positive equity of NIS 5 million and a working capital deficit of NIS 193 million. According to its own forecasts, yes 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.

4.1.2 On August 8, 2023, the Company's Board of Directors approved a credit facility or capital investment for yes in the amount of NIS 40 million for 15 months, as of July 1, 2023 until September 30, 2024, in lieu of a similar undertaking from May 2023. It should be noted that thus far in 2023, yes has not made any use of the credit facilities provided by the Company.

The management of yes 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 yes for the coming year.

4.1.3 See Note 5.1 below for information about an impairment of assets recognized by yes in the financial statements as of June 30, 2023.

4.2 Bezeq International Ltd.

See Note 5.2 below for information about an impairment of assets recognized by Bezeq International in the financial statements as of June 30, 2023.

5. Impairment

5.1 Impairment in the Multichannel Television segment (yes)

Further to Note 10.5 to the Annual Financial Statements regarding impairment recognized in 2022, the valuation as of December 31, 2022 presented a value-in-use significantly lower than the carrying amount of yes.

Based on an examination performed by an external appraiser on June 30, 2023, and based on the yes management's assessment, it has been found that in the six months since the previous valuation there have been no changes that could indicate a material change requiring a revision of yes's projections relating to the forecast used in preparing the valuation as at December 31, 2022.

Nevertheless, due to timing differences in the forecast used for preparing the valuation at December 31, 2022, an adjustment was made in the calculation of the value-in-use at June 30, 2023. The adjustment mainly stems from the trade payables balance as of the valuation date, resulting primarily from the timing of payments to be made to content and equipment vendors later in 2023.

The revised enterprise value as of June 30, 2023, considering the adjustment made, is a negative amount of NIS 129 million.

Thus, in light of the negative enterprise value, yes reduced its assets as of June 30, 2023, to their net fair value in a negative amount of NIS 85 million.

Based on a valuation of the fair value of yes assets, carried out by an external appraiser on June 30, 2023, the carrying amount of the amortizable assets is NIS 58 million higher than their net fair value. Therefore, the Group recognized in the six and three months ended June 30, 2023, an impairment loss of NIS 127 million and NIS 58 million, respectively.

Provided below are details regarding yes'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 yes (by the DCF method)	Net fair value of yes assets and liabilities	Net carrying amount of yes assets and liabilities, before impairment recognition	Impairment loss
	NIS million	NIS million	NIS million	NIS million
As of June 30, 2023 and for the three months ended on the same date (unaudited)	**(129)**	**(85)**	**(27)**	**(58)**
As of March 31, 2023 and for the three months ended on the same date (unaudited)	(159)	(145)	(76)	(69)
Total impairment recognized in the six months ended June 30, 2023				**(127)**
As of December 31, 2022 and for the year ended on the same date (audited)	(103)	(88)		(275)

Allocation of impairment loss to Group assets:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Broadcasting rights*	**63**	79	**28**	47	149
Fixed assets**	**42**	38	**16**	18	76
Intangible assets**	**20**	21	**13**	11	45
Other receivables (prepaid expenses)*	**2**	4	**1**	3	3
Rights of use of leased assets **	**-**	2	**-**	-	2
Total impairment recognized	**127**	144	**58**	79	275

* 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 yes 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 Services and ICT Solutions segment (Bezeq International)

Further to Note 10.6 to the Annual Financial Statements regarding impairment of the ISP, International Communications Services and ICT Solutions cash-generating unit in 2022 – the valuation as of December 31, 2022 presented a value-in-use that is significantly lower than the carrying amount of Bezeq International.

As of June 30, 2023, there have been no significant changes in Bezeq International's forecasts compared with those made by Bezeq International as of December 31, 2022. Accordingly, Bezeq International did not carry out an updated valuation as of this date, relying on the results of the valuation from December 31, 2022, according to which the enterprise value is negative NIS 166 million. The updated value as of June 30, 2023, considering an update of the discount rate, was negative NIS 162 million.

The net fair value of Bezeq International's assets as at June 30, 2023 is a negative NIS 27 million.

Thus, in light of the negative enterprise value, as determined in the valuation on June 30, 2023, Bezeq International reduced its assets to their net fair value. Based on a valuation of the fair value of Bezeq International's assets, carried out by an external appraiser on June 30, 2023, the carrying amount of the amortizable assets is NIS 21 million higher than their net fair value. Therefore, the Group has recognized in the six and three months ended June 30, 2023, an impairment loss of NIS 42 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, 2023 and for the three months ended on the same date (unaudited)	**(162)**	**(27)**	**(6)**	**(21)**
As of March 31, 2023 and for the three months ended on the same date (unaudited)	(162)	(5)	16	(21)
Total impairment recognized in the six months ended June 30, 2023				**(42)**
As of December 31, 2022 and for the year ended on the same date (audited)	(166)	(22)		(104)

Allocation of impairment loss to Group assets:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Fixed assets and intangible assets **	**28**	38	**14**	14	71
Short-term and long-term prepaid expenses *	**9**	11	**3**	3	21
Long-term prepaid expenses for bandwidth capacity**	**5**	6	**4**	4	12
Total impairment recognized	**42**	55	**21**	21	104

* 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 88 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, 2023, for Legal Claims filed against Group companies on various matters, which are unlikely to be realized, amounts to NIS 1.8 billion. There is also additional exposure of NIS 2.5 billion for Legal Claims the chances of which cannot yet be assessed. In addition, motions have been filed against the Group companies, to certify class actions 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.

6.2 Following are details of the Group's contingent liabilities as of June 30, 2023, classified into groups of claims 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.	**88**	**1,700**	**689**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or investments.	**-**	**68**	(1) **1,808**
Claims by employees and former employees of the Group's companies	Mainly individual legal claims filed by employees and former employees of the Group concerning various payments.	**-**	**-**	**2**
Miscellaneous	Other lawsuits, including claims in tort (excluding claims whose insurance coverage is not disputed), or claims related to real estate, infrastructure, suppliers, etc.	**-**	**27**	**4**
Total legal claims against the Company and subsidiaries(2)		**88**	**1,795**	**2,503**

(1) 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 yes 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 1.2) and at the request of the Attorney General, until July 20, 2024.

(2) See also Note 6.6 to the Annual Financial Statements.

7. Equity

7.1 Share capital

	June 30, 2023	June 30, 2022	December 31, 2022
	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	**2,766,718,568**	2,765,543,598	2,765,566,594

7.2 Dividend distribution

7.2.1 See Note 20.2.1 to the Annual Financial Statements regarding the dividend distribution policy approved by the Company's Board of Directors on March 13, 2023.

7.2.2 On April 20, 2023, the General Meeting of shareholders of the Company approved (pursuant to the recommendation of the Company's Board of Directors from March 13, 2023) the distribution of a cash dividend to the Company's shareholders for a total of NIS 246 million (representing as of the effective date of the distribution NIS 0.0889220 per share). The dividend was paid on May 11, 2023.

7.2.3 On August 8, 2023, the Company's Board of Directors decided to recommend to the General Meeting of the Company's shareholders to pay a cash dividend to the Company's shareholders totaling NIS 392 million. As of the financial statements' approval date, said dividend has yet to be approved by the General Meeting.

8. Revenues

	Six months ended June 30		Three months ended June 30		**Year ended December 31**
	2023	**2022**	**2023**	**2022**	**2022**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Domestic fixed-line communications – Bezeq fixed-line					
Internet infrastructure	**940**	846	**474**	428	1,729
Fixed-line telephony	**348**	400	**171**	185	762
Transmission and data communication	**477**	445	**241**	225	897
Cloud and digital services	**176**	164	**89**	83	331
Other services	**164**	137	**89**	65	261
	2,105	1,992	**1,064**	986	3,980
Cellular communications – Pelephone					
Cellular services and terminal equipment	**880**	865	**444**	437	1,755
Sale of terminal equipment	**299**	312	**131**	151	604
	1,179	1,177	**575**	588	2,359
Multichannel Television – yes	**665**	632	**336**	316	1,277
ISP, International Communications Services, and ICT Solutions – Bezeq International	**568**	582	**279**	289	1,183
Other	**90**	97	**45**	46	187
Total revenues	**4,607**	4,480	**2,299**	2,225	8,986

9. General Operating Expenses

	Six months ended June 30		Three months ended June 30		**Year ended December 31**
	2023	**2022**	**2023**	**2022**	**2022**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Terminal equipment and materials	**402**	394	**181**	191	782
Interconnectivity and payments to domestic and international telecommunications operators	**399**	362	**197**	179	743
Content costs (including content impairment)	**278**	280	**137**	149	567
Marketing and general	**232**	259	**123**	129	532
Maintenance of buildings and sites	**127**	115	**63**	60	247
Services and maintenance by subcontractors	**257**	220	**126**	109	454
Vehicle maintenance	**32**	31	**16**	17	64
Total general operating expenses	**1,727**	1,661	**843**	834	3,389

10. Other Operating Expenses, Net

	Six months ended June 30		Three months ended June 30		**Year ended December 31**
	2023	**2022**	**2023**	**2022**	**2022**
	(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)	**(2)**	3	**(1)**	1	(8)
Provision for claims	**18**	45	**9**	2	55
Employee termination expenses for early retirement at the Company	**4**	4	**1**	2	78
Employee termination expenses for early retirement and efficiency agreement at Pelephone, Bezeq International and yes	**4**	-	**4**	-	102
Other income	**(8)**	(3)	**(4)**	(2)	(7)
Total other operating expenses, net	**16**	49	**9**	3	220

11. Financial Expenses, Net

	Six months ended June 30		Three months ended June 30		**Year ended December 31**
	2023	**2022**	**2023**	**2022**	**2022**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Interest expenses for financial liabilities	**117**	102	**60**	51	211
Financial expenses for lease liabilities	**28**	20	**16**	10	43
Linkage differences	**52**	70	**31**	44	117
Exchange rate differences	**-**	9	**-**	7	8
Costs for early repayment of loans and debentures	**-**	26	**-**	-	26
Other financial expenses	**7**	8	**3**	4	19
Financial expenses for employee benefits	**8**	-	**4**	-	-
Total financial expenses	**212**	235	**114**	116	424
Change in fair value of financial assets measured at fair value through profit or loss	**20**	24	**12**	18	23
Interest income from investments	**33**	7	**19**	7	24
Income from credit in sales	**11**	12	**4**	6	20
Financial income from employee benefits	**-**	30	**-**	10	40
Other financial income	**20**	10	**16**	8	16
Total financial income	**84**	83	**51**	49	123
Financial expenses, net	**128**	152	**63**	67	301

12. Financial Instruments

12.1 Composition of investments

	June 30, 2023	June 30, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Shekel bank deposits (1)	**874**	1,234	734
Foreign currency bank deposits	**-**	29	10
Investment in money funds	**627**	100	151
Derivative instruments	**23**	20	15
	1,524	1,383	910

(1) Shekel bank deposits are set to mature by April 2024.

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, 2023		June 30, 2022		December 31, 2022	
	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)	**1,471**	**1,400**	1,554	1,542	1,530	1,462
Debentures issued to the public (CPI-linked)	**2,703**	**2,653**	3,000	3,099	2,402	2,373
Debentures issued to the public (unlinked)	**2,836**	**2,711**	2,845	2,816	2,657	2,541
Total	**7,010**	**6,764**	7,399	7,457	6,589	6,376

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, 2023	June 30, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1 – Investment in money funds at fair value through profit or loss	**627**	100	151
Level 2– Forward contracts	**55**	23	42

13. Segment Reporting

	Six months ended June 30, 2023 (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	**2,106**	**1,179**	**568**	**664**	**90**	**-**	**4,607**
Inter-segment revenues	**135**	**22**	**37**	**1**	**1**	**(196)**	**-**
Total revenues	**2,241**	**1,201**	**605**	**665**	**91**	**(196)**	**4,607**
Depreciation, amortization and impairment	**501**	**268**	**63**	**119**	**2**	**(27)**	**926**
Segment results – operating profit (loss)	**821**	**100**	**30**	**8**	**(4)**	**19**	**974**
Financial expenses	**205**	**17**	**8**	**5**	**-**	**(23)**	**212**
Financial income	**(58)**	**(29)**	**(4)**	**(14)**	**-**	**21**	**(84)**
Total financial expenses (income), net	**147**	**(12)**	**4**	**(9)**	**-**	**(2)**	**128**
Segment profit (loss) after financial expenses, net	**674**	**112**	**26**	**17**	**(4)**	**21**	**846**
Income tax	**164**	**27**	**-**	**-**	**1**	**-**	**192**
Segment results – net profit (loss)	**510**	**85**	**26**	**17**	**(5)**	**21**	**654**

	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

* Results of the Multichannel Television segment are presented net of the total effect of impairment recognized as from the year 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 yes's financial statements.

	Three months ended June 30, 2023 (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	**1,065**	**574**	**280**	**335**	**45**	**-**	**2,299**
Inter-segment revenues	**65**	**11**	**13**	**1**	**1**	**(91)**	**-**
Total revenues	**1,130**	**585**	**293**	**336**	**46**	**(91)**	**2,299**
Depreciation, amortization and impairment	**256**	**135**	**33**	**59**	**-**	**(15)**	**468**
Segment results – operating profit (loss)	**418**	**49**	**16**	**13**	**(3)**	**13**	**506**
Financial expenses	**107**	**7**	**4**	**3**	**-**	**(7)**	**114**
Financial income	**(36)**	**(13)**	**(1)**	**(7)**	**-**	**6**	**(51)**
Total financial expenses (income), net	**71**	**(6)**	**3**	**(4)**	**-**	**(1)**	**63**
Segment profit (loss) after financial expenses, net	**347**	**55**	**13**	**17**	**(3)**	**14**	**443**
Income tax	**86**	**14**	**-**	**-**	**-**	**-**	**100**
Segment results – net profit (loss)	**261**	**41**	**13**	**17**	**(3)**	**14**	**343**

	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

* 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 yes's financial statements.

	Year ended December 31, 2022 (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	3,980	2,359	1,183	1,277	187	-	8,986
Inter-segment revenues	326	40	56	-	6	(428)	-
Total revenues	4,306	2,399	1,239	1,277	193	(428)	8,986
Depreciation, amortization and impairment	1,005	532	134	274	4	(81)	1,868
Segment results – operating profit (loss)	1,460	193	(30)	(48)	6	56	1,637
Financial expenses	424	42	9	8	-	(59)	424
Financial income	(92)	(68)	(8)	(14)	-	59	(123)
Total financial expenses (income), net	332	(26)	1	(6)	-	-	301
Segment profit (loss) before income tax	1,128	219	(31)	(42)	6	56	1,336
Income tax expenses (income)	279	54	1	1	1	-	336
Segment results – net profit (loss)	849	165	(32)	(43)	5	56	1,000

* 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 yes's financial statements.

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

14.1 Pelephone Communications Ltd.

Selected data from the statement of financial position:

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

Selected data from the statement of income:

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

14.2 Bezeq International Ltd.

Selected data from the statement of financial position:

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

Selected data from the statement of income:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**605**	609	**293**	302	1,239
Operating expenses					
General operating expenses and impairment	**397**	413	**189**	197	827
Salaries	**109**	115	**55**	59	237
Depreciation, amortization and impairment	**63**	67	**33**	29	134
Other expenses, net	**6**	1	**-**	-	71
Total operating expenses	**575**	596	**277**	285	1,269
Operating profit (loss)	**30**	13	**16**	17	(30)
Financial expenses (income)					
Financial expenses	**8**	5	**4**	3	9
Financial income	**(4)**	(2)	**(1)**	(1)	(8)
Financial expenses, net	**4**	3	**3**	2	1
Profit (loss) before income tax	**26**	10	**13**	15	(31)
Income tax expenses	**-**	-	**-**	-	1
Profit (loss) for the period	**26**	10	**13**	15	(32)

14.3 yes Television and Communications Services Ltd. ("yes")

Selected data from the statement of financial position:

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

Selected data from the statement of income:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**665**	632	**336**	316	1,277
Operating expenses					
General operating expenses and impairment	**446**	429	**218**	223	867
Depreciation, amortization and impairment	**96**	96	**46**	46	199
Salaries	**98**	97	**46**	47	200
Other operating expenses (income), net	**(1)**	2	**-**	2	3
Total operating expenses	**639**	624	**310**	318	1,269
Operating profit (loss)	**26**	8	**26**	(2)	8
Financial expenses (income)					
Financial expenses	**5**	5	**3**	3	8
Financial income	**(14)**	(10)	**(7)**	(7)	(14)
Financial income, net	**(9)**	(5)	**(4)**	(4)	(6)
Profit before income tax	**35**	13	**30**	2	14
Income tax expenses	**-**	1	**-**	-	1
Profit for the period	**35**	12	**30**	2	13

15. Significant Events in the Reporting Period and after the Financial Statements Date

15.1 See Note 7.2.2 regarding the distribution of a cash dividend on May 11, 2023.

15.2 In March 2023, the Company raised financing by way of the expansion of Debenture Series 13 and 14, in the amount of NIS 415 million.

15.3 On May 9, 2023, the Company issued a new shelf prospectus following receipt of a permit.

15.4 Pursuant to the hosting services agreement Bezeq International signed with Server farm in October 2021, Bezeq International received during the second quarter its part in the Bnei Zion server farm, in respect of which a right-of-use asset and a lease liability were recorded in the amount of NIS 197 million. For further details, see also Note 8.5 to the Annual Report.

15.5 On August 6, 2023 and August 8, 2023, the Audit Committee of the Company's Board of Directors and the Company's Board of Directors (respectively) approved an amendment to the collective agreement between the Company and the workers' organization and the Histadrut (General Federation of Labor), stating, inter alia, that a special grant of NIS 75 million is to be paid to the Company's employees for past services, Most of the grant will be conditional on dates and conditions set in the agreement, subject to a change in the holding percentage of the Company's current control permit holders (or the expiry/revocation/transfer of the control permit) (the "Conditions"). The amendment to the agreement also requires the approval of the General Meeting of the Company's shareholders. Following the signing of the amendment to the agreement (subject to its approval), the Company will record a onetime provision of NIS 75 million for the entire amount of the special grant.

Condensed Separate Interim Financial Information as of June 30, 2023

Contents	Page

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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, 2023 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 of the company as well as companies from the group that previously controlled the company, including

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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 8, 2023

Condensed Separate Interim Information on Financial Position

	June 30, 2023	June 30, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**352**	532	286
Investments	**1,516**	1,375	905
Trade receivables	**742**	717	684
Other receivables	**120**	196	211
Total current assets	**2,730**	2,820	2,086
Trade and other receivables	**211**	227	253
Fixed assets	**5,768**	5,528	5,629
Intangible assets	**251**	247	243
Goodwill	**265**	265	265
Investment in investees	**2,252**	3,133	2,803
Right-of-use assets	**643**	661	645
Non-current and other investments	**177**	156	164
Total non-current assets	**9,567**	10,217	10,002
Total assets	**12,297**	13,037	12,088

Condensed Separate Interim Information on Financial Position (cont.)

	June 30, 2023	June 30, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**1,087**	958	920
Trade and other payables	**787**	713	709
Employee benefits	**224**	324	277
Current maturities of lease liabilities	**110**	111	115
Provisions (Note 5)	**53**	129	127
Total current liabilities	**2,261**	2,235	2,148
Loans and debentures	**6,602**	7,055	6,352
Loans from subsidiaries	**555**	1,430	1,140
Employee benefits	**165**	177	161
Lease liabilities	**575**	583	570
Derivatives and other liabilities	**79**	72	77
Deferred tax liabilities	**26**	-	17
Total non-current liabilities	**8,002**	9,317	8,317
Total liabilities	**10,263**	11,552	10,465
Equity			
Share capital	**3,879**	3,878	3,878
Share premium	**386**	384	384
Reserves	**396**	394	396
Equity deficit	**(2,627)**	(3,171)	(3,035)
Total equity attributable to the Company's shareholders	**2,034**	1,485	1,623
Total liabilities and equity	**12,297**	13,037	12,088

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 8, 2023

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
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 2)	**2,241**	2,163	**1,130**	**1,067**	4,306
Operating expenses					
Salaries	**516**	491	**253**	245	970
Depreciation and amortization	**501**	487	**256**	248	1,005
General operating expenses (Note 3)	**392**	357	**197**	179	759
Other operating expenses, net (Note 4)	**11**	49	**6**	2	112
Total operating expenses	**1,420**	1,384	**712**	674	2,846
Operating profit	**821**	779	**418**	393	1,460
Financial expenses (income)					
Financial expenses	**205**	231	**107**	110	424
Financial income	**(58)**	(61)	**(36)**	(34)	(92)
Financial expenses, net	**147**	170	**71**	76	332
Profit after financial expenses, net	**674**	609	**347**	317	1,128
Share in profits of investees, net	**144**	128	**82**	64	151
Profit before income tax	**818**	737	**429**	381	1,279
Income tax	**164**	148	**86**	74	279
Profit for the period attributable to the Company's shareholders	**654**	589	**343**	307	1,000

Condensed Separate Interim Information on Comprehensive Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	**654**	589	**343**	307	1,000
Items of other comprehensive income (loss), net of tax	**(4)**	36	**(7)**	(2)	50
Total comprehensive income for the period attributable to the Company's shareholders	**650**	625	**336**	305	1,050

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
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**654**	589	**343**	307	1,000
Adjustments:					
Depreciation and amortization	**501**	487	**256**	248	1,005
Share in profits of investees, net	**(144)**	(128)	**(82)**	(64)	(151)
Financial expenses, net	**136**	177	**66**	73	334
Capital loss (gain), net	**-**	1	**-**	-	(11)
Share-based payment	**2**	4	**1**	2	3
Income tax expenses	**164**	148	**86**	74	279
Change in trade and other receivables	**(55)**	9	**13**	(11)	1
Change in trade and other payables	**28**	12	**(30)**	(45)	29
Change in provisions	**1**	26	**-**	(17)	24
Change in employee benefits	**(49)**	(92)	**(46)**	(25)	(135)
Miscellaneous	**-**	5	**(1)**	3	24
Net cash provided by operating activities due to transactions with subsidiaries	**36**	19	**12**	21	53
Income tax paid, net	**(64)**	(82)	**(16)**	(25)	(225)
Net cash provided by operating activities	**1,210**	1,175	**602**	541	2,230
Cash flows from investing activities					
Investment in intangible assets and other investments	**(97)**	(81)	**(60)**	(36)	(157)
Proceeds from the sale of fixed assets	**30**	19	**1**	5	36
Investment in bank deposits and other financial investments	**(1,110)**	(1,179)	**(470)**	(770)	(1,835)
Proceeds from repayment of bank deposits and other financial investments	**509**	772	**300**	273	1,895
Purchase of fixed assets	**(496)**	(483)	**(221)**	(243)	(978)
Dividend received	**115**	-	**-**	-	-
Interest received from bank deposits	**23**	7	**19**	5	19
Miscellaneous	**-**	1	**1**	1	3
Net cash provided by investing activities with subsidiaries	**-**	-	**-**	-	10
Net cash used in investing activities	**(1,026)**	(944)	**(430)**	(765)	(1,007)

Condensed Separate Interim Information on Cash Flows (cont.)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from financing activities					
Issue of debentures and receipt of loans	**415**	300	**-**	300	400
Repayment of debentures and loans	**(58)**	(428)	**(58)**	(58)	(1,320)
Costs for early repayment of loans and debentures	**-**	(26)	**-**	-	(26)
Interest paid	**(116)**	(112)	**(102)**	(103)	(230)
Dividend paid	**(246)**	(240)	**(246)**	(240)	(534)
Payment of principal and interest for a lease	**(75)**	(69)	**(35)**	(33)	(138)
Payment for expired hedging transactions	**-**	-	**-**	-	(18)
Net cash provided by (used in) financing activities due to transactions with subsidiaries	**(38)**	174	**(33)**	53	227
Net cash used in financing activities	**(118)**	(401)	**(474)**	(81)	(1,639)
Net increase (decrease) in cash and cash equivalents	**66**	(170)	**(302)**	(305)	(416)
Cash and cash equivalents at the beginning of the period	**286**	702	**654**	837	702
Cash and cash equivalents at the end of the period	**352**	532	**352**	532	286

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 2022.

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. This should be read together with the separate financial information as of and for the year ended December 31, 2022 and together with the condensed consolidated interim financial statements as of June 30, 2023 (the "Consolidated Statements").

The accounting policy applied in this condensed separate interim financial information is consistent with the policy set out in the separate financial information as of and for the year ended December 31, 2022.

2. Revenues

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Internet infrastructure	**964**	877	**485**	443	1,789
Transmission and data communications	**575**	573	**289**	287	1,132
Fixed-line telephony	**358**	409	**176**	189	780
Cloud and digital services	**176**	164	**89**	83	331
Other services	**168**	140	**91**	65	274
Total revenues	**2,241**	2,163	**1,130**	1,067	4,306

3. General Operating Expenses

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**55**	54	**27**	27	113
Marketing and general	**88**	88	**48**	42	189
Interconnectivity and payments to telecom operators	**46**	52	**20**	26	100
Services and maintenance by subcontractors	**119**	89	**61**	48	203
Vehicle maintenance	**19**	17	**10**	10	37
Terminal equipment and materials	**65**	57	**31**	26	117
Total general operating expenses	**392**	357	**197**	179	759

4. Other Operating Expenses, Net

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital loss (gain) from the sale of fixed assets	**-**	1	**-**	-	(11)
Employee termination expenses due to early retirement	**4**	4	**1**	2	78
Other expenses (mainly reversal of provision for claims)	**7**	44	**5**	-	45
Total other operating expenses, net	**11**	49	**6**	2	112

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 53 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, 2023:

Balance of provision	Additional exposure*	Exposure for claims whose chances cannot yet be assessed*
NIS million		
53	**682**	(1)**2,468**

* Nominal

(1) 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 yes 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 1.2 of the Consolidated Statements, and at the request of the Attorney General, until July 20, 2024.

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

6. Significant Events in and Subsequent to the Reporting Period

6.1 Regarding the investigation by the Israel Securities Authority and the Israel Police, see Note 1.2 to the Consolidated Statements.

6.2 On August 8, 2023, the Company's Board of Directors approved to provide yes with a credit facility or capital investment of NIS 40 million for 15 months, as of July 1, 2023. This approval is in lieu of the approval given in May 2023 (and not in addition to it).

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

6.4 In March 2023, Pelephone paid a cash dividend to the Company totaling NIS 115 million as well as a dividend of NIS 235 million against early repayment of loans given to the Company.

6.5 In June 2023, Pelephone paid a NIS 350 million dividend to the Company against early repayment of loans given to the Company.

6.6 On August 6, 2023, Pelephone's Board of Directors approved payment of a NIS 350 million dividend to the Company against early repayment of loans given to the Company.

6.7 See Note 7.2 to the Consolidated Statements regarding a dividend distribution by the Company after the financial statements date.

6.8 For information regarding amendment of the collective agreement, see Note 15.5 to the Consolidated Statements.

6.9 For information about additional significant events after the financial statements period, see Note 15 to the Consolidated Statements.

Chapter E:
Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period Ended June 30, 2023

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.

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
2. Eyal Kamil, VP Operations and Logistics
3. Amir Nachlieli, Legal Counsel
4. Erez Hasdai, VP Economics and Regulation
5. Guy Hadass, VP Corporate Communications, Responsibility and Governance Relations
6. Tobi Fischbein, CFO Bezeq Group
7. Tali Poleg, VP Marketing
8. Moran Kita, VP Human Resources
9. Meni Baruch, VP Technologies and Network
10. Nurit Kantor, VP Private Customers Division
11. Nir David, VP Business Customers Division

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

1. Lior Segal, Internal Auditor
2. Michal Kuperstein, Group Corporate Secretary and Internal Compliance Officer[1]

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.

[1] Michal Kuperstein started her tenure on July 1, 2023, replacing Shelly Bainhoren who ended her tenure in June 2023.

[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 chapter "Description of Company Operations" in the Periodic Report for 2022.

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, 2023 (the "Last Quarterly Report on Internal Control"), the internal control was found to be effective.

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 by 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 1.1.5 of the Description of Company Operations chapter in the Company's periodic report for 2022, 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 a summons it received to a hearing in this matter, as detailed in Section 1.1.5.2 of the chapter "Description of Company Operations"). 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 2023 (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 8, 2023

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 2023 (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 8, 2023

Tobi Fischbein, CFO Bezeq Group