November 15, 2022

Bezeq - The Israel Telecommunication Corporation Ltd.

Quarterly Report for the Period Ended September 30, 2022

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

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

Condensed Interim Financial Statements as at September 30, 2022

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

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

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

1. General development of the Group's business

Section 1.1.2 – Control in the Company and section 2.16.3 – The Communications Order

Regarding the Control Permit and Communications Order – On September 4, 2022, the Draft Communications Order (Telecommunications and Broadcasting) (Determination of an Essential Service Provided by Bezeq the Israel Telecommunications Corp. Ltd.) (Amendment), 2022 (the "Draft Amendment") was published on the government legislation website for public comments by September 25, 2022. In accordance with the introduction and in the explanatory notes to the Draft Amendment, B Communications, the controlling shareholder of the Company, applied to the Ministry of Communications with a request, among other things, to amend the Communications Order to allow the future sale of its holdings in the Company to the public, such that on completion of the process, it will no longer be the controlling shareholder of the Company. It is further proposed, among other things, to amend the Communications Order to allow the controlling shareholder, subject to approval of the Prime Minister and the Minister of Communications, after consultation with the Minister of Defense, to transfer means of control to another party if, as a result of the transfer, it is no longer the controlling shareholder. The Draft Amendment includes proposals for additional amendments to the Communication Order, including:

1. To add an option for the controlling shareholder to replace the Israeli shareholder requirement with directives of the General Security Service under Section 13 of the Communications Law.
2. To provide an option for an institutional investor to increase its holding to up to 7.5% without the approval of the ministers.
3. To repeal Section 7(G) of the Communications Order, which determines reporting requirements, terms, and restrictions on any entity holding 2.5% or more of any means of control in a company where more than 75% of the company's shares is held by the public.

Section 1.1.5 – Structural changes – restructuring of the subsidiaries

Regarding the establishment of ISP activity in DBS – Following the application of DBS to the Ministry of Communications in April 2022 for a special license for internet access services (ISP), in June 2022, DBS received the license and started to provide these services while advancing the sale of combined internet and television bundles for customers. Further to the update to subsection 1.7.4.10 regarding the change in the regulatory regime for telecommunications, as from October 2, 2022, the provisions of the Telecommunications Regulations (Telecommunications and Broadcasts) (General Permit for the Provision of Telecommunications Services), 2022 apply to the ISP service of DBS, instead of the provisions in the license.

On August 28, 2022, Ilan Sigal started service as CEO of the subsidiaries Pelephone, DBS, and Bezeq International, replacing Ran Guron, who was appointed as Company CEO (see the update to section 2.9.5). On November 15, 2022, the Company's board of directors (after the approval of the board of directors of Bezeq International) approved the appointment of Mr. Ron Glav as CEO of the subsidiary Bezeq International starting on January 1, 2023, in accordance with the strategy to turn Bezeq International into a company focused on integration, communication, and IT solutions for the business sector. According to the resolution of the board of directors, as from this date, Ilan Sigal will continue to serve as CEO of the subsidiaries Pelephone and DBS.

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

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

Further to subsection 1.1.6.3 regarding the filing of an indictment against former officers in the Group, referring to fraudulent payment of the consideration for the acquisition of DBS shares by the Company, and fraudulent conduct of the independent committees established by the Company to review the transactions of the Company's interested parties – On July 20, 2022, the Economic Department of the Tel Aviv-Jaffa District Court announced its ruling on the motion filed by some of the defendants to dismiss charges in the case (the "Ruling"). Under the Ruling, the second and third charges in the indictment (fraudulent conduct of the independent committees in the Bezeq-yes transaction and the yes-Spacecom transaction) were dismissed against all the defendants in these charges: the former controlling owner of the Company, Shaul Elovitch; former officers of the Company – Or Elovitch, Amikam Shorer, and Linor Yochelman; and against the companies in these charges – Eurocom Group companies. The Ruling further stipulates, among other things, that the claim made by Shaul Elovitch cannot be accepted, whereby the indictment reveals no culpability with the first charge (fraudulent receipt of advance payments on account of the second contingent consideration in the Bezeq-yes transaction). The Ruling further emphasizes that it has no implications whatsoever on the civil aspect and on pending proceedings in this context (it should be noted that a number of civil cases are pending against the Company and/or its former officers regarding the transactions underlying the Ruling, as set out in section 2.18.1 of the Description of Corporate Affairs in the Company's Periodic Report for 2021). On September 6, 2022, the Ministry of Justice announced that the Criminal Department at the Office of the State Attorney appealed the ruling on the same day.

Section 1.4.2 – Dividend distribution

For details about the dividend distributed by the Company in May and October 2022, see Note 7.2 to the Financial Statements.

Distributable profits as at the reporting date: NIS 1,713 million (retained earnings accumulated in the last two years after deduction of the distribution in May and October 2022).

Section 1.5.4 - Main results and operational data

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

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenues (NIS million)	1,086	1,067	1,096	1,052	1,037	1,039	1,054
Operating profit (NIS million)	388	393	386	358	390	407	593
Depreciation and amortization (NIS million)	252	248	239	245	239	231	223
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	640	641	625	603	629	638	816
Net profit (NIS million)	235	243	218	206	219	238	400
Cash flow from operating activities (NIS million)	427	541	634	593	567	354	510
Payments for investments in fixed assets and intangible assets and other investments (NIS million)	294	279	285	244	314	285	312
Proceeds from the sale of fixed assets and intangible assets (NIS million)	8	5	14	87	4	-	182
Lease payments	34	33	36	32	31	24	29
Free cash flow (NIS million) (2)	107	234	327	404	226	45	351
Number of active telephony subscriber lines at the end of the period (in thousands)(3)	1,522	1,542	1,563	1,583	1,602	1,615	1,630
Average monthly revenue per line (NIS) (ARPL) (4)	41	41	47	46	46	47	49
Number of outgoing minutes (in millions)	744	726	801	811	782	827	965
Number of incoming minutes (in millions)	989	952	1,058	1,096	1,152	1,095	1,284
Telephony churn rate (6)	2.8%	2.6%	3.0%	2.8%	2.4%	2.6%	2.8%
Total number of internet lines at the end of the period (in thousands) (7)	1,505	1,512	1,519	1,524	1,524	1,529	1,540
Of which, the number of internet lines at the end of the period – retail (thousands) (7)	1,024	1,022	1,024	1,023	1,014	1,009	1,001
Of which, the number of internet lines at the end of the period – wholesale (thousands) (7)	481	490	495	501	510	520	539
Average monthly revenue per internet subscriber (NIS) – retail (ARPU) (8)	116	113	110	109	107	106	103
Deployment of fiber optic network at the end of the period (thousands of households available for connection) (9)	1,442	1,308	1,193	1,064	848	597	310
Of which, the number of subscribers connected to the fiber network at the end of the period (in thousands) (9)	212	161	124	84	44	16	1
Average bundle speed per internet subscriber – retail (Mbps)(5)	192	164	151	130	104	88	78

(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 measure for assessing its business results since this 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 DBS and Bezeq International under depreciation and amortization, and continuing losses from the impairment of broadcasting rights under general and operating expenses (in the statement of income). For further information, see Note 5 to the financial statements and section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

(2) Free cash flow is a financial 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 resulting from operating activities after cash investments in infrastructure and other fixed assets and intangible assets. For further information, see section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

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

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

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

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

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

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

(9) As at the publication date of the report, deployment of the fiber optic network - 1,477 million households are available for connection, of which, 233 thousand subscribers are connected to the fiber network.

B. Pelephone

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

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

(2) Subscriber figures include Pelephone subscribers (excluding subscribers from other operators hosted on the Pelephone network and excluding IOT subscribers), and do not include inactive subscribers connected to Pelephone’s service for six months or more. An inactive subscriber is one who in the past six months has not received one call, has not made one call / sent one SMS, or has performed no browsing activity, or has not paid for Pelephone services. Prepaid subscribers are included in the number of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if the subscriber makes no outgoing use of the device for six months or more. It should be noted that a customer may have more than one subscriber number (“line”). Subscribers include subscribers who use various services (such as data for vehicle media systems), with an average revenue that is significantly lower than for other subscribers. It should be noted that Pelephone markets bundles with an increased browsing volume adapted also for 5G requirements, and shortly before the publication date of the report, Pelephone has 753 thousand subscribers for such bundles.

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

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

C. <u>Bezeq International</u>

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenues (NIS million)	311	302	307	328	287	310	312
Operating profit (loss) (NIS million)	17	17	(4)	1	13	16	(8)
Depreciation and amortization (NIS million)	32	29	38	40	38	46	49
EBITDA (earnings (loss) before interest, taxes, depreciation and amortization) (NIS million) (1)	49	46	34	41	51	62	41
Net profit (loss) (NIS million)	16	15	(5)	(5)	10	11	(8)
Cash flow from operating activities (NIS million)	5	37	112	(52)	96	26	61
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)(2)	23	27	26	14	27	27	30
Lease payments	9	9	9	7	9	9	8
Free cash flow (NIS million) (1)	(27)	1	77	(73)	60	(10)	23
Churn rate (3)	12.4%	12.9%	7.3%	5.9%	5.5%	6.0%	7.9%

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

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

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

D. DBS

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenues (NIS million)	315	316	316	322	318	315	315
Operating profit (loss) (NIS million)	0	(2)	10	(14)	30	22	(6)
Depreciation, amortization and continuing impairment (NIS million)	46	46	50	52	45	45	61
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	46	44	60	38	75	67	55
Net profit (loss) (NIS million)	0	2	10	(17)	29	18	0
Cash flow from operating activities (NIS million)	9	43	78	42	73	56	62
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)	39	49	46	55	38	42	43
Lease payments	6	6	6	7	6	7	6
Free cash flow (NIS million) (1)	(36)	(12)	26	(20)	29	7	13
Number of subscribers (at the end of the period, in thousands) (2)	575	567	564	563	560	560	559
Of which, IP subscribers (3)	307	280	253	226	198	173	147
Of which, STINGTV subscribers	101	94	89	84	79	74	70
Monthly average revenue per user (ARPU) (NIS) (4)	182	184	186	190	188	186	187
Churn rate (5)	3.2%	2.9%	3.7%	3.4%	3.7%	3.7%	4.3%

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

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

(3) As at the publication date of the report, 317 thousand DBS subscribers use yes and STINGTV broadcasts over the internet (of which 103 thousand are STINGTV subscribers) (as set out in sections 5.2.2.1 and 5.2.2.2 of the chapter Description of Company Operations in the Periodic Report for 2021), representing 55% of all DBS subscribers. This figure also includes subscribers using satellite services as well.

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

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

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

On July 31, 2022, the Company updated the Group's forecast for 2022 (which was published in the Company's immediate report of March 23, 2022: the "Original Forecast"), as follows:

- Adjusted net earnings[2] for shareholders is expected to be between NIS 1.1 billion and 1.2 billion (compared with between NIS 1 billion and NIS 1.1 billion in the Original Forecast).
- - Adjusted EBITDA[3] is expected to be between NIS 3.65 billion and NIS 3.75 billion (compared with NIS 3.7 billion in the Original Forecast).
- CAPEX[4] is expected to be between NIS 1.7 billion and NIS 1.8 billion (no change compared with the Original Forecast).

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

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

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

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

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

<u>Section 1.7.4 – Regulatory aspects relevant to the entire Group or to a number of Group companies</u>

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

(1) On June 15, 2023: for a call terminating on a cellular network, a maximum rate of 4 agorot per minute, for a call terminating on a domestic carrier network, 0.7 agorot per minute, and for an outgoing international call - based on the network from which it originated (domestic carrier or cellular).

(2) On June 15, 2024: for a call ending on a cellular network, a maximum rate of 2 agorot per minute, for a call ending on a domestic carrier network, 0.4 agorot per minute, and for an outgoing international call - based on the network from which it originated (domestic carrier or cellular).

(3) On June 15, 2025, a related arrangement will come into effect, according to which each operator will bear its own costs and interconnect fees will no longer be transferred between cellular and domestic carrier license holders for call minutes, calls terminating in the networks of cellular operators and on domestic carrier networks (a bill and keep arrangement), and an international operator will not pay for forwarding an outgoing international call.

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

[3] See footnote 2.

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

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

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

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

Subsection 1.7.4.6 regarding the notice of the Consumer Protection Authority of February 2021, on the intention to impose a financial sanction of NIS 6.75 million on the Company for an alleged violation of Section 2(A)(1) of the Consumer Protection Law, claiming that the Company did not provide the minimum speed promised to many consumers who purchased a TOP 100 browsing package. Subsequently, in April 2022, the Company received a demand for payment of a financial sanction in the amount of NIS 6.9 million, which in effect rejects the Company's position. The Company paid the financial sanction and appealed the demand for payment.

Subsection 1.7.4.10 regarding the change in the regulation for providing telecommunication services – On July 4, 2022, an amendment to the Communications Law (the "Amendment to the Law") was published. Under the Amendment to the Law that came into effect on October 2, 2022, the existing regulation for telecommunications was modified, among other things, such that the requirement to obtain a specific license prior to performing any telecommunications activity, which was the key tool for regulating communication services in Israel, was revoked, and instead the default regulatory requirement is registration in the registry. The registry will be administered by the Director General of the Ministry of Communications, following a review of threshold conditions. The Amendment to the Law specified cases in which the requirement to obtain a license will continue to apply (for further information, see the description in the 2021 reports for this section). The Amendment to the Law is expected to lower regulatory entry barriers to the communications market, and new entities seeking to operate in the market will not require a license and will be able to operate after registration, other than in the cases set out in the Amendment to the Law.

Subsequently, on September 29, 2022, the final version of the Regulations implementing the regulatory regime was published on the website of the Ministry of Communications, according to which many entities currently providing telecommunications services will no longer require a license, and will be regulated instead by registering in a dedicated registry and in accordance with the Regulations. Under the Regulations, this will not apply to certain license holders, including the Company, the subsidiaries Pelephone, Bezeq International, and DBS, other than for the ISP service provided by DBS. However, according to the explanation of the Regulations, the Ministry of Communications plans to map the licenses and actively cancel the provisions in the licenses that are regulated in the Regulations, and in the near future, to assess the justification for determining different arrangements under the licenses. It should be noted that the Regulations, which do not apply to the Group companies (except for the ISP service of DBS), include an obligation to disconnect "dormant subscribers" (a subscriber who has not used an internet access service for at least six consecutive months) from internet access services, other than for the service for medium- and large-scale business subscribers as defined in the Regulations.

The effect of the Amendment to the Communications Law and Regulations is being assessed by the Group companies, and it depends, among other things, on how this is implemented by the Ministry of Communications.

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

<u>Section 1.7.6 - Pandemic – COVID-19 outbreak</u>

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

<u>Section 1.8.3 – Streamlining and promoting synergies between the subsidiaries</u>

Regarding the implementation of measures to advance and implement streamlining and synergy among the subsidiaries – The scope of implementing streamlining and synergy processes is being negotiated as part of the renewal of the collective agreements with the employees' representatives of Bezeq International and Pelephone. In this matter, see also the update to section 4.8.

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

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

Subsection 2.6.6.6 regarding the Company's Be router – As at the publication date of the report, 745 thousand Company customers use the Be router (72% of the Company's retail internet customers). In addition, the Company marketed 407 thousand units of products to improve the reception range of Be Spot and Be Mesh home internet networks.

Section 2.7.2 – Infrastructure and domestic fixed-line communications equipment

On September 19, 2022, the Company received a call for public comments ("announcement") issued by the Ministry of Communications concerning the principles in its policy to shut down the copper networks, in which the Ministry reviews the key issues, challenges, and criteria involved in shutting down the copper networks and the transition to fiber-based networks. According to the announcement, there are a number of regulatory options that the Ministry of Communications can adopt with regard to shutting down the copper networks, including setting out an outline plan and milestones for implementing the shutting down of the copper networks, and it is asking the public and all license holders to submit their responses and positions regarding the announcement (by November 24, 2022). The Company is reviewing the announcement and intends to submit its response to the Ministry.

Section 2.9.5 – Officers and senior management in the Company

As from June 19, 2022, Ran Guron serves as CEO of the Company, replacing Dudu Mizrahi who ended his term (Ran Guron previously served as CEO of the subsidiaries Pelephone, Bezeq International, and DBS). On September 14, 2022, the general meeting of the Company's shareholders approved the terms of office and employment of the Company's CEO.

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

Section 2.11 – Working capital

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

Section 2.13 – Financing

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

Section 2.13.6 – Credit rating

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

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

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

Section 2.16.1 – Control over Company tariffs

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

- For access service to passive infrastructure – NIS 105 per km per month (compared with NIS 409)
- For dark fiber service – NIS 193 per km per month (compared with NIS 501)

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

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

Subsection 2.16.1.8 and subsection 2.16.12.2 regarding the Ministry's intention to introduce a new pricing process for all wholesale rates in 2022 – On September 6, 2022, the Company received a letter from the Director General of the Ministry of Communications, which includes notification of the introduction of a pricing process for wholesale market services – adjustment and request for information (the “Notice”). Attached to the Notice was a request for information from Axon Partners Group, which the Ministry chose to provide consulting services to assist in the construction of a cost model that will serve as a basis for the adjusted rates for the wholesale market. According to the Notice, the work process will proceed according to the following stages:

1. Collecting information from license holders
2. Construction of the economic model based on pricing methodology, formulating an updated list of wholesale services, and setting maximum payments for wholesale services based on the model to be published for a hearing (the hearing on the cost model is expected to be published in the first quarter of 2023)
3. Resolution at the hearing and insertion of an amendment to the Use Regulations

The Company submits data and information as required, and at this stage, it is unable to assess the future results and consequences of the hearing.

Section 2.16.12 – fiber – fixed-line ultra-broadband infrastructure

Subsection 2.16.12.1 regarding the Company's plan for the deployment of an ultrafast fiber network – On October 3, 2022, the Minister of Communications approved the Company's application to deploy an advanced network and to provide telecommunication service over additional statistical areas, over and above the areas listed in the Company's current license, and to amend the Company's license accordingly. It should be noted that this refers to deployment in another 151 areas with 60,000 households. According to the decision of the Minister of Communications, 82.5% of households are in the Company's areas of deployment and this refers to an additional approximately 2.3%, bringing the revised rate of households in the Company's areas of deployment to approximately 84.7%.

Additionally, following the tender issued by the Ministry of Communications on October 13, 2021 for deployment in incentive areas, on October 26, 2022, the Ministry issued another (second) tender for deployment in the remaining incentive areas.

Section 2.18.1 – Pending legal proceedings

Subsection A regarding a class action for compensation for losses allegedly incurred by the Company's shareholders due to the Company's reporting omissions, and partial certification of the claim as a class action – On November 14, 2022, the parties filed a settlement agreement at the court according to which the plaintiffs will be paid a total amount of NIS 75 million (including compensation and attorney's fees) by the D&O insurance company and at no cost to the Company and the defendant officers. The settlement agreement is subject to the approval of the court in which the case is heard. Under accounting standards, the Company's financial statements for the first quarter of 2022 (the period in which negotiations were held), included a provision in the amount of the settlement, and on the other hand, due to full insurance coverage, an indemnity asset in the amount of the provision was recognized in the financial statements, such that recognition of the provision has no effect on the Company's results.

Subsections B, D, E (including the procedure set out in footnote 45), F, G – regarding the continued delay of the proceedings in these cases due to the investigation by the Israel Securities Authority and the proceedings arising therefrom – At the request of the state, these cases have been suspended, at this stage, until November 24, 2022. For subsection C, (the application of March 2018), the case has been suspended, at this stage, until July 20, 2023.

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

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

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

Section 2.20 - Discussion of risk factors

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

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

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

Subsection 3.1.8.4 regarding a call for public comments for private networks – On August 14, 2022, the Ministry of Communications released a hearing calling for public comments on the Ministry's intention to allocate a 26-GHz frequency band (and a 2100-MHz narrowband), for use by non-cellular operators or general fixed telephony service operators, to provide a private network service (on a project or local basis). Pelephone submitted its position for the hearing. The implications will be clarified in the decision of the Ministry of Communications in the hearing.

Section 3.8.2 - Frequency usage rights

Subsection 3.8.2.2 regarding the temporary allocation to Pelephone for use of five mega bandwidth in the 1800 MHz spectrum – The Ministry of Communications has reallocated this temporary allocation until December 31, 2022 under conditions and limitations, to allow Pelephone to prepare for the expected change in converting frequencies in the first Giga spectrum.

Subsection 3.8.2.4 regarding a tender for MRT services over advanced bandwidths – On August 14, 2022, the Ministry of Communications issued a memorandum of principles for the ongoing tender for 5G services, which is planned to be issued in the fourth quarter of 2022. Under the memorandum of principles, in the tender, existing cellular operators will compete for allocation of a 26-GHz wideband frequency (a total of 100 bands of 20 MHz each), to improve and reinforce current 5G cellular network capabilities and solutions. Once the tender is received, it will be possible to assess its implications for Pelephone.

Section 3.9.4 – Collective agreement

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

For details about the announcement of a labor dispute, see the update to section 4.8.

Section 3.14.3 – Site licensing and construction

Subsection 3.14.3.2 regarding a defined collaboration agreement for installation of passive infrastructure on cellular sites shared with Pelephone and Cellcom and PHI Networks (2015) Limited Partnership – In August 2022, the Ministry of Communications approved the agreement.

Section 3.15.2 – Material agreements

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

Section 3.16.1 - Pending legal proceedings

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

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

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

Section 3.19.1.2 – COVID-19 and the supply chain

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

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

Section 4.8 – Human resources

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

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

On August 10, 2022, Pelephone and Bezeq International received a notice from the Histadrut New Federation of Labor – Cellular, Internet, and High Tech Workers Union on a labor dispute at Pelephone and Bezeq International in accordance with the Labor Dispute Settlement Law, 1957. According to the Notice, the matters in dispute are: A demand to hold negotiates and sign collective agreements to improve wages and employment terms, and a dead end in the negotiations for a collective agreement.

On October 3, 2022, the board of directors of Bezeq International approved the implementation of understandings reached with the Histadrut New Federation of Labor and the employee representatives of Bezeq International (in the negotiations to regulate the rights of employees) regarding the voluntary retirement plan for the employees of Bezeq International in 2022-2024 (the "Voluntary Retirement Plan"). It is estimated that cost of the Voluntary Retirement Plan will amount to NIS 70 million, assuming full implementation of the Voluntary Retirement Plan. It is expected that implementation of the Voluntary Retirement Plan will allow Bezeq International to adapt the organizational structure, the number of human resources, and the costs to the changes in the market following the regulatory revision for internet services (elimination of the separation between an infrastructure provider and ISP, which allows Bezeq to provide a single internet service) which contributes to the reduction of the consumer ISP activity in Bezeq International, in accordance with the alternative outline described in section 1.1.5 of the chapter Description of Company Operations in the Periodic Report for 2021. Subsequently, from November 13, 2022, Bezeq International is expected to approve voluntary retirement for Bezeq International employees in most of the estimated cost of the plan (NIS 70 million). It is expected that most of the expense for the Voluntary Retirement Plan will be recognized in the fourth quarter of 2022. In this regard, see also Note 15 to the Financial Statements.

Section 4.12.1 – Pending legal proceedings

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

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

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

Section 5.1 – General information on the operating segment

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

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

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

1. A new authority will be established in place of the Council, the Council of the Second Authority, whose role will be to regulate the entire audio-visual content market and which will be authorized to issue directives for preventing actions that may impair competition in the sector (the "Authority").
2. A set of minimum core obligations will apply to the significant players operating in this market, and will include registration, investment in local productions, distribution of the Israel Broadcasting Corporation and Knesset channel content, and directives relating to ethics and consumerism, whereby the scope of such obligations will vary according to the income level of the content provider.
3. The existing restrictions on the economic models in the audio-visual content market will be lifted (while maintaining some of the interchange costs). The existing restrictions on the economic models in the audio-visual content market will be lifted (while maintaining some of the interchange costs). As far as the traditional platforms are concerned, the obligation to provide broadcast channels and allocate channels for broadcasting that apply to them, as well as applicable prohibitions with regard to broadcasting of commercials and news company holdings, will be abolished. Furthermore, the obligation to provide free broadcast channels for the traditional platforms will be cancelled. On this matter, a transitional provision was established according to which these changes will come into force three years after publication of the law (and two years after the publication of the law the Authority's board may cut this period short).
4. Separate regulations will be established for providing news content to the public.
5. Regulations will be set out regarding public broadcast of sports content to avoid broadcast of significant sports channels through a single content provider, and to ensure that high demand or special interest sports channels will be accessible to the public.
6. Obligations will be defined for investing in local productions, which will apply with the required changes, to all local and international content providers whose scope of activity in Israel is significant, as well as to independent Israeli commercial channels.

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

Section 5.6 – Competition

In June 2022, approval of the Second Authority was received for the activity of Keshet Broadcasting Ltd., which operates, among other things, a commercial TV channel via DBS broadcasts ("Keshet") in a joint venture between RGE Group Ltd. ("RGE") to set up and operate a multichannel broadcasting platform, with the acquisition of non-controlling interests in RGE by Keshet, subsequent to an exemption from a restrictive arrangement of the Competition Authority for the venture, for the period up to September 2025. To the best of DBS's knowledge, project activity is due to begin at the end of 2022 or at the beginning of 2023, and this is expected to intensify competition in the sector, in particular due to the identity of the project companies (for information about Sports Channel Ltd. which is part of RGE - see section 5.10.2 of the chapter Description of Company Operations in the Company's Periodic Report for 2021).

Section 5.13 – Financing

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

Section 5.17 – Legal proceedings

Further to subsection 5.17.1(E) regarding a motion for certification of a class action DBS, claiming that its customers who order a paid channel close to the date of closing the invoice and who cancel it shortly afterwards (so that they are supposed to pay a daily rate), are allegedly overcharged – On September 14, 2022, a judgment was handed down approving the agreed motion for withdrawal, in which DBS undertook to change the invoice and billing system for orders of paid sports channels according to a daily rate and to refresh the procedures for DBS representatives.

Section 5.18 – Goals and strategy

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

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

November 15, 2022

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 September 30, 2022

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

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

We hereby present the Board of Directors' Report on the state of affairs of Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") and the consolidated Group companies (the Company and the consolidated companies, jointly – the "Group"), for the nine months ended September 30, 2022 (the "Period") and for the three months ended on the same date (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, 2021 is also available to the reader.

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

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

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

1. **Domestic fixed-line communication**
2. **Cellular communication**
3. **ISP, International Communications and NEP Services and ICT Solutions ("Bezeq International Services")**
4. **Multichannel television**

The Group's results:

	1-9.2022	1-9.2021	Change		7-9.2022	7-9.2021	Change	
	NIS million			%	NIS million			%
Profit	**891**	986	(95)	(9.6)	**302**	284	18	6.3
EBITDA *	**2,763**	2,921	(158)	(5.4)	**934**	925	9	1.0
Adjusted EBITDA *	**2,829**	2,800	29	1.0	**947**	938	9	1.0

* For the non-GAAP financial measures, see below.

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

The decrease was moderated mainly due to an increase in profit in the Cellular Communications segment.

For further information see section 1.2 below.

* Non-GAAP 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 indices are not a substitute for the information included in the Company's financial statements.

Breakdown of these measures:

Index	Calculation and objectives of the measure
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Defined as earnings before financing expenses/income, taxes, depreciation and amortization. The EBITDA 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 operating expenses/income, and non-recurring losses/gains from impairment/appreciation and expenses for equity based compensation. The measure enables comparison of operating performance of various periods by adjusting the effects of irregular non-recurring expenses/income. It should be noted that the EBITDA measure should not be adjusted to measures similarly designated by other companies due to a possible difference in the way the measure is calculated.

Breakdown of the calculation of these measures:

	1-9.2022	1-9.2021	7-9.2022	7-9.2021
	NIS million		NIS million	
Operating income	**1,389**	1,514	**466**	459
Net of depreciation, amortization and impairment	**1,374**	1,407	**468**	466
EBITDA	**2,763**	2,921	**934**	925
Net of other operating expenses (income), net	**59**	(143)	**10**	7
Net of expenses for equity based compensation	**7**	22	**3**	6
Adjusted EBITDA	**2,829**	2,800	**947**	938

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

	September 30, 2022	September 30, 2021	Change		Explanation
	NIS million			%	
Cash and current investments	**2,397**	1,790	607	33.9	The increase is mainly due to current investment reserves in the Domestic Fixed-Line Communications segment, offsetting a decline in cash reserves in the Group's key segments. For further information see section 1.3 below.
Current and non-current trade and other receivables	**2,256**	2,360	(104)	4.4	The decrease is mainly due to bringing forward credit card companies' crediting dates in the Domestic Fixed-Line Communications, Cellular Communications and Bezeq International Services segments, as well as a decline in trade receivables, offset mainly by an increase in receivables in respect of an insurer's obligation for indemnification coverage with respect to a provision for a legal claim (see Note 6.2 to the financial statements) and an increase in transactions in installments in the Domestic Fixed-Line Communications segment.
Inventories	**98**	70	28	40.0	The increase in inventory is mainly due to the Cellular Communications segment.
Assets held for sale	**-**	36	(36)	-	The asset was sold in the Domestic Fixed Line Communications segment
Broadcasting rights	**63**	57	6	10.5	
Right-of-use assets	**1,779**	1,763	16	0.9	
Fixed assets	**6,532**	6,266	266	4.2	The increase is mainly from the Domestic Fixed Line Communications segment, among other things, due to the progress made in the fiber network deployment project.
Intangible assets	**922**	927	(5)	(0.5)	
Deferred tax assets	**-**	37	(37)	-	
Deferred expenses and non-current investments	**235**	226	9	4.0	
Total assets	**14,282**	13,532	750	5.5	

1.1 Financial position (contd.) – Liabilities and capital

	September 30, 2022	September 30, 2021	Change		Explanation
	NIS million			%	
Debt to financial institutions and debenture holders	**8,038**	8,024	14	0.2	
Liability for leases	**1,934**	1,897	37	1.9	
Trade and other payables	**1,613**	1,699	(86)	(5.1)	The decline is due to a decrease in trade payables, mainly due to the payment for 5G frequencies in the Cellular communications sector in the current quarter.
Dividend payable	**294**	-	294	-	On September 14, 2022, the general meeting of the Company's shareholders approved the distribution of a cash dividend to the shareholders of the Company in the amount of NIS 294 million. The dividend was paid on October 3, 2022. See Note 7.2 to the financial statements.
Employee benefits	**466**	667	(201)	(30.1)	The decrease is mainly from the Domestic Fixed Line Communications segment due to payments for employee resignation and an increase in discounting interest on employee liabilities, offset by an increase in provisions for termination of employment by way of early retirement.
Provisions	**214**	132	82	62.1	The increase is mainly due to an increase in provisions for legal claims in the Domestic Fixed Line Communications segment. See Note 6.2 to the financial statements.
Deferred tax liabilities	**73**	44	29	65.9	
Derivatives and others non-current liabilities	**137**	178	(41)	(23.0)	The decline is mainly due to a decrease in derivatives in the Domestic Fixed Line Communications segment.
Total liabilities	**12,769**	12,641	128	1.0	
Total equity	**1,513**	891	622	69.8	Equity constitutes 10.6% of the total balance sheet compared to 6.6% of the total balance sheet as at September 30, 2021. The increase in equity is due to profits partially offset by distribution of dividends.
Total liabilities and equity	**14,282**	13,532	750	5.5	

1.2 Operating results

1.2.1 Highlights

	1-9.2022	1-9.2021	Change		7-9.2022	7-9.2021	Change		Explanation
	NIS million			%	NIS million			%	
Revenues	**6,742**	6,563	179	2.7	**2,262**	2,142	120	5.6	The increase in revenues is attributable to the Domestic Fixed Line Communications, Cellular Communications and Bezeq International Services segments, offset by a decrease in revenues in the "Others" segment.
General and operating expenses	**2,509**	2,370	139	5.9	**848**	742	106	14.3	The increase is attributed to all the Group's main segments.
Salaries	**1,411**	1,415	(4)	(0.3)	**470**	468	2	0.4	The decrease in payroll expenses in the "Others" segment is offset by the increase in the Domestic Fixed Line Communications and Multichannel Television segments.
Depreciation, amortization and impairment	**1,374**	1,407	(33)	(2.3)	**468**	466	2	0.4	The decrease in the Group's expenses was offset by an increase in expenses in the Domestic Fixed Line Communications segment.
Other operating expenses (income), net	**59**	(143)	202	(141.3)	**10**	7	3	42.9	The change in the Period was mainly due to an increase in provision expenses for legal claims in the Domestic Fixed Line Communications segment compared to a decrease in such expenses in the corresponding period last year, and because the corresponding period last year included a capital gain from the sale of a real estate property. See Note 10 to the financial statements.
Operating income	**1,389**	1,514	(125)	(8.3)	**466**	459	7	1.5	
Financing expenses, net	**225**	235	(10)	(4.3)	**73**	100	(27)	(27.0)	The decrease is mainly from the Domestic Fixed Line Communications segment, see Note 11 to the financial statements.
Income taxes	**273**	293	(20)	(6.8)	**91**	75	16	21.3	
Profit for the period	**891**	986	(95)	(9.6)	**302**	284	18	6.3	

1.2.2 Operating segments

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

	1-9.2022		1-9.2021		7-9.2022		7-9.2021	
	NIS million	% of total revenues	NIS million	% of total revenues	NIS million	% of total revenues	NIS million	% of total revenues
Revenue by operating segment								
Domestic Fixed Line Communications	**3,249**	**48.2**	3130	47.7	**1,086**	**48.0**	1,037	48.4
Cellular communications	**1,807**	**26.8**	1,687	25.7	**608**	**26.9**	541	25.3
Bezeq International Services	**920**	**13.6**	909	13.9	**311**	**13.8**	287	13.4
Multi-channel television	**947**	**14.0**	948	14.4	**315**	**13.9**	318	14.8
Others and adjustments	**(181)**	**(2.6)**	(111)	(1.7)	**(58)**	**(2.6)**	(41)	(1.9)
Total	**6,742**	**100**	6,563	100	**2,262**	**100**	2,142	100

	1-9.2022		1-9.2021		7-9.2022		7-9.2021	
	NIS million	% of segment revenues	NIS million	% of segment revenues	NIS million	% of segment revenues	NIS million	% of segment revenues
Operating profit by operating segment								
Domestic Fixed Line Communications	**1,167**	**35.9**	1,390	44.4	**388**	**35.7**	390	37.6
Cellular communications	**176**	**9.7**	34	2.0	**60**	**9.9**	22	4.1
Bezeq International Services	**30**	**3.3**	21	2.3	**17**	**5.5**	13	4.5
Multi-channel television *	**(36)**	**(3.8)**	(32)	3.4	**(22)**	**(7.0)**	(11)	(3.5)
Others and adjustments	**52**	**-**	101	-	**23**	**-**	45	-
Consolidated operating profit / % of Group revenues	**1,389**	**20.6**	1,514	23.1	**466**	**20.6**	459	21.4

* 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 DBS's financial statements.

1.2.2 Operating segments (contd.)

B. Domestic Fixed Line Communications

	1-9.2022	1-9.2021	Change		7-9.2022	7-9.2021	Change		Explanation
	NIS million			%	NIS million			%	
Broadband Internet	**1,329**	1,208	121	10.0	**452**	407	45	11.1	The increase is due to an increase in the retail ARPU, which was mainly from services and installations to fiber network subscribers, supplementary terminal equipment, and the provision of ISP services since April 2022, as well as an increase in the wholesale Internet rates and in the volume of wholesale market activities, offset by a decrease in the number of wholesale internet lines.
Fixed line telephony	**597**	691	(94)	(13.6)	**188**	220	(32)	(14.5)	The decrease is due to lower average revenue per telephone line (ARPL), mainly due to a reduction in telephony rates since April 2022, as well as a decrease in the number of lines.
Data communications, transmission and others	**1,076**	993	83	8.4	**363**	330	33	10.0	The increase is mainly due to an increase in revenues from infrastructure projects and transmission services for businesses.
Cloud and digital services	**247**	238	9	3.8	**83**	80	3	3.8	
Total revenue	**3,249**	3,130	119	3.8	**1,086**	1,037	49	4.7	
General and operating expenses	**556**	480	76	15.8	**199**	163	36	22.1	The increase is mainly due to an increase in subcontractor expenses and materials mainly due to the fiber network deployment and infrastructure projects.
Salaries	**733**	703	30	4.3	**242**	237	5	2.1	The increase is mainly due to hiring of new workers due to the deployment of the fiber network and periodic revision of wages.
Depreciation and amortization	**739**	693	46	6.6	**252**	239	13	5.4	The increase is due, among other things, to the investment balance in the fiber network deployment project.
Other operating expenses (income), net	**54**	(136)	190	-	**5**	8	(3)	(37.5)	The change in the Period is mainly due to an increase in provision expenses for legal claims compared to a decrease in such expenses in the corresponding period last year, and the fact that the corresponding period last year included a capital gain from the sale of a real estate property. See Note 10 to the financial statements.
Operating income	**1,167**	1,390	(223)	(16.0)	**388**	390	(2)	(0.5)	
Financing expenses, net	**249**	268	(19)	(7.1)	**79**	110	(31)	(28.2)	The decrease in net financing expenses is mainly due to financing income for employee benefits that were recognized as a result of the rise in the discounting interest rate, a decrease in interest expenses due to a decrease in debt, income from hedging transactions on the USD exchange rate appreciation and in the Quarter, also due to the early redemption costs included in the corresponding quarter. The decrease was offset by an increase in debenture linkage differentials due to the CPI increase and in the Period, also due to an increase in early redemption costs compared with the corresponding period, see Note 11 to the financial statements.
Income taxes	**222**	265	(43)	(16.2)	**74**	61	13	21.3	
Segment profit	**696**	857	(161)	(18.8)	**235**	219	16	7.3	

1.2.2 Operating segments (contd.)

C. Cellular Communications

	1-9.2022	1-9.2021	Change		7-9.2022	7-9.2021	Change		Explanation
	NIS million			%	NIS million			%	
Services	**1,350**	1,218	132	10.8	**467**	417	50	12.0	The increase is mainly due to recovery from the effects of the COVID-19 pandemic that is reflected in an increase in revenue from roaming services and continued growth in the subscriber base, including subscribers to 5G bundles.
Sale of terminal equipment	**457**	469	(12)	(2.6)	**141**	124	17	13.7	The decrease in the Period is mainly due to a decrease in wholesale sales. The increase in the Quarter is mainly due to an increase in the number of devices sold.
Total revenue	**1,807**	1,687	120	7.1	**608**	541	67	12.4	
General and operating expenses	**995**	992	3	0.3	**327**	299	28	9.4	The increase in the Period is mainly due to an increase in roaming costs (together with an increase in revenues), welfare expenses and network maintenance costs. The increase was offset by a decrease in the cost of terminal equipment sales (together with a decrease in revenues) and a decrease in IT costs resulting from the integration of a cloud computing system in the corresponding period. The increase in the Quarter is mainly due to an increase in equipment sales costs and roaming costs (together with an increase in revenue) and increase in network maintenance costs.
Payroll	**237**	234	3	1.3	**78**	76	2	2.6	
Depreciation and amortization	**397**	430	(33)	(7.7)	**139**	144	(5)	(3.5)	The decrease in the Period is mainly due to a decrease in the costs of right of use assets at cellular sites and fully depreciated assets. The decrease in the Quarter is mainly due to fully depreciated assets.
Other operating expenses (income), net	**2**	(3)	5	-	**4**	-	4	-	
Operating profit	**176**	34	142	417.6	**60**	22	38	172.7	
Financing income, net	**23**	32	(9)	(28.1)	**7**	11	(4)	(36.4)	The decrease is mainly due to an increase in financing expenses for exchange rate differentials, which was partially offset by an increase in interest income from loans provided to the parent company.
Income tax	**47**	15	32	213.3	**17**	10	7	70	
Segment profit	**152**	51	101	198.0	**50**	23	27	117.4	

1.2.2 Operating segments (contd.)

D. Bezeq International Services

	1-9.2022	1-9.2021	Change		7-9.2022	7-9.2021	Change		Explanation
	NIS million			%	NIS million			%	
Revenues	**920**	909	11	1.2	**311**	287	24	8.4	The increase is mainly due to an increase in revenue from business services as a result of an increase in the operations and the acquisition of CloudEdge in the first quarter of 2022, as well as revenue from equipment, licensing and service contracts. This increase was partially offset due to a decline in revenue from internet services as a result of a decrease in the number of subscribers.
Operating, general and impairment expenses	**613**	581	32	5.5	**200**	179	21	11.7	The increase is mainly due to an increase in business services expenses together with an increase in cloud license sales and an increase in connectivity expenses resulting from a price increase due to the lifting of supervision over connectivity for incoming international calls to the domestic or cellular carrier in July 2022.
Payroll	**175**	177	(2)	(1.1)	**60**	59	1	1.7	The decrease in the Period is mainly due to continued downsizing of the Company's workforce, offset by the added payroll expenses following the incorporation of CloudEdge, a wage increase and decrease in capitalization of sales incentives.
Depreciation, amortization and impairment	**99**	133	(34)	(25.6)	**32**	38	(6)	(15.8)	The decrease is due to a decrease in depreciation of the subscriber acquisition asset and other long term assets and in the Period, also due to a decrease in net asset impairments, (see Note 5.2 to the financial statements).
Other operating expenses (income), net	**3**	(3)	6	-	**2**	(2)	4	-	
Operating profit	**30**	21	9	42.9	**17**	13	4	30.8	
Financing expenses, net	**4**	1	3	-	**1**	-	1	-	The increase in financing expenses in the Period is, among other things, due to exchange rate differentials.
Income tax	**-**	7	(7)	-	**-**	3	(3)	-	
Segment profit	**26**	13	13	100.0	**16**	10	6	60.0	

1.2.2 Operating segments (contd.)

E. Multichannel television (DBS) (proforma)

	1-9.2022	1-9.2021	Change		7-9.2022	7-9.2022	Change		
	NIS million			%	NIS million			%	Explanation
Revenues	**947**	948	(1)	(0.1)	**315**	318	(3)	(0.9)	
General and operating expenses	**633**	620	13	2.1	**217**	208	9	4.3	The increase is mainly due to an increase in the scope of content costs and increase in internet activity costs.
Payroll	**145**	134	11	8.2	**51**	43	8	18.6	The increase is mainly due to the effects of the collective labor agreement.
Depreciation and amortization	**203**	227	(24)	(10.6)	**69**	77	(8)	(10.4)	The decrease is mainly due to fully depreciated assets and revision of depreciation estimates.
Other operating expenses (income), net	**2**	(1)	3	-	**-**	1	(1)	-	
Operating loss	**(36)**	(32)	(4)	12.5	**(22)**	(11)	(11)	100	
Financing expenses (income), net	**(6)**	(2)	(4)	200	**(1)**	1	(2)	-	The change is mainly due to a change in the fair value of financial assets.
Income taxes	**2**	1	1	100	**1**	-	1	-	
Segment loss	**(32)**	(31)	(1)	3.2	**(22)**	(12)	(10)	83.3	

* Results of the Multichannel Television segment are presented net of the total effect of impairment recognized as of the fourth quarter of 2018. 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. (For further information, see Notes 5.1 and 13 to the financial statements).

In addition, see Note 14.3 for selected condensed information from DBS's financial statements and the table below.

DBS results – Comparison between accounting profit or loss and proforma profit or loss

	1-9.2022		1-9.2021		7-9.2022		7-9.2021	
	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							
Revenues	**947**	**947**	948	948	**315**	**315**	318	318
General and operating expenses	**645**	**633**	613	620	**216**	**217**	198	208
Payroll costs	**150**	**145**	139	134	**53**	**51**	44	43
Depreciation and amortization	**142**	**203**	151	227	**46**	**69**	45	77
Other operating expenses (income)	**2**	**2**	(1)	(1)	**-**	**-**	1	1
Operating profit (loss)	**8**	**(36)**	46	(32)	**-**	**(22)**	30	(11)
Financing income, net	**(6)**	**(6)**	(2)	(2)	**(1)**	**(1)**	1	1
Income tax	**2**	**2**	1	1	**1**	**1**	-	-
Profit (loss)	**12**	**(32)**	47	(31)	**-**	**(22)**	29	(12)

1.3 Cash flows

	1-9.2022	1-9.2021	Change		7-9.2022	7-9.2021	Change		
	NIS million			%	NIS million			%	Explanation
Net cash flow from operating activities	**2,609**	2,208	401	18.2	**641**	914	(273)	(29.9)	The increase in net cash from operating activities is from changes in working capital, mainly due to the bringing forward the crediting dates vis-à-vis the credit card companies, and 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, and a decrease in income tax paid in the Domestic Fixed Line Communications segment. The decrease in net cash flows from operating activities in the Quarter is due to working capital changes, particularly in trade and other payables and in employee benefits.
Net cash used in investing activities	**(1,882)**	(1,179)	(703)	59.6	**(645)**	(377)	(268)	71.1	The increase in net cash flows used in investing activities was due to an increase in net investments in bank deposits and in the Period, also due to a decrease in proceeds from the sale of fixed assets in the Domestic Fixed Line Communications segment. In addition, in the current Quarter, a payment was made to the Ministry of Communications for 5G frequencies in the amount of NIS 88 million in the Cellular Communications segment.
Net cash used for financing activities	**(831)**	(850)	19	(2.2)	**(121)**	(425)	304	71.5	The decrease in net cash flows used for financing activities in the Period is mainly due to a loan received, offset by a dividend payment of NIS 240 million. The decrease in the Quarter is due to a decrease in loan repayments.
Net increase (decrease) in cash	**(104)**	179	(283)	-	**(125)**	112	(237)	-	

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

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 7,929 million

Supplier credit: NIS 961 million

Short-term customer credit: NIS 1,571 million; long-term customer credit: NIS 273 million

As at September 30, 2022, the Company (based on the separate financial information) has surplus working capital in the amount of NIS 541 million, compared with surplus working capital in the amount of NIS 308 million at September 30, 2021.
The Group's surplus working capital as at September 30, 2022 amounted to NIS 518 million, compared with surplus working capital in the amount of NIS 354 million at September 30, 2021.
The increase in working capital of the Group and of the Company is mainly due to an increase in current assets, mainly due to an increase in current investments, offset by an increase in current liabilities, among other things, due to a dividend to be paid.

1.4 Update on the effects of the COVID-19 pandemic

Further to Note 1.4 to the 2021 annual financial statements concerning the outbreak of COVID-19, it is noted that the decline in infection rates, the economy's return to normal economic routine and lifting of the restrictions on travel abroad have led to a significant recovery in Pelephone's revenues from roaming services in the reporting period, with activities returning to pre-pandemic levels. The supply chain disruptions and global chip shortage continued to adversely affect equipment delivery times and prices of the main suppliers for the Group companies, but with no substantial impact on the business continuity.

For further information, see the analysis of the results of operations of the Cellular Communications segment in section 1.2.2, subsection C.

1.5 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 dollar-shekel 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 nine months ended on September 30, 2022, the CPI increase affected the Group's financing expenses by NIS 77 million (NIS 60 million after hedging), compared to the corresponding period. It should be noted that the net impact of the interest rate increase in the market on the results of the Group's operations was not substantial in the reporting period.

Based on the volume of the Group's CPI linked debt as at September 30, 2022, every 1% increase in the CPI is likely to cause an increase in the Group's financing expenses of NIS 30 million, before weighting the hedging transactions. Furthermore, a 1% change in the Bank of Israel interest rate 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 and a material valuation pursuant to Regulation 8B(9) of the Securities Regulations (Periodic and Immediate Reports), 1970.

For further information, see Note 5 to the financial statements).

	DBS (**) **Very material valuation** **attached to the financial statements as at September 30, 2022**	**Bezeq International –** **Material valuation**
Subject of valuation	Test of impairment of assets of DBS Satellite Services (1998) Ltd. as at September 30, 2022	Test of impairment of assets of Bezeq International Ltd. as at September 30, 2022
Date of valuation	September 30, 2022; The valuation was signed on November 13, 2022	September 30, 2022; The valuation was signed on November 13, 2022
Value shortly prior to the valuation date had GAAP, including depreciation and amortization, not required re-evaluation based on the valuation	Carrying amount prior to impairment as at September 30, 2022, is negative NIS 20 million	Carrying amount prior to impairment as at September 30, 2022, is NIS 69 million
Value based on the valuation	Total value of DBS operations is negative NIS 149 million. Given the negative value of operations, the net value of DBS assets and liabilities was set at the higher of their fair value or zero. Accordingly, DBS's equity, which is obtained by stating the balance sheet items at fair value, in accordance with IAS 36 requirements, is negative in the amount of NIS 81 million. Based on the valuation, in the nine and three months ended September 30, 2022, the Group recognized impairment loss in the amount of NIS 205 million and NIS 61 million, respectively	Total value of Bezeq International Ltd. Operations is negative NIS 684 million (*). Given the negative value of operations, the net value of Bezeq International Ltd. assets and liabilities was set at the higher of their fair value or zero. Accordingly, Bezeq International Ltd.'s equity, which is obtained by stating the balance sheet items at fair value, in accordance with IAS 36 requirements, is NIS 44 million. Based on the valuation, in the nine and three months ended September 30, 2022, the Group recognized impairment loss in the amount of NIS 80 million and NIS 25 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.	

2.1 Disclosure concerning valuations – cont.

	DBS (**) **Very material valuation** **Attached to the financial statements as at September 30, 2022**	**Bezeq International –** **Material valuation**
Valuation model	First stage - the value in use was revised using the discounted cash flow (DCF) method, based on the valuation as at June 30, 2022, according to the adjusted discounting rate. Second stage - the net fair value of DBS assets and liabilities, net of selling costs, as at September 30, 2022, was determined.	First stage - the value in use was revised using the discounted cash flow (DCF) method, based on the valuation as at June 30, 2022, according to the adjusted discounting rate. Second stage - the net fair value of Bezeq International assets and liabilities, net of selling costs, as at September 30, 2022, was determined.
Assumptions used by the Valuator in the valuation	Assumptions were made concerning the fair value, net of selling costs, of DBS assets. For calculating the revised value in use using the DCF method, based on the valuation as at June 30, 2022, using the following parameters: Discount rate - 10% (after tax); Permanent growth rate - 1%	Assumptions were made concerning the fair value, net of selling costs, of Bezeq International assets. For calculating the revised value in use using the DCF method, based on the valuation as at June 30, 2022, using the following parameters: Discount rate - 10.8% (after tax); Permanent growth rate - 3%

(*) It should be noted that adjusting the streamlining assumptions, as required under IAS 36 and IAS 37, led to an anomalous and non-representative value in a negative amount of NIS 684 million, in view of the assumptions of Bezeq International's latest multi-year work plan, according to which the volume of operations are expected to shrink over the forecast years, without taking into account the expected economic benefits due to the streamlining, due to the restrictions of the foregoing accounting standards.

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

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

2.3 Subsequent events

For further information about subsequent events, see Note 15 to the financial statements.

3. Information about a debenture series

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

On May 10, 2022, S&P Maalot ratified the ilAA-/Stable rating of the Company and its debentures (see Immediate Report Ref. No. 2022-01-046005). In addition, on May 15, 2022, Midroog approved a Aa3.il rating with stable outlook for the Company's debentures (see Immediate Report Ref. No. 2022-01-047508).

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

4. Miscellaneous

For further information about the balance liabilities of the Company and the companies consolidated in its financial statements as at September 30, 2022, see the reporting form to be posted by the Company on the MAGNA system on November 16, 2022.

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

Gil Sharon Chairman of the Board of Directors	Ran Guron CEO

Date of signature: November 15, 2022

Chapter C:

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

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

Contents

Somekh Chaikin
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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 September 30, 2022 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine 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.)

November 15, 2022

Condensed Consolidated Interim Statements of Financial Position

		September 30, 2022	September 30, 2021	December 31, 2021
		(Unaudited)	(Unaudited)	(Audited)
Assets	**Note**	**NIS million**	**NIS million**	**NIS million**
Cash and cash equivalents		**869**	1,019	973
Investments	12.1	**1,528**	771	954
Trade receivables		**1,461**	1,672	1,859
Other receivables		**350**	192	279
Inventory		**98**	70	74
Held-for-sale assets		**-**	36	-
Total current assets		**4,306**	3,760	4,139
Trade and other receivables		**445**	496	433
Broadcasting rights		**63**	57	60
Right-of-use assets		**1,779**	1,763	1,828
Fixed assets		**6,532**	6,266	6,312
Intangible assets		**922**	927	912
Deferred expenses and non-current investments		**235**	226	226
Deferred tax assets		**-**	37	24
Total non-current assets		**9,976**	9,772	9,795
Total assets		**14,282**	13,532	13,934

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

Condensed Consolidated Interim Statements of Financial Position (cont.)

		September 30, 2022	September 30, 2021	December 31, 2021
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	**Note**	**NIS million**	**NIS million**	**NIS million**
Debentures, loans and borrowings		**964**	745	980
Current maturities of lease liabilities		**471**	440	466
Trade and other payables		**1,613**	1,699	1,748
Dividend payable	7.2	**294**	-	-
Employee benefits		**273**	439	510
Provisions	6	**173**	83	69
Total current liabilities		**3,788**	3,406	3,773
Loans and debentures		**7,074**	7,279	7,082
Lease liabilities		**1,463**	1,457	1,511
Employee benefits		**193**	228	243
Derivatives and other liabilities		**137**	178	142
Deferred tax liabilities		**73**	44	38
Provisions		**41**	49	49
Total non-current liabilities		**8,981**	9,235	9,065
Total liabilities		**12,769**	12,641	12,838
Total equity	7	**1,513**	891	1,096

Total liabilities and equity	**14,282**	13,532	13,934

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

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

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

Condensed Consolidated Interim Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 8)	**6,742**	6,563	**2,262**	2,142	8,821
Operating expenses					
General operating expenses (Note 9)*	**2,509**	2,370	**848**	742	3,257
Salaries	**1,411**	1,415	**470**	468	1,882
Depreciation, amortization and impairment*	**1,374**	1,407	**468**	466	1,889
Other operating expenses (income), net (Note 10)	**59**	(143)	**10**	7	(77)
Total operating expenses	**5,353**	5,049	**1,796**	1,683	6,951
Operating profit	**1,389**	1,514	**466**	459	1,870
Financial expenses (income) (Note 11)					
Financial expenses	**334**	273	**99**	109	349
Financial income	**(109)**	(38)	**(26)**	(9)	(44)
Financial expenses, net	**225**	235	**73**	100	305
Profit before income tax	**1,164**	1,279	**393**	359	1,565
Income tax	**273**	293	**91**	75	382
Net profit for the period attributable to shareholders of the Company	**891**	986	**302**	284	1,183
Basic and diluted earnings per share (NIS)	**0.32**	0.36	**0.11**	0.1	0.43

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Net profit for the period	**891**	986	**302**	284	1,183
Remeasurement of a defined benefit plan, net of tax **(items that will not be reclassified to profit or loss)**	**53**	-	**16**	-	(1)
Additional items of other comprehensive income (loss), net of tax	**(1)**	33	**-**	10	37
Total comprehensive income for the period attributable to shareholders of the Company	**943**	1,019	**318**	294	1,219

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Capital reserve for employee options	Other reserves	Accumulated deficit	Total	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								
Nine months ended September 30, 2022 (unaudited)									
Balance at January 1, 2022	3,878	384	390	27	(26)	(3,557)	1,096	-	1,096
Profit for the period	**-**	**-**	**-**	**-**	**-**	**891**	**891**	**-**	**891**
Other comprehensive income (loss) for the period, net of tax	**-**	**-**	**-**	**-**	**(1)**	**53**	**52**	**-**	**52**
Total comprehensive income (loss) for the period	**-**	**-**	**-**	**-**	**(1)**	**944**	**943**	**-**	**943**
Transactions with shareholders recognized directly in equity									
Dividend to the Company's shareholders (Note 7)	**-**	**-**	**-**	**-**	**-**	**(534)**	**(534)**	**-**	**(534)**
Share-based payment	**-**	**-**	**-**	**7**	**-**	**-**	**7**	**-**	**7**
Business combination	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Balance at September 30, 2022	**3,878**	**384**	**390**	**34**	**(27)**	**(3,147)**	**1,512**	**1**	**1,513**
Nine months ended September 30, 2021 (unaudited)									
Balance at January 1, 2021	3,878	384	390	-	(63)	(4,739)	(150)	-	(150)
Profit for the period	-	-	-	-	-	986	986	-	986
Other comprehensive income for the period, net of tax	-	-	-	-	33	-	33	-	33
Total comprehensive income for the period	-	-	-	-	33	986	1,019	-	1,019
Transactions with shareholders recognized directly in equity									
Share-based payment	-	-	-	22	-	-	22	-	22
Balance at September 30, 2021	3,878	384	390	22	(30)	(3,753)	891	-	891

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

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

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Capital reserve for employee options	Other reserves	Accumulated deficit	Total	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 September 30, 2022 (unaudited)									
Balance at July 1, 2022	3,878	384	390	31	(27)	(3,171)	1,485	-	1,485
Profit for the period	-	-	-	-	-	302	302	-	302
Other comprehensive income for the period, net of tax	-	-	-	-	-	16	16	-	16
Total comprehensive income for the period	-	-	-	-	-	318	318	-	318
Transactions with shareholders recognized directly in equity									
Dividend to the Company's shareholders (Note 7)	-	-	-	-	-	(294)	(294)	-	(294)
Share-based payment	-	-	-	3	-	-	3	-	3
Business combination	-	-	-	-	-	-	-	1	1
Balance at September 30, 2022	**3,878**	**384**	**390**	**34**	**(27)**	**(3,147)**	**1,512**	**1**	**1,513**
Three months ended September 30, 2021 (unaudited)									
Balance at July 1, 2021	3,878	384	390	16	(40)	(4,037)	591	-	591
Profit for the period	-	-	-	-	-	284	284	-	284
Other comprehensive income for the period, net of tax	-	-	-	-	10	-	10	-	10
Total comprehensive income for the period	-	-	-	-	10	284	294	-	294
Transactions with shareholders recognized directly in equity									
Share-based payment	-	-	-	6	-	-	6	-	6
Balance at September 30, 2021	3,878	384	390	22	(30)	(3,753)	891	-	891

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

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

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

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

Condensed Consolidated Interim Statements of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	**2021**	**2022**	**2021**	**2021**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Cash flows from operating activities					
Profit for the period	**891**	986	**302**	284	1,183
Adjustments:					
Depreciation, amortization and impairment loss	**1,374**	1,407	**468**	466	1,889
Financial expenses, net	**268**	245	**86**	104	324
Capital loss (gain), net	**(1)**	(123)	**(4)**	4	(175)
Share-based payment	**7**	22	**3**	6	27
Income tax expenses	**273**	293	**91**	75	382
Change in trade and other receivables	**355**	(30)	**11**	17	(229)
Change in inventory	**(37)**	(14)	**(8)**	1	(19)
Change in trade and other payables	**(117)**	(98)	**(98)**	60	(41)
Change in provisions	**30**	(34)	**2**	(2)	(47)
Change in employee benefits	**(230)**	(150)	**(118)**	(20)	(65)
Change in other liabilities	**(2)**	6	**6**	3	(5)
Income tax paid	**(202)**	(302)	**(100)**	(84)	(385)
Net cash provided by operating activities	**2,609**	2,208	**641**	914	2,839
Cash flow for investing activities					
Purchase of fixed assets	**(1,020)**	(1,040)	**(347)**	(361)	(1,328)
Investment in intangible assets and deferred expenses	**(264)**	(281)	**(80)**	(84)	(363)
Payment to Ministry of Communications for frequencies	**(88)**	-	**(88)**	-	-
Investment in bank deposits	**(1,651)**	(730)	**(472)**	(15)	(1,031)
Proceeds from repayment of bank deposits	**1,098**	683	**326**	83	800
Proceeds from the sale of fixed assets	**31**	189	**10**	5	278
Miscellaneous	**12**	-	**6**	(5)	(2)
Net cash used in investing activities	**(1,882)**	(1,179)	**(645)**	(377)	(1,646)

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

Condensed Consolidated Interim Statements of Cash Flows (cont.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flow for financing activities					
Issue of debentures and receipt of loans	**300**	-	**-**	-	695
Repayment of debentures and loans	**(435)**	(409)	**(6)**	(306)	(1,067)
Principal and interest payments for leases	**(309)**	(291)	**(106)**	(97)	(387)
Interest paid	**(121)**	(135)	**(9)**	(7)	(254)
Dividend paid	**(240)**	-	**-**	-	-
Costs for early repayment of loans and debentures	**(26)**	(15)	**-**	(15)	(15)
Payment for expired hedging transactions	**-**	-	**-**	-	(30)
Miscellaneous	**-**	-	**-**	-	(2)
Net cash used in financing activities	**(831)**	(850)	**(121)**	(425)	(1,060)
Increase (decrease) in cash and cash equivalents	**(104)**	179	**(125)**	112	133
Cash and cash equivalents at the beginning of the period	**973**	840	**994**	907	840
Cash and cash equivalents at the end of the period	**869**	1,019	**869**	1,019	973

1. General

1.1 Reporting entity

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

1.2 Update on the effects of the COVID-19 pandemic

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

1.3 Investigations by the Israel Securities Authority and the Israel Police

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

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

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

2. Basis of Preparation

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

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

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on November 15, 2022.

2.4 Use of estimates and judgments

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

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

3. Reporting Principles and Accounting Policy

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

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

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

A. Incremental costs; and

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

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

4. Group Entities

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

4.1 Structural change in the Subsidiaries

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

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

The subsidiary Bezeq International has already begun implementing the Alternative Outline, while the subsidiary DBS has started selling "Triple Play" packages, which offer both television and Bezeq's fiber-optics. Additionally, consent has been reached on voluntary retirement of employees, that will facilitate cost reduction. The Company and the Subsidiaries are currently unable to estimate whether and when all the requisite conditions will be in place for the full implementation of the Alternative Outline, which is already underway.

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

4.2.1 As of September 30, 2022, DBS has an equity deficit of NIS 34 million and a working capital deficit of NIS 211 million. According to its own forecasts, DBS expects to accumulate operating losses in the coming years and therefore will not be able to meet its obligations and to continue operating as a going concern without the Company's support.

In November 2022, the Company's Board of Directors approved a credit facility or investment in the capital of DBS of NIS 40 million for 15 months, as of October 1, 2022 until December 31, 2023, instead of previous undertakings, the most recent of which was given in August 2022. It should be noted that thus far in 2022, DBS has not made any use of the credit facilities provided by the Company.

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

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

4.3 Bezeq International Ltd.

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

4.3.2 See Note 15 concerning the voluntary retirement plan at Bezeq International, which was approved by Bezeq International's Board of Directors after the financial statements date.

5. Impairment

5.1 Impairment of the Multichannel Television segment (DBS)

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

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

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

As of September 30, 2022, as per DBS management's assessment, there have been no material market changes or regulatory changes in the three months since the previous valuation that could significantly impact DBS's forecasts for the years ahead.

Accordingly, DBS did not carry out an update of the valuation as of September 30, 2022, relying on the results of the valuation from June 30, 2022, according to which the enterprise value is a negative NIS 152 million. The updated value as of September 30, 2022, due to an update of the discount rate is negative, totaling NIS 149 million.

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

Accordingly, in the nine- and three-month periods ended September 30, 2022, the Group recognized an impairment loss of NIS 205 million and NIS 61 million, respectively. The impairment loss was attributable to fixed assets, broadcasting rights, intangible assets and prepaid expenses, as set out below, and was included in the item of depreciation, amortization and impairment and the item of general operating expenses in the statement of income.

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

	Enterprise value of DBS (by the DCF method)	Net fair value of DBS assets and liabilities	Net carrying amount of DBS assets and liabilities, before impairment recognition	Impairment loss
	NIS million	NIS million	NIS million	NIS million
As of September 30, 2022 and for the three months ended on the same date (unaudited)	**(149)**	**(81)**	**(20)**	**(61)**
As of June 30, 2022 and for the three months ended on the same date (unaudited)	(152)	(115)	(36)	(79)
As of March 31, 2022 and for the three months ended on the same date (unaudited)	(282)	(125)	(60)	(65)
Total impairment recognized in the nine months ended September 30, 2022				**(205)**
As of December 31, 2021 and for the year ended on the same date (audited)	(271)	(109)		**(288)**

It should be noted that an assessment of DBS's value-in-use is sensitive to the net cash flow in the representative year in general, and to an assessment of the ARPU (average revenue per user) and subscriber base at the end of the forecast range in particular. (A change of 1 NIS in the ARPU throughout the forecast years (and in the terminal year) leads to a change of NIS 80 million in the enterprise value, and a change of 5,000 subscribers throughout the forecast years (and in the terminal year) leads to a change of NIS 98 million in the enterprise value.)

Allocation of impairment loss to Group assets:

	Nine months ended September 30		**Three months ended September 30**		**Year ended December 31**
	2022	**2021**	**2022**	**2021**	**2021**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Broadcasting rights*	**111**	93	**32**	27	146
Fixed assets**	**56**	63	**18**	23	91
Intangible assets**	**29**	34	**8**	7	48
Other receivables (prepaid expenses)*	**7**	5	**3**	-	4
Rights of use of leased assets **	**2**	-	**-**	-	(1)
Total impairment recognized	**205**	195	**61**	57	288

* The expense was presented under general operating expenses

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

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

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

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

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

Bezeq International management's forecasts include significant changes to assumptions relating to the streamlining of manpower that were used in previous management forecasts, and this in view of Bezeq International's updated work plan for achieving significant workforce efficiency. It should be noted that these significant changes were not taken into consideration in the valuation from June 30, 2022, in accordance with the requirement of accounting standards IAS 36 and IAS 37. Disregarding these streamlining assumptions led to an anomalous and non-representative value amounting to a negative NIS 692 million, which was based on the assumptions of Bezeq International's latest work plan, whereby business operations are expected to shrink throughout the forecast years, but without taking into account the economic benefits expected to arise from the streamlining, due to the restrictions of the aforementioned accounting standards.

As of September 30, 2022, there have been no significant changes in Bezeq International's forecasts compared with those made by Bezeq International as of June 30, 2022. Accordingly, Bezeq International did not carry out an update of the valuation as of September 30, 2022, relying on the results of the valuation from June 30, 2022, according to which the enterprise value is a negative NIS 692 million. The updated value as of September 30, 2022, considering an update of the discount rate, is negative, totaling NIS 684 million.

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

The net fair value of Bezeq International's assets and liabilities less costs to sell, as of September 30, 2022, amounted to NIS 44 million. Accordingly, in the nine- and three-month periods ended

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

Allocation of impairment loss to Group assets:

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Fixed assets and intangible assets **	**55**	61	**17**	13	75
Short-term and long-term prepaid expenses *	**17**	22	**5**	21	28
Long-term prepaid expenses for bandwidth capacity**	**8**	14	**3**	6	17
Rights of use of leased assets **	**-**	-	**-**	-	2
Total impairment recognized	**80**	97	**25**	40	122

* The expense was presented under general operating expenses.

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

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

6. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, *inter alia*, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions of NIS 168 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 September 30, 2022, for Legal Claims filed against Group companies on various matters, which are unlikely to be realized, amounts to NIS 2.5 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 and the provision for claims as of September 30, 2022, classified into groups with similar characteristics:

Claims group	Nature of the claims	Balance of provision	Additional exposure	Exposure for claims whose chances cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions (and claims by virtue thereof) on grounds of unlawful collection of payment and faulty service provided by the Group companies.	**93**	**1,819**	**708**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or investments.	(1) **75**	**685**	(2) **1,808**
Miscellaneous	Other lawsuits, including claims in tort (excluding claims whose insurance coverage is not disputed), or claims related to real estate, infrastructure, suppliers, etc.	**-**	**13**	**14**
Total legal claims against the Company and subsidiaries		**168**	**2,517**	**2,530**

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

(2) The amount includes two motions to certify class actions for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's controlling shareholder at the time, with respect to the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed, in view of the criminal proceeding that is being conducted following the investigation by the Securities Authority (described in Note 1.3) and at the request of the Attorney General, until November 24, 2022.

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

7. Equity

7.1 Share capital

	September 30, 2022	September 30, 2021	December 31, 2021
	Number of shares	Number of shares	Number of shares
	(Unaudited)	(Unaudited)	(Audited)
Authorized share capital	**2,849,485,753**	2,849,485,753	2,849,485,753
Issued and paid-up share capital	**2,765,547,168**	2,765,485,753	2,765,485,753

7.2 Dividends

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

7.2.2 On September 14, 2022, the General Meeting of shareholders of the Company approved (pursuant to the recommendation of the Company's Board of Directors from August 9, 2022) the distribution of a cash dividend to the Company's shareholders for a total of NIS 294 million (representing as of the effective date of the distribution NIS 0.1063081 per share). The dividend was paid on October 3, 2022.

8. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Domestic fixed-line communications – Bezeq fixed-line					
Internet infrastructure	**1,283**	1,161	**437**	392	1,562
Transmission and data communication	**669**	632	**224**	210	844
Fixed-line telephony	**583**	674	**183**	216	891
Cloud and digital services	**247**	238	**83**	80	318
Other services	**213**	172	**76**	57	230
	2,995	2,877	**1,003**	955	3,845
Cellular communications – Pelephone					
Cellular services and terminal equipment	**1,322**	1,191	**457**	408	1,606
Sale of terminal equipment	**454**	464	**142**	123	643
	1,776	1,655	**599**	531	2,249
Multichannel television – DBS	**947**	948	**315**	319	1,270
ISP, international communications and NEP services, and ICT services – Bezeq International	**879**	871	**297**	273	1,186
Other	**145**	212	**48**	64	271
Total revenues	**6,742**	6,563	**2,262**	2,142	8,821

9. General Operating Expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Terminal equipment and materials	**576**	567	**182**	146	803
Interconnectivity and payments to domestic and international telecommunications operators	**554**	535	**192**	173	717
Content costs (including content impairment)	**418**	405	**138**	128	553
Marketing and general	**390**	389	**131**	138	538
Services and maintenance by subcontractors	**339**	249	**119**	81	348
Maintenance of buildings and sites	**184**	181	**69**	62	238
Vehicle maintenance	**48**	44	**17**	14	60
Total general operating expenses	**2,509**	2,370	**848**	742	3,257

10. Other Operating Expenses (Income), Net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital loss (gain) (mainly from the sale of real estate)	**(1)**	(123)	**(4)**	4	(175)
Provision (reversal of provision) for claims	**52**	(26)	**7**	2	(23)
Employee termination expenses for early retirement at the Company	**11**	11	**7**	3	95
Employee termination expenses for early retirement and efficiency agreement at Pelephone, Bezeq International and DBS	**2**	1	**2**	1	37
Amounts received under a settlement agreement	**-**	-	**-**	-	(5)
Other income	**(5)**	(6)	**(2)**	(3)	(6)
Total other operating expenses (income), net	**59**	(143)	**10**	7	(77)

11. Financial Expenses, Net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	**155**	176	**53**	57	230
Financial expenses for lease liabilities	**32**	28	**12**	9	40
Linkage and exchange rate differences	**112**	39	**33**	19	49
Costs for early repayment of loans and debentures	**26**	15	**-**	15	15
Other financial expenses	**9**	6	**1**	3	8
Change in fair value of financial assets measured at fair value through profit or loss	**-**	-	**-**	2	-
Financial expenses for employee benefits	**-**	9	**-**	4	7
Total financial expenses	**334**	273	**99**	109	349
Financial income from employee benefits*	**41**	-	**11**	-	-
Income from credit in sales	**17**	21	**5**	6	28
Change in fair value of financial assets measured at fair value through profit or loss	**26**	2	**2**	-	-
Other financial income	**25**	15	**8**	3	16
Total financial income	**109**	38	**26**	9	44
Financial expenses, net	**225**	235	**73**	100	305

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

12. Financial Instruments

12.1 Composition of investments

	September 30, 2022	September 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Shekel bank deposits (1)	**1,396**	736	934
Foreign currency bank deposits (2)	**12**	35	20
Investment in money funds	**100**	-	-
Derivative instruments	**20**	-	-
	1,528	771	954

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

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

12.2 Fair value

A. Financial instruments at fair value for disclosure purposes only

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

	September 30, 2022		September 30, 2021		December 31, 2021	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Loans from banks and financial institutions (unlinked)	**1,557**	**1,495**	1,718	1,821	1,612	1,713
Debentures issued to the public (CPI-linked)	**3,051**	**3,050**	3,263	3,581	2,913	3,249
Debentures issued to the public (unlinked)	**2,866**	**2,751**	3,053	3,252	3,222	3,415
	7,474	**7,296**	8,034	8,654	7,747	8,377

B. Fair value hierarchy

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

	September 30, 2022	September 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1 – Investment in money funds at fair value through profit or loss	**100**	-	-
Level 2 – Forward contracts	**32**	(49)	(19)

13. Segment Reporting

	Nine months ended September 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	**2,995**	**1,776**	**879**	**947**	**145**	**-**	**6,742**
Inter-segment revenues	**254**	**31**	**41**	**-**	**3**	**(329)**	**-**
Total revenues	**3,249**	**1,807**	**920**	**947**	**148**	**(329)**	**6,742**
Depreciation, amortization and impairment	**739**	**397**	**99**	**203**	**2**	**(66)**	**1,374**
Segment results – operating profit (loss)	**1,167**	**176**	**30**	**(36)**	**8**	**44**	**1,389**
Financial expenses	**331**	**27**	**7**	**6**	**1**	**(38)**	**334**
Financial income	**(82)**	**(50)**	**(3)**	**(12)**	**-**	**38**	**(109)**
Total financial expenses (income), net	**249**	**(23)**	**4**	**(6)**	**1**	**-**	**225**
Segment profit (loss) after financial expenses, net	**918**	**199**	**26**	**(30)**	**7**	**44**	**1,164**
Income tax	**222**	**47**	**-**	**2**	**2**	**-**	**273**
Segment results – net profit (loss)	**696**	**152**	**26**	**(32)**	**5**	**44**	**891**

	Nine months ended September 30, 2021 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	Bezeq International services	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	2,877	1,655	871	948	212	-	6,563
Inter-segment revenues	253	32	38	-	5	(328)	-
Total revenues	3,130	1,687	909	948	217	(328)	6,563
Depreciation, amortization and impairment	693	430	133	227	3	(79)	1,407
Segment results – operating profit (loss)	1,390	34	21	(32)	24	77	1,514
Financial expenses	281	17	4	3	-	(32)	273
Financial income	(13)	(49)	(3)	(5)	-	32	(38)
Total financial expenses (income), net	268	(32)	1	(2)	-	-	235
Segment profit (loss) after financial expenses, net	1,122	66	20	(30)	24	77	1,279
Income tax	265	15	7	1	5	-	293
Segment results – net profit (loss)	857	51	13	(31)	19	77	986

* 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 DBS's financial statements.

	Three months ended September 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	**1,003**	**599**	**297**	**315**	**48**	**-**	**2,262**
Inter-segment revenues	**83**	**9**	**14**	**-**	**-**	**(106)**	**-**
Total revenues	**1,086**	**608**	**311**	**315**	**48**	**(106)**	**2,262**
Depreciation, amortization and impairment	**252**	**139**	**32**	**69**	**-**	**(24)**	**468**
Segment results – operating profit (loss)	**388**	**60**	**17**	**(22)**	**1**	**22**	**466**
Financial expenses	**100**	**11**	**2**	**1**	**1**	**(16)**	**99**
Financial income	**(21)**	**(18)**	**(1)**	**(2)**	**-**	**16**	**(26)**
Total financial expenses (income), net	**79**	**(7)**	**1**	**(1)**	**1**	**-**	**73**
Segment profit (loss) after financial expenses, net	**309**	**67**	**16**	**(21)**	**-**	**22**	**393**
Income tax	**74**	**17**	**-**	**1**	**(1)**	**-**	**91**
Segment results – net profit (loss)	**235**	**50**	**16**	**(22)**	**1**	**22**	**302**

	Three months ended September 30, 2021 (Unaudited)						
	Domestic fixed-line communi-cations	**Cellular communi-cations**	**Bezeq International services**	**Multichannel television***	**Other**	**Adjustments**	**Consolidated**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues from external sources	954	531	273	318	66	-	2,142
Inter-segment revenues	83	10	14	-	2	(109)	-
Total revenues	1,037	541	287	318	68	(109)	2,142
Depreciation, amortization and impairment	239	144	38	77	1	(33)	466
Segment results – operating profit (loss)	390	22	13	(11)	5	40	459
Financial expenses	110	6	1	1	-	(9)	109
Financial income	-	(17)	(1)	-	-	9	(9)
Total financial expenses (income), net	110	(11)	-	1	-	-	100
Segment profit (loss) after financial expenses, net	280	33	13	(12)	5	40	359
Income tax	61	10	3	-	1	-	75
Segment results – net profit (loss)	219	23	10	(12)	4	40	284

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

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

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

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

14.1 Pelephone Communications Ltd.

Selected data from the statement of financial position:

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

Selected data from the statement of income:

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**1,350**	1,218	**467**	417	1,642
Revenues from sales of terminal equipment	**457**	469	**141**	124	647
Total revenues from services and sales	**1,807**	1,687	**608**	541	2,289
Operating expenses					
General operating expenses	**995**	992	**327**	299	1,346
Salaries	**237**	234	**78**	76	315
Depreciation and amortization	**397**	430	**139**	144	577
Total operating expenses	**1,629**	1,656	**544**	519	2,238
Other operating expenses (income), net	**2**	(3)	**4**	-	9
Operating profit	**176**	34	**60**	22	42
Financial expenses (income)					
Financial expenses	**27**	17	**11**	6	23
Financial income	**(50)**	(49)	**(18)**	(17)	(65)
Financial income, net	**(23)**	(32)	**(7)**	(11)	(42)
Profit before income tax	**199**	66	**67**	33	84
Income tax expenses	**47**	15	**17**	10	20
Profit for the period	**152**	51	**50**	23	64

14.2 Bezeq International Ltd.

Selected data from the statement of financial position:

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

Selected data from the statement of income:

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**920**	909	**311**	287	1,237
Operating expenses					
General operating expenses and impairment	**613**	581	**200**	179	799
Salaries	**175**	177	**60**	59	237
Depreciation, amortization and impairment	**99**	133	**32**	38	173
Other expenses (income), net	**3**	(3)	**2**	(2)	6
Total operating expenses	**890**	888	**294**	274	1,215
Operating profit	**30**	21	**17**	13	22
Financial expenses (income)					
Financial expenses	**7**	4	**2**	1	5
Financial income	**(3)**	(3)	**(1)**	(1)	(3)
Financial expenses, net	**4**	1	**1**	-	2
Profit before income tax	**26**	20	**16**	13	20
Income tax expenses	**-**	7	**-**	3	12
Profit for the period	**26**	13	**16**	10	8

14.3 DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position:

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

Selected data from the statement of income:

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	**947**	948	**315**	318	1,270
Operating expenses					
General operating expenses and impairment	**645**	613	**216**	198	835
Depreciation, amortization and impairment	**142**	151	**46**	45	203
Salaries	**150**	139	**53**	44	188
Other operating expenses (income), net	**2**	(1)	**-**	1	12
Total operating expenses	**939**	902	**315**	288	1,238
Operating profit	**8**	46	**-**	30	32
Financial expenses (income)					
Financial expenses	**6**	3	**1**	1	4
Financial income	**(12)**	(5)	**(2)**	-	(3)
Financial expenses (income), net	**(6)**	(2)	**(1)**	1	1
Profit before income tax	**14**	48	**1**	29	31
Income tax expenses	**2**	1	**1**	-	1
Profit for the period	**12**	47	**-**	29	30

15. Significant Events after the Financial Statements Date

On October 3, 2022, the Board of Directors of Bezeq International approved the implementation of the agreements reached with the New General Labor Federation and the employee representatives of Bezeq International (in negotiations to regulate the rights of employees) regarding the voluntary retirement plan for the employees of Bezeq International in 2022-2024 ("Voluntary Retirement Plan"). As of November 13, 2022, Bezeq International is expected to approve voluntary retirement for Bezeq International employees at an amount equal to most of the estimated cost of the plan (NIS 70 million). Most of the expense for the Voluntary Retirement Plan is expected to be recognized in the fourth quarter of 2022.

Condensed Separate Interim Financial Information as of September 30, 2022

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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 September 30, 2022 and for the nine 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 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.)

November 15, 2022

Condensed Separate Interim Information on Financial Position

	September 30, 2022	September 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**551**	566	702
Investments	**1,521**	771	954
Trade receivables	**731**	865	776
Other receivables	**181**	100	122
Held-for-sale assets	**-**	36	-
Total current assets	**2,984**	2,338	2,554
Trade and other receivables	**239**	214	222
Fixed assets	**5,602**	5,345	5,400
Intangible assets	**244**	243	243
Goodwill	**265**	265	265
Investment in investees	**3,197**	3,015	3,001
Right-of-use assets	**653**	643	656
Non-current and other investments	**163**	131	139
Deferred tax assets	**-**	43	31
Total non-current assets	**10,363**	9,899	9,957
Total assets	**13,347**	12,237	12,511

Condensed Separate Interim Information on Financial Position (cont.)

	September 30, 2022	September 30, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**962**	745	980
Trade and other payables	**735**	767	725
Loans from subsidiaries	**-**	-	130
Dividend payable	**294**	-	-
Employee benefits	**210**	376	425
Current maturities of lease liabilities	**114**	96	105
Provisions (Note 5)	**128**	46	28
Total current liabilities	**2,443**	2,030	2,393
Debentures and loans	**7,074**	7,279	7,082
Loans from subsidiaries	**1,490**	1,185	1,100
Employee benefits	**163**	198	204
Lease liabilities	**576**	574	583
Derivatives and other liabilities	**89**	80	53
Total non-current liabilities	**9,392**	9,316	9,022
Total liabilities	**11,835**	11,346	11,415
Equity			
Share capital	**3,878**	3,878	3,878
Share premium	**384**	384	384
Reserves	**397**	382	391
Accumulated deficit	**(3,147)**	(3,753)	(3,557)
Total equity attributable to the Company owners	**1,512**	891	1,096
Total liabilities and equity	**13,347**	12,237	12,511

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

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

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

Condensed Separate Interim Information on Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 2)	**3,249**	3,130	**1,086**	1,037	4,182
Operating expenses					
Salaries	**733**	703	**242**	237	934
Depreciation and amortization	**739**	693	**252**	239	938
General operating expenses (Note 3)	**556**	480	**199**	163	667
Other operating expenses (income), net (Note 4)	**54**	(136)	**5**	8	(105)
Total operating expenses	**2,082**	1,740	**698**	647	2,434
Operating profit	**1,167**	1,390	**388**	390	1,748
Financial expenses (income)					
Financial expenses	**331**	281	**100**	110	357
Financial income	**(82)**	(13)	**(21)**	-	(15)
Financial expenses, net	**249**	268	**79**	110	342
Profit after financial expenses, net	**918**	1,122	**309**	280	1,406
Share in profits of investees, net	**195**	129	**67**	65	120
Profit before income tax	**1,113**	1,251	**376**	345	1,526
Income tax	**222**	265	**74**	61	343
Profit for the period attributable to the Company owners	**891**	986	**302**	284	1,183

Condensed Separate Interim Information on Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	**891**	986	**302**	284	1,183
Items of other comprehensive income, net of tax	**52**	33	**16**	10	36
Total comprehensive income for the period attributable to the Company owners	**943**	1,019	**318**	294	1,219

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

Condensed Separate Interim Information on Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**891**	986	**302**	284	1,183
Adjustments:					
Depreciation and amortization	**739**	693	**252**	239	938
Share in profits of investees, net	**(195)**	(129)	**(67)**	(65)	(120)
Financial expenses, net	**258**	232	**81**	96	301
Capital loss (gain), net	**(3)**	(122)	**(4)**	5	(173)
Share-based payment	**2**	13	**(2)**	3	15
Income tax expenses	**222**	265	**74**	61	343
Change in trade and other receivables	**1**	(42)	**(8)**	(2)	(24)
Change in trade and other payables	**(19)**	12	**(31)**	81	(3)
Change in provisions	**24**	(32)	**(2)**	(2)	(50)
Change in employee benefits	**(204)**	(114)	**(112)**	(9)	(63)
Miscellaneous	**9**	(1)	**4**	2	-
Net cash provided by operating activities due to transactions with subsidiaries	**31**	(38)	**12**	(57)	45
Income tax paid	**(154)**	(292)	**(72)**	(69)	(368)
Net cash provided by operating activities	**1,602**	1,431	**427**	567	2,024
Cash flows from investing activities					
Investment in intangible assets and other investments	**(116)**	(112)	**(35)**	(34)	(148)
Proceeds from the sale of fixed assets	**27**	186	**8**	4	273
Investment in bank deposits	**(1,651)**	(730)	**(472)**	(15)	(1,031)
Proceeds from repayment of bank deposits	**1,098**	683	**326**	83	800
Purchase of fixed assets	**(742)**	(799)	**(259)**	(280)	(1,007)
Miscellaneous	**12**	8	**4**	(2)	9
Net cash provided by investing activities with subsidiaries	**10**	-	**10**	-	10
Net cash used in investing activities	**(1,362)**	(764)	**(418)**	(244)	(1,094)
Cash flows from financing activities					
Issue of debentures and receipt of loans	**300**	-	**-**	-	695
Repayment of debentures and loans	**(434)**	(409)	**(6)**	(306)	(1,067)
Costs for early repayment of loans and debentures	**(26)**	(15)	**-**	(15)	(15)
Interest paid	**(122)**	*(136)	**(10)**	(7)	*(255)
Dividend paid	**(240)**	-	**-**	-	-
Payment of principal and interest for a lease	**(103)**	(84)	**(34)**	(31)	(116)
Payment for expired hedging transactions	**-**	-	**-**	-	(30)
Net cash provided by financing activities due to transactions with subsidiaries	**234**	*112	**60**	20	*129
Net cash provided by (used in) financing activities	**(391)**	(532)	**10**	(339)	(659)
Net increase (decrease) in cash and cash equivalents	**(151)**	135	**19**	(16)	271
Cash and cash equivalents at the beginning of the period	**702**	431	**532**	582	431
Cash and cash equivalents at the end of the period	**551**	566	**551**	566	702

* Reclassified

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

Notes to the Condensed Separate Interim Financial Information

1. Manner of Preparing Financial Information

1.1 Definitions

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

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

1.2 Principles used for preparing financial information

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

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

2. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	**2021**	**2022**	**2021**	**2021**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Broadband Internet	**1,329**	1,208	**452**	407	1,624
Transmission and data communications	**856**	814	**283**	270	1,087
Fixed-line telephony	**597**	691	**188**	220	913
Cloud and digital services	**247**	238	**83**	80	318
Other services	**220**	179	**80**	60	240
Total revenues	**3,249**	3,130	**1,086**	1,037	4,182

3. General Operating Expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Services and maintenance by subcontractors	**146**	88	**57**	33	134
Marketing and general	**133**	139	**45**	48	187
Terminal equipment and materials	**88**	67	**31**	20	96
Maintenance of buildings and sites	**85**	84	**31**	30	111
Interconnectivity and payments to telecommunications operators	**77**	76	**25**	23	104
Vehicle maintenance	**27**	26	**10**	9	35
Total general operating expenses	**556**	480	**199**	163	667

4. Other Operating Expenses (Income), Net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital loss (gain) from the sale of fixed assets (mainly real estate)	**(3)**	(122)	**(4)**	5	(173)
Employee termination expenses for early retirement	**11**	11	**7**	3	95
Other expenses (income) (mainly a change in the provision for legal claims)	**46**	(25)	**2**	-	(27)
Total other operating income, net	**54**	(136)	**5**	8	(105)

5. Contingent Liabilities

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

In the opinion of the Company's management, based, *inter alia*, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions of NIS 128 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 September 30, 2022:

Balance of provision	Additional exposure*	Exposure for claims whose chances cannot yet be assessed*
NIS million		
128(1)	**1,242**	**2,482**(2)

* Nominal

(1) An indemnification asset of NIS 75 million was recognized against a provision of NIS 75 million, in view of the existence of insurance coverage. The asset was presented under the item "Other receivables" in the statement of financial position as of September 30, 2022, pursuant to the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets."

(2) The exposure includes:

The amount includes two motions to certify class actions for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's controlling shareholder at the time, with respect to the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed, in view of the criminal proceeding that is being conducted following the investigation by the Securities Authority, as described in Note 1.3 of the Consolidated Statements, and at the request of the Attorney General, until November 24, 2022.

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

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

6. Events in and Subsequent to the Reporting Period

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

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

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

6.4 In November 2022, the Company's Board of Directors approved a credit facility or capital investment in DBS for a total of NIS 40 million for 15 months, as of October 1, 2022 until December 31, 2023, instead of previous undertakings, the most recent of which was given in August 2022. It should be noted that thus far in 2022, DBS has not made any use of the credit facilities provided by the Company.

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

6.6 In March 2022, loans received from Pelephone for a total of NIS 815 million were replaced by a new loan that includes a postponement of the maturity dates from 2022-2025 to 2026-2030. Furthermore, in March and July 2022, Pelephone granted the Company additional loans of NIS 130 million and NIS 60 million, respectively.

6.7 See Note 7 to the Consolidated Statements regarding a dividend distribution by the Company.

Chapter E:
Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period Ended September 30, 2022

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

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 Division
3. Amir Nachlieli, Legal Counsel
4. Erez Hasdai, VP Economics and Regulation Division
5. Guy Hadass, VP Corporate Communications
6. Tobi Fischbein, CFO Bezeq Group
7. Tali Poleg, VP Marketing and Innovation Division[1]
8. Moran Kita, VP Human Resources Division
9. Meni Baruch, VP Technologies and Network Division
10. Nurit Kantor, VP Private Division[2]
11. Nir David, VP Business Division

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

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

Internal control over financial reporting and disclosure includes controls and procedures in the Company, which were planned by the CEO[3] and the most senior financial officer, or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Company, and were designed to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format laid down in law.

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

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

In the quarterly report on the effectiveness of internal control over financial reporting and disclosure that was attached to the quarterly report for the period ended June 30, 2022 (the "Last Quarterly Report on Internal Control"), internal control was found to be effective.

[1] The tenure of Keren Laizerovitz ended on September 22, 2022; the tenure of Tali Poleg began on October 1, 2022.

[2] Her tenure began on September 1, 2022.

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

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

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

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

2. Declaration of Executives:

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

I, Ran Guron, declare that:

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

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

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

    C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was brought to my attention that would change the conclusion of the Board of Directors and Management concerning the effectiveness of internal control over the Company's financial reporting and disclosure.

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

Date: November 15, 2022

Ran Guron, CEO

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

I, Tobi Fischbein, declare that:

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

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

Date: November 15, 2022

Tobi Fischbein, CFO Bezeq Group