Update to Chapter A (Description of Company Operations) of the Periodic Report for 2023

Update to Chapter A | Description of Company Operations

to the Periodic Report for 2023 (the "Periodic Report")
Bezeq The Israeli Telecommunications Corporation Ltd. (the "Company")[1]

1. General development of the Group's business

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

Further to the amendment to the Communication Order of September 19, 2023, according to which, among other things, the Israeli requirement may be replaced with directives of the General Security Service under Section 13 of the Communications Law – in May 2024, the Company received directives that replace the Israeli requirement as set out in section 2.16.3.6 of the Periodic Report for 2023.

Section 1.4.2 – Dividend distribution

For information about the dividend distributed by the Company in May 2024, see Note 7 to the financial statements.

Distributable profits as at the reporting date: NIS 896,324,000 (retained earnings accumulated in the last two years after deduction of the distribution in the period).

[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 2023 and refers to the section numbers in Chapter A (Description of Company Operations) in that Periodic Report.

Section 1.5.4 – Main results and operational data

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

Financial data (NIS millions)	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Revenues	1,091	1,087	1,084	1,130	1,111
Operating profit	397	320	310	418	403
Depreciation and amortization	252	260	258	256	245
EBITDA (earnings before interest, taxes, depreciation, and amortization) (1)	649	580	568	674	648
Net profit	258	199	192	261	249
Cash flow from operating activities	748	584	586	602	608
Payments for investments in fixed assets and intangible assets and other investments	270	290	239	281	312
Proceeds from the sale of fixed assets and intangible assets	2	3	-	1	29
Lease payments	31	46	37	35	40
Free cash flow (2)	449	251	310	287	285
Performance data					
Number of active telephony subscriber lines at the end of the period (thousands)(3)	1,419	1,442	1,454	1,473	1,488
Monthly average revenue per line (ARPL) (NIS) (4)	33	33	34	39	41
Number of outgoing minutes (in millions)	647	652	677	658	705
Number of incoming minutes (in millions)	838	829	874	852	918
Telephony churn rate (6)	3.1%	2.3%	2.8%	2.6%	2.5%
Total number of internet lines at the end of the period (thousands) (7)	1,489	1,495	1,500	1,505	1,505
Of which, the number of subscribers connected to the fiber network at the end of the period (thousands) (10)	635	565	506	424	351
Of which, the number of internet lines at the end of the period – retail (thousands) (7)	1,019	1,028	1,029	1,028	1,031
Of which, the number of subscribers connected to the fiber network at the end of the period – retail (thousands) (7)(8)	407	367	335	289	246
The number of internet lines at the end of the period – wholesale (thousands) (7)	470	467	471	477	474
Of which, the number of subscribers connected to the fiber network at the end of the period – wholesale (thousands) (7)	228	198	171	135	105
Monthly average revenue per internet subscriber (NIS) – retail (ARPU) (9)	127	125	124	122	120
Deployment of fiber optic network at the end of the period (thousands of households available for connection) (10)	2,191	2,070	1,970	1,835	1,689
Average package speed per internet subscriber - retail (Mbps)(5)	382	341	315	278	250
Number of Be routers used by the Company's customers (thousands)	837	831	819	801	786
Number of Be Mesh and Be Spot range extenders for home Wi-Fi (thousands)	445	442	438	430	425

(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 yes and Bezeq International under depreciation and amortization, and continuing losses from the impairment of broadcasting rights under general and operating expenses (in the statement of income). For further information, see Note 5 to the financial statements and section 7 of the chapter Description of Company Operations for 2023.

(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 acquisition/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 a 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 for 2023.

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

(4) Calculated according to average number of lines for the period. For further information, see also section 7 of the chapter Description of Company Operations for 2023.

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

(6) The number of telephony subscribers (gross) who left Bezeq Fixed-Line during the period divided by the average number of registered telephony subscribers in the period. For further information see also section 7 of the chapter Description of Company Operations for 2023.

(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) In the fourth quarter of 2023, the connection rate of retail subscribers to the Company's fiber network declined following a slowdown in contractor activity due to a temporary dispute with the employees' representative and due to the Swords of Iron war.

(9) Revenue from retail internet services is divided by the average number of retail customers in the period. For further information, see also section 7 of the chapter Description of Company Operations for 2023. As from the second quarter of 2022, this figure also includes revenues for internet access service (ISP).

(10) As at the publication date of the report, 2.25 million households are available for connection to the fiber optic network, of which, 664 thousand subscribers are connected to the fiber network (424 thousand retail and 240 thousand wholesale).

Section 1.5.4.2 – Pelephone

Financial data (NIS millions)	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Revenue from services	416	409	450	452	445
Of which: revenue from interconnect fees (5)	81	79	79	102	111
Revenue from services less interconnect fees (5)	335	330	371	350	334
Revenue from the sale of terminal equipment	167	153	135	133	171
Total revenue	583	562	585	585	616
Total revenue less interconnect fees (5)	502	483	506	483	505
Operating profit	40	37	59	49	51
Depreciation and amortization	138	138	143	135	133
EBITDA (earnings before interest, taxes, depreciation, and amortization) (1)	178	175	202	184	184
Net profit	30	26	48	41	44
Cash flow from operating activities	122	240	242	98	133
Payments for investments in fixed assets, intangible assets, and other investments, net	82	90	81	82	57
Lease payments	79	94	57	49	70
Free cash flow (1)	(39)	56	104	(33)	6
Performance data					
Number of postpaid subscribers at the end of the period (thousands) (2)	2,213	2,202	2,187	2,166	2,159
Number of prepaid subscribers at the end of the period (thousands) (2)	398	416	431	427	426
Number of subscribers at the end of the period (thousands) (2)	2,611	2,618	2,618	2,593	2,585
Of which, 5G subscribers (thousands) (2)	1,092	1,034	961	898	834
Monthly average revenue per user (ARPU) (NIS) (3)	53	52	57	58	57
Monthly average revenue per user (ARPU) net of interconnect fees (NIS) (4)	43	42	47	45	43
Churn rate (5)	6.5%	5.9%	6.0%	5.9%	6.7%

(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 carriers 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 the 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. As at the publication date of the report, Pelephone has 1.1 million subscribers to 5G packages.

(3) Monthly ARPU (postpaid and prepaid). The index is calculated by dividing the average total consolidated monthly revenue, including from cellular services, from Pelephone subscribers and other telecom carriers, including revenues from cellular carriers who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period. For further information see also section 7 of the chapter Description of Company Operations for 2023.

(4) ARPU net of interconnect fees – The reform to change the interconnect fees regime, which was applied gradually from June 2023 until June 2025, is expected to result in a decrease in interconnect fees and a decrease in ARPU, therefore Pelephone elected to present ARPU net of the revenue component from interconnect fees, in addition to the full ARPU.

(5) The churn rate is calculated at the ratio of subscribers who disconnected from Pelephone's services and subscribers who became inactive in the period, to the average number of active subscribers in the period. For further information see also section 7 of the chapter Description of Company Operations for 2023.

Section 1.5.4.3 – Bezeq International

Financial data (NIS millions)	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Revenues	289	304	303	293	312
Of which: revenue from private customers(4)	48	55	60	66	72
Operating profit (loss)	20	(11)	20	16	14
Depreciation and amortization	27	45	29	33	30
EBITDA (earnings (loss) before interest, taxes, depreciation, and amortization) (1)	47	34	49	49	44
Net profit (loss)	18	(14)	17	13	13
Cash flow from operating activities	49	45	36	57	19
Payments for investments in fixed and intangible assets and other investments, net (2)	14	37	26	20	10
Lease payments	12	10	9	9	10
Free cash flow (1)	23	(2)	1	28	(1)
Performance data					
Subscriber churn rate (3)	8.0%	9.0%	11.0%	10.0%	14.7%

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

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

(3) The number of internet subscribers who left Bezeq International in the period, divided by the average number of registered internet subscribers in the period. For further information see also section 7 of the chapter Description of Company Operations for 2023.

(4) From 2023, small office/home office (SOHO) customers are included in revenue from private customers (notwithstanding that set out in footnote 53 of the chapter Description of Company Operations for 2023).

Section 1.5.4.4 – yes

Financial data (NIS millions)	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Revenues	315	316	328	336	329
Operating profit (loss)	(18)	33	35	26	0
Depreciation, amortization, and continuing impairment losses	58	29	41	46	50
EBITDA (earnings before interest, taxes, depreciation and amortization) (1)	40	62	76	72	50
Net profit (loss)	(13)	27	40	30	5
Cash flow from operating activities	93	26	66	31	92
Payments for investments in fixed and intangible assets and other investments, net	49	30	59	60	30
Lease payments	6	6	7	6	6
Free cash flow (1)	38	(10)	0	(35)	56
Performance data					
Number of television subscribers (thousands) (2)(3)	571	574	576	579	580
Of which, IP subscribers (4)	412	392	377	364	348
Of which, STING+ subscribers	124	120	116	111	108
Monthly ARPU (NIS) (5)	173	175	182	185	185
Subscriber churn rate (6)	3.9%	3.1%	3.9%	3.3%	3.5%
Number of fiber network subscribers (thousands) (7)	46	37	29	21	14

(1) For the definition of EBITDA and free cash flow, see comments (1) and (2) in the Bezeq Fixed-Line table.

(2) Television subscriber – a single household or small business customer; in the case of a business customer with more than a certain number of decoders (such as a hotel 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, 150 thousand subscribers have joined the international streaming services as part of the collaboration of yes with these services (see section 5.1.1.1 of the chapter Description of Company Operations for 2023)

(4) As at the publication date of the report, 442 thousand television subscribers use yes+ and STING+ streamlining services, representing 75% of all yes television subscribers. The number and rate of IP subscribers include subscribers using satellite services as well.

(5) Monthly average revenue per television subscriber is calculated by dividing the total revenue of yes (excluding revenue from the sale of content to external broadcasting entities, revenue from end equipment, and revenue from ISP) by the average number of customers in the period. For further information see also section 7 of the chapter Description of Company Operations for 2023.

(6) Number of television subscribers who left yes in the period, divided by the average number of registered television subscribers in the period. For further information see also section 7 of the chapter Description of Company Operations for 2023.

(7) As at the publication date of the report, 50 thousand subscribers are connected to the fiber network.

Section 1.7.3 – Regulatory supervision – the obligation of structural separation

Regarding the structural separation applicable to the Company – On May 15, 2024, the Ministry of Communications published a notice on the work plans, according to which assessment of the need for structural separation in Bezeq is part of the additional requirements in the work plans of the Ministry of Communications for 2024.

Section 1.9 – Entry into the electricity supply sector

For information about the Company's entry into the electricity supply sector and the MoU signed with Powergen Ltd. ("Powergen") for cooperation in the electricity sector – on April 9, 2024, the Company's board of directors approved the engagement between the Company and Powergen in a detailed shareholder agreement based on the principles set out in the MoU (the “Agreement"). The engagement in the Agreement was also approved by the board of directors of Powergen and on May 15, 2024, the parties signed the Agreement. It should be noted that the amendment to the section on the objectives in the Company’s Memorandum of Association, which was a condition for the Company's entry into the electricity supply sector, has been completed and has come into effect. It should be noted that on April 10, 2024, the Israel Electricity Authority decided to allow the transfer of domestic consumers without a smart meter as well (effective from July 1, 2024), subject to publication in the Official Gazette.

2. Bezeq – domestic fixed-line communications

Section 2.6.2 – The internet segment

Regarding the rate of the Company's end-to-end ISP customers out of the Company's retail customers – this rate is 78% as at March 31, 2024 and 80% as at the publication date of the report.

Section 2.7.4 – Real estate

Subsection 2.7.4.4(B) regarding the amount of betterment tax for the property in Sakia – on March 28, 2024, the Company received an advisory assessment according to which the total betterment tax as at the record date will amount to NIS 117 million. Later, the Company was sent a demand for payment that includes linkage and arrears interest in the amount of NIS 20 million. The Company applied to the appeals committee with a request to reduce the arrears interest so that only CPI linkage differentials will apply to the betterment tax principal. A ruling on the motion is yet to be handed. down. It should be clarified that the values set out in the advisory assessment do not change the Company's estimates for the amount of the capital gain that was recorded in the Company's Periodic Report for 2023, since the Company's estimates were also based on the legal situation in the claim against the ILA, which includes the ILA's obligation in the settlement agreement to bear the betterment tax for the property .

Section 2.9.5 – Officers and senior management in the Company

On April 1, 2024, Nir David entered his position as CEO of the Company. On May 20, 2024, the general meeting of the Company's shareholders approved the terms of office and employment of the Company's CEO. For further information see the Company's immediate report dated May 20, 2024, included in this report by way of reference.

Section 2.13.1 – Average and effective interest rates on loans

As at March 31, 2024, the Company is not financed by any short-term credit (less than one year). The following table shows the distribution of long-term loans (including current maturities):

Loan term	Source of finance	Principal amount (NIS millions)	Currency or linkage	Type of interest and change mechanism	Average interest rate	Effective interest rate	Interest range in 2024
Long-term loans	Banks	999	Unlinked NIS	Fixed	3.96%	3.77%	3.20%-5.33%
	Banks	700	Unlinked NIS	Variable, based on the annual prime interest rate *	6.46%	6.59%	6.11%-6.53%
	Non-bank sources	4,070	Unlinked NIS	Fixed	3.02%	3.16%	2.79%-4.00%
	Non-bank sources	2,511	CPI-linked NIS	Fixed	1.40%	1.43%	0.58%-2.20%

* Prime interest – 6% (as at May 2024)

For further information about the Company's loans, see Note 13 to the 2023 Financial Statements.

Section 2.13.6 – Credit rating

On May 2, 2024, Maalot upgraded the rating of the Company, Pelephone, and yes to ilAA with stable outlook due to the improvement in the Company's financial ratios. In addition, on May 19, 2024, Midroog upgraded the rating of the Company's debentures to Aa2.il with stable outlook due to the continued improvement in the Company's financial position together with the improvement in the debt coverage to EBITDA ratio to levels supporting this rating. For further information see the Company's immediate reports dated May 2, 2024 and May 19, 2024, included in this report by way of reference, and section 3 in the Directors Report.

Section 2.16.4 – Wholesale market

Subsection 2.16.4.5 – Pricing of wholesale market services – On March 28, 2024, the Ministry of Communications published a hearing regarding "setting of maximum payments for the use of passive infrastructure in Bezeq's network" (the "Current Hearing"). The Current Hearing does not address the adjustment of rates for the BSA service, for which an economic assessment is planned, including an assessment of the scope of the obligation to supply this service. According to the Current Hearing:

The Minister of Communications will amend the Communications Regulations (Telecommunications and Broadcasts) (Use of a Domestic Carrier's Public Network), 2014, in such a way that four rates that the Company is entitled to demand will be reduced, as follows (NIS per month without VAT):

	Current rate in the regulations	Proposed rate	Measurement unit
Monthly payment for access service to passive infrastructure not in the incentive areas and not in infrastructure in the area beyond the incentive area.	0.446	0.250	Meter
Monthly payment for access service to passive infrastructure in the incentive areas or in infrastructure in the area beyond the incentive area.	0.113	0.107	Meter
Monthly payment for dark fiber service not in the incentive area and not in infrastructure in the area beyond the incentive area.	0.546	0.300	Meter
Monthly payment for dark fiber service in the incentive area and or in infrastructure in the area beyond the incentive area.	0.208	0.197	Meter

The Current Hearing includes rates that are proposed for application immediately after April 1, 2024, further to the Company's consent to collect the low rates as from this date. These rates will be determined as the first step, which will be effective for 15 months, that is, until June 30, 2025, and they will not be linked to the CPI at the beginning of 2025. Subsequently, after completion of the assessment of the revised wholesale rates based on the Axon model, rates will be set that will come into effect after June 30, 2025. The hearing on these rates is expected to be published in 2024.

To complete the picture, at the hearing, it was clarified that it does not address the adjustment of rates for the BSA service, for which the Ministry believes there should be an economic assessment of the service and its effect on the fixed-communications market, including and assessment of the scope of the obligation to supply this service, before a decision is made on the adjustment of the BSA rates. The reason for this is because, unlike passive access infrastructure, there are competitive disadvantages in their significant and immediate reduction. The economic director at the Ministry is expected to assess this in the coming months. At the same time, the work for adjusting the wholesale market rates will continue based on the work of Axon for the BSA rates.

The Company accepts the outline detailed in the Current Hearing and on April 11, 2024, it submitted its response accordingly.

The Company believes that reduction of the rates for passive infrastructure service and dark fiber as set out in section 1 above is not expected to have a material effect on the Company's business results. The Company also believes that it is expected that the hearing on the BSA service rates will be completed in the middle of 2025, and until then the BSA tariffs will remain unchanged.

Some of the information in this report is forward-looking information as defined in the Israel Securities Law, based on the Company's estimates, among other things, regarding the Ministry's timetables for announcing a hearing for the BSA service rate and the completion of the process. Accordingly, the Company's estimates may not materialize or may materialize in part or otherwise depending on the timetables and the decisions of the Ministry.

Section 2.18 – Legal proceedings

Section 2.18.1(B) regarding two motions for certification of class actions alleging that the Company harmed competition – in accordance with the revised notices filed on May 19, 2024 on behalf of the Attorney General, regarding the continued stay in the proceedings in these cases due to the progress in the criminal proceedings in Case 4000, at this stage, there is no need to continue the stay of proceedings.

Section 2.18.1(C) regarding two motions for certification of class actions alleging that the Company's reports contain misleading information about the agreement for the acquisition of the shares of yes and the cash flow of yes – after a motion was filed for certification of a settlement agreement between the applicants and B Communications and Elovitch and the court ruling on the submission of an amended agreement, in March 2024, a motion for certification of the settlement agreement was filed. A draft consolidated motion for certification was also attached to the motion.

Section 2.18.2(B) regarding a motion for discovery and review of documents under Section 198 of the Companies Law for assessment before filing a motion for a derivative claim on behalf of the Company, in the matter of the sale of the Company's shares in 2016 by B Communications and the judgment striking out the motion – in April 2024, the applicant in the procedure filed a motion for certification of a derivative claim on behalf of the Company and/or a double derivative claim on behalf of yes against Shaul Elovitch and B Communications. The claims included in the motion for certification of a derivative claim are similar to those in the motion for disclosure as set out above.

3. Pelephone – Cellular

Section 3.10.1 – Suppliers of terminal equipment

Regarding the agreement between Pelephone and Apple for the purchase of terminal equipment – In March 2024, the agreement between the parties was extended for another year until March 2025.

Section 3.15 – Material agreements

Regarding the agreement between Pelephone and the Accountant General at the Ministry of Finance for the provision of cellular services to state employees, which was valid until May 16, 2024 – the extension of the agreement until December 31, 2024 is being drafted and signed.

4. Bezeq International – ISP, international communications, and ICT solutions

No updates.

5. yes – multichannel television

Section 5.12 – Financing

In May 2024, the Company approved a credit facility or investment in the capital of yes in a total amount of up to NIS 40 million, to be exercised up to May 31, 2025. This approval is instead of similar approval given in March 2024 (and not in addition to it).

Section 5.16.1 – Pending legal proceedings

Regarding a motion for certification of a derivative claim on behalf of the Company and/or a double derivative claim on behalf of yes against Shaul Elovitch and B Communications filed in April 2024 further to the motion for discovery and review of documents under Section 198 of the Companies Law (which was struck out) regarding the sale of Company shares in 2016 by B Communications – see the update to section 2.18.2(B).

May 21, 2024	
Date .	Bezeq The Israeli Telecommunications Corp. Ltd

Names and titles of signatories:
Tomer Raved, Chairman of the board of directors
Nir David, CEO

Chapter B

Board of Directors Report on the State of the Company's Affairs for the Period Ended March 31, 2024

We hereby present the Board of Directors' Report on the state of affairs of Bezeq The Israeli Telecommunications Corporation Ltd. (the "Company") and the consolidated Group companies (the Company and the consolidated companies, jointly – the "Group") for the quarter ended March 31, 2024.

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, 2023 is also available to the reader.

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

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

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

Breakdown of the Group's results:

	1-3.2024	**1-3.2023**	**Change**	
	NIS million		**NIS million**	**%**
Net profit	**295**	311	(16)	(5.1)
EBITDA[1]	**912**	926	(14)	(1.5)
Adjusted EBITDA[1]	**917**	936	(19)	(2.0)
Adjusted net profit[1]	**299**	321	(22)	(6.9)
Free cash flow[1]	**468**	345	123	35.7

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

The decrease in net profit is mainly due to the decrease in revenues in all the Group's major segments, offset by a decrease in financing expenses in the domestic fixed line communications segment.

For further information see section 1.2 below.

Non-GAAP based financial measures

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

Breakdown of the indexes:

Index	Calculation and objectives of the index
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Earnings before financing expenses/income, taxes, depreciation and amortization. The EBITDA metric 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	EBITDA net of other operating expenses/income, one-time losses/gains from impairment/appreciation, and equity compensation plan expenses. The index allows comparison of operating performance of various periods by adjusting the effects of irregular non-recurring expenses/income. It should be noted that the EBITDA metric should not be adjusted to metrics similarly designated by other companies due to a possible difference in the way the metric is calculated.
Adjusted net income	Net profit less other operating expenses/income, net after tax, and non-recurring losses/gains from impairment/appreciation after tax, and equity compensation plan expenses. The metric allows comparison of performance of various periods by adjusting the effects of irregular non-recurring expenses/income.
Free cash flow	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. Free cash flow serves as a measure for assessing its business results and cash flows, since the Group believes that free cash flow is an important indicator of liquidity that reflects cash resulting from the Group's operating activities after cash investments in infrastructure and other fixed assets and intangible assets.

Breakdown of the calculation of these indexes:

	1-3.2024	1-3.2023
	NIS million	
Operating profit	**439**	468
Net of depreciation, amortization and impairment	**473**	458
EBITDA	**912**	926
Net of other operating expenses, net	**1**	7
Net of expenses for equity based compensation	**4**	3
Adjusted EBITDA	**917**	936

Net profit	**295**	311
Net of other operating expenses, net after tax	**-**	7
Net of expenses for equity based compensation	**4**	3
Adjusted net income	**299**	321

Net cash from operating activities	**1,001**	853
Net of cash for purchase/sale of fixed assets and intangible assets, net	**(407)**	(383)
Net of lease payments	**(126)**	(125)
Free cash flow:	**468**	345

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

	March 31, 2024	March 31, 2023	Change		Explanation
	NIS million			%	
Cash and current investments	**3,340**	2,411	929	38.5	The increase is due to, among other things, the issue of debentures in the current quarter by way of expansion of Series 11 and 13 in the domestic fixed-line communications segment. For further information see sections 1.3 and 3 below.
Current and non-current trade and other receivables	**2,158**	2,175	(17)	(0.8)	
Inventory	**118**	141	(23)	(16.3)	The decrease is mainly due to stocking up in the cellular communications segment in the corresponding quarter last year, in view of the timing of the launch of mobile telephone devices.
Right-of-use assets	**1,761**	1,719	42	2.4	The increase is due to the addition costs of contracts that came into effect in the Bezeq International Services segment and the rise in the CPI, offset by a decrease mainly in the cellular communications segment with respect to ongoing depreciation expenses.
Fixed assets	**6,928**	6,629	299	4.5	The increase is mainly attributable to the domestic fixed line communications segment, among other things, due to the progress made in the fiber network deployment project.
Intangible assets	**939**	910	29	3.2	
Deferred expenses and non-current investments	**305**	298	7	2.3	
Total assets	**15,549**	14,283	1,266	8.9	

1.1 Financial position (contd.) - Liabilities and equity

	March 31, 2024	March 31, 2023	Change		Explanation
	NIS million			%	
Debt to financial institutions and debenture holders	**8,059**	7,712	347	4.5	The increase in debt is mainly due to the issue of debentures in the current quarter by way of expansion of Series 11 and 13, and receipt of loans, offsetting repayment of debentures and loans in 2023 in the domestic fixed-line communications segment.
Lease liabilities	**1,922**	1,871	51	2.7	The increase is mainly due to the addition of contracts that came into effect in the Bezeq International Services segment and an increase in the CPI, offset by a decrease mainly in the cellular communications segment with respect to payments made throughout the period.
Trade and other payables	**2,111**	1,846	265	14.4	The increase is due to the increase in current tax liabilities in the domestic fixed-line communications segment, mainly because of bringing forward the date of receipt of a tax rebate with respect to the corresponding quarter.
Employee benefits	**594**	569	25	4.4	The increase is due to an increase in severance provisions in 2023 for early retirement and voluntary redundancy in the Group and due to recording of a non-recurring provision for the amount of the special bonus to be paid to the Company's employees under the amendment to the collective agreement, offsetting payments for employee retirement.
Provisions	**115**	131	(16)	(12.2)	
Deferred tax liabilities	**76**	66	10	15.2	
Derivatives and other non-current liabilities	**173**	147	26	17.7	
Total liabilities	**13,050**	12,342	708	5.7	
Total equity	**2,499**	1,941	558	28.7	Equity constitutes 16.1% of the total balance sheet compared to 13.6% of the total balance sheet as at March 31, 2023. The increase in capital is due to profits offsetting the distribution of dividends.
Total liabilities and equity	**15,549**	14,283	1,266	8.9	

1.2 Operating results

1.2.1 Highlights

	1-3.2024	1-3.2023	Change		
	NIS million			%	
Revenues	**2,255**	2,308	(53)	(2.3)	There was a decline in revenue in all the Group's key segments. For further information see section 1.2.2 below.
General operating expenses	**856**	884	(28)	(3.2)	It should be noted that the decrease in expenses is due, among other things, to a decrease in interconnect fees paid to communications operators for the reduction of rates in June 2023, mainly in the cellular communication segment.
Salaries	**486**	491	(5)	(1.0)	
Depreciation, amortization, and impairment	**473**	458	15	3.3	
Other operating expenses, net	**1**	7	(6)	(85.7)	
Operating profit	**439**	468	(29)	(6.2)	
Financing expenses, net	**46**	65	(19)	(29.2)	The decrease is mainly attributable to the domestic fixed line communications segment. For further information, see Note 11 to the financial statements)
Income tax	**98**	92	6	6.5	
Net income for the period	**295**	311	(16)	(5.1)	

1.2.2 Operating segments

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

	1-3.2024		1-3.2023	
	NIS million	% of total revenues	NIS million	% of total revenues
Revenue by operating segment				
Domestic fixed-line communications	**1,091**	**48.4**	1,111	48.1
Cellular communications	**583**	**25.9**	616	26.7
Bezeq International services	**289**	**12.8**	312	13.5
Multichannel television	**315**	**13.9**	329	14.3
Others and adjustments	**(23)**	**(1.0)**	(60)	(2.6)
Total	**2,255**	**100**	2,308	100

	1-3.2024		1-3.2023	
	NIS million	% of segment revenue	NIS million	% of segment revenue
Operating profit (loss) by operating segment				
Domestic fixed-line communications	**397**	**36.4**	403	36.3
Cellular communications	**40**	**6.9**	51	8.3
Bezeq International services	**20**	**6.9**	14	4.5
Multichannel television (proforma) [2]	**(19)**	**(6.0)**	(5)	(1.5)
Others and adjustments	**1**	**-**	5	-
Consolidated operating profit / % of the Group's revenues	**439**	**19.5**	468	20.3

(2) Results of the multichannel television segment are presented net of the total impairment recognized beginning in 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 14.3 for selected condensed information from the financial statements of yes.

1.2.2 Operating segments (contd.)

B. Domestic fixed line communications

	1-3.2024	1-3.2023	Change		Explanation
	NIS million			%	
Internet services	**501**	479	22	4.6	The increase is mainly due to an increase in the retail ARPU, which is mainly due to an increase in the number of fiber network subscribers and terminal equipment payments. Furthermore, there was an increase in the use of the Company's infrastructure in the wholesale market.
Fixed line telephony revenue	**143**	182	(39)	(21.4)	The decrease is due to a reduction in ARPL due to the decrease in telephony rates by the Ministry of Communications in July 2023, the decrease in interconnect fees starting in June 15, 2023, and decrease in traffic volume. There has also been a decrease in the number of lines.
Revenue from transmission, data communications and other	**360**	363	(3)	(0.8)	The decrease is mainly due to a decrease in revenue from ISP transmission because of subscriber churn to the Company following the unified internet reform and the decrease in paid for work. The decrease was offset by an increase in transmission and data communications services for businesses.
Revenue from cloud and digital services	**87**	87	-	-	
Total revenue	**1,091**	1,111	(20)	(1.8)	
General operating expenses	**183**	195	(12)	(6.2)	The decrease is mainly due to a decrease in subcontractor expenses for deployment of the fiber network and decrease in interconnect payments to communications operators, mainly because of a drop in rates since June 15, 2023, offsetting an increase in advertising expenses.
Salaries	**260**	263	(3)	(1.1)	The decrease is mainly due to employee resignations, reimbursement of reserve duty benefits from the National Insurance Institute due to the effect of the war and one-time grant for permanent staff due to the public sector wage agreement in the corresponding quarter, offset mainly by salary increases and hiring of new employees.
Depreciation and amortization	**252**	245	7	2.9	
Other operating expenses (income), net	**(1)**	5	(6)	-	The change is due to a decrease in expenses of the provision for legal claims and from capital gains due to the sale of a real estate property.
Operating profit	**397**	403	(6)	(1.5)	
Financing expenses, net	**52**	76	(24)	(31.6)	The decrease in net financing expenses is mainly due to an increase in financing income from investments and a decrease in linkage differentials with respect to debentures, due to a lower index increase in the current quarter compared to the corresponding quarter.
Income tax	**87**	78	9	11.5	
Segment profit	**258**	249	9	3.6	

1.2.2 Operating segments (contd.)

C. Cellular communications

	1-3.2024	1-3.2023	Change		Explanation
	NIS million			%	
Revenue from services less interconnect fees [3]	**335**	334	1	0.3	Further growth in the number of subscribers, including 5G bundle subscribers, largely offset by a decrease in revenue from roaming services due to the effect of the war.
Interconnect revenue [3]	**81**	111	(30)	(27.0)	The decrease was mainly due to a reduction in interconnect fees in June 2023.
Sale of terminal equipment	**167**	171	(4)	(2.3)	
Total revenue	**583**	616	(33)	(5.4)	
General operating expenses	**316**	351	(35)	(10.0)	The decrease is mainly due to a decrease in expenses attributed to interconnect revenue, a decrease in the selling costs of terminal equipment and a decrease in roaming service costs, parallel to the decrease in attributable revenue.
Salaries	**83**	84	(1)	(1.2)	The decrease is mainly due to an increase in salary capitalization for investment and a decrease in the number of employees. Conversely, there was an increase in expenses mainly due to the effects of the collective agreement.
Depreciation and amortization	**138**	133	5	3.8	The increase is mainly the result of an increase in investments in the 5G network and update in the estimate of site liquidation and disposal of assets. This increase was partially offset by a decrease in expenses for fully depreciated assets.
Other operating expenses, net	**6**	(3)	9	-	Net other operating expenses include mainly employee resignation expenses and expenses for financial sanctions.
Operating profit	**40**	51	(11)	(21.6)	
Financing income, net	**-**	6	(6)	(100)	The decrease in net financing revenue is mainly the result of a decrease in revenue from interest on loans provided to the parent company that were paid off during 2023, as well as from an increase in financing expenses due to linkage differentials. This decrease was partially offset due to a decrease in expenses for exchange rate differentials in view of the decline in the USD exchange rate.
Income tax expenses	**10**	13	(3)	(23.1)	
Segment profit	**30**	44	(14)	(31.8)	

(3) Revenue from interconnect fees (“Interconnect Fees”) – under the reform of the regulated interconnect rates (the “Reform”), gradually from June 2023 through June 2025, interconnect revenue from MRT carriers and domestic operators for which the reform applies, will be presented separately

1.2.2 Operating segments (contd.)

D. Bezeq International services

	1-3.2024	1-3.2023	Change		Explanation
	NIS million			%	
Revenues	**289**	312	(23)	(7.4)	The decrease is mainly due to a decrease in ISP revenue in the private sector as a result of a decrease in the number of subscribers following the unified internet reform and a decrease in internet services in the business sector. This decrease was offset by an increase in revenue from equipment, licensing and service agreements and an increase in revenue in the cloud operations.
Operating and general expenses and impairment	**193**	208	(15)	(7.2)	The decrease is mainly due to a decrease in expenses for the use of internet infrastructure in view of the decrease in operations in this segment and a decrease in administrative and general expenses. This decrease was partially offset mainly due to an increase in expenses for licensing, equipment and service agreements.
Salaries	**53**	54	(1)	(1.9)	
Depreciation, amortization, and impairment	**27**	30	(3)	(10.0)	The decrease is mainly due to a decrease in current depreciation for equipment and purchase costs of subscriptions as a result of the decrease in private ISP operations.
Other operating expenses (income), net	**(4)**	6	(10)	-	The change is due to recording of income in the current quarter for an amendment to the service farm leasing agreement (Bnei Zion) and due to a decline in expenses for provision for legal claims compared to the corresponding quarter.
Operating profit	**20**	14	6	42.9	
Financing expenses, net	**2**	1	1	100	
Segment profit	**18**	13	5	38.5	

1.2.2 Operating segments (contd.)

E. Multichannel television (proforma) [4]

	1-3.2024	1-3.2023	Change		Explanation
	NIS million			%	
Revenues	**315**	329	(14)	(4.3)	The decrease is mainly due to changes in the subscription mix from premium to discount and due to not charging customers in the conflict zone as a result of the effects of the war. The decrease was partially offset by an increase in revenue from combined television and fiber bundles.
General operating expenses	**225**	225	-	-	The increase was mainly due to the costs of the fiber operations was offset mainly by a decrease in the volume of content costs.
Salaries	**47**	50	(3)	(6.0)	The decrease is mainly due to an increase in salary capitalizations.
Depreciation and amortization	**62**	60	2	3.3	
Other operating (income)	**-**	(1)	1	(100)	
Operating Loss	**(19)**	(5)	(14)	280.0	
Financing (income), net	**(5)**	(5)	-	-	
Segment (loss)	**(14)**	-	(14)	-	

(4) Results of the multichannel television segment are presented net of the total impairment recognized beginning in 2018. This, in accordance with the way the Group's COO assesses the performance of the segment and at the same time, the decisions made concerning 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 to the financial statements for selected condensed information from the financial statements of yes and the table below:

yes Results - Comparison between Accounting Profit & Loss and Proforma Profit & Loss

	1-3.2024		1-3.2023	
	Accounting profit or loss	Proforma profit or loss	Accounting profit or loss	Proforma profit or loss
	NIS million			
Revenues	**315**	**315**	329	329
General operating expenses	**227**	**225**	228	225
Salaries	**48**	**47**	52	50
Depreciation and amortization	**58**	**62**	50	60
Other operating (income)	**-**	**-**	(1)	(1)
Operating Loss	**(18)**	**(19)**	-	(5)
Financing (income), net	**(5)**	**(5)**	(5)	(5)
Profit (loss) for the period	**(13)**	**(14)**	5	-

1.3 Cash flows

	1-3.2024	1-3.2023	Change		Explanation
	NIS million			%	
Net cash flow from operating activities	**1,001**	853	148	17.4	The increase in net cash flows from ongoing operations is due to working capital adjustments and receipt of a tax rebate in the current quarter compared to the income tax paid in the corresponding quarter in the domestic fixed-line communications segment.
Net cash used in investing activities	**(1,406)**	(805)	(601)	74.7	The increase in net cash flows used in investing activities is mainly due to an increase in net investment in bank deposits and other financial investments in the domestic fixed line communications segment.
Net cash flow from financing activities	**939**	276	663	240.2	The increase in the net cash flow from financing activities is due to the issue of debentures following the expansion of debentures (Series 11 and 13), and the receipt of loans in the current quarter in the domestic fixed line communications segment.
Net increase in cash	**534**	324	210	64.8	

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

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 7,511 million.

Supplier credit: NIS 946 million; Short-term customer credit NIS 1,486 million; Long-term customer credit NIS 274 million.

Working capital

The Group's surplus working capital as at March 31, 2024, amounted to NIS 1,138 million, compared with surplus working capital in the amount of NIS 589 million at March 31, 2023.

As at March 31, 2024, the Company (based on the separate financial information) has surplus working capital in the amount of NIS 1,168 million, compared with surplus working capital in the amount of NIS 663 million at March 31, 2023.

The increase in working capital surplus in the Group and the Company is mainly due to an increase in investment balances, offset by an increase in payable balances and current liabilities for financial debt.

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

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

In the three months ended March 31, 2024, the increase in the CPI was reflected in financing expenses with respect to the Group's financial debt in an amount of NIS 7 million (NIS 9 million after hedging), a decrease of NIS 19 million (NIS 12 million after hedging) compared with the corresponding period. It is noted that the effect of the CPI increase on the Group's operating results was immaterial. Furthermore, it should be noted that there has been no change in the Bank of Israel interest rate in this period.

Based on the volume of the Group's CPI linked debt as at March 31, 2024, every 1% increase in the CPI is expected to cause an increase in the Group's financing expenses of NIS 25 million, before weighting the effect of the hedging transactions.

Furthermore, based on the Company's current debt at variable interest, every 1% increment in the Bank of Israel interest rate is expected to increase the Group's annual financing costs by NIS 7 million and accordingly, is not expected to have a material effect on the results of the Group's operations.

1.5 Armed conflict – Swords of Iron war

Since October 7, 2023, the State of Israel has been in a state of war, of varying intensity, in the Gaza Strip area and along the northern border. This state of war has affected the Group companies in different ways, reflected in the increase in demand for some of the services, such as internet traffic and the use of fixed line telephony on the one hand, and on the other, a decrease in roaming services, and the cancellation or suspension of business lines within the war zone. Moreover, upon the outbreak of the war, employees were called up to reserve duty and there was a decrease in contractor operations, resulting in a slowdown in deployment and installation of the Company's network. Several regulatory measures were also legislated as part of the State of Israel's management of the war, including the legislation of a law for deferral of payment dates for eligible persons and relief for telephone call charges, including calls relating to online studies. It should be noted that some of the Group companies initiated lowering of charges for villages in the Gaza Strip and northern border areas.

The Group companies, which provide, among other things, essential communication services to private, commercial, and institutional customers, including state institutions, the security forces, and the health system, have made preparations accordingly and provide solutions for the different needs, including addressing malfunctions, increasing cyber vigilance and preparedness, and assisting the community in many ways. Additionally, the Group companies are constantly reviewing and monitoring developments related to the war.

At this stage, the effects of the war and its consequences as described above have not had a material effect on the Group's activities and business results. The Group's liquidity and financial position also allow it to function well during the war. The intensity and duration of the war and its consequences on the state of the Israeli economy and market and on the Group companies cannot be anticipated and depend, among other things, on how the war will develop and the possibility of a slowdown in the economy. In this context, attention is also drawn to the relevant risk factors listed in Chapter A (Description of the Company's Operations) to the 2023 Periodic Report (sections 2.20.11, 2.20.15, 3.19.2.9, 4.14.8, 5.18.1.2, 5.18.1.4).

Some of the information in this section is forward-looking information, as defined in the Israel Securities Law, based on the Company's estimates, assumptions, and forecasts which may not materialize or may materialize in a way that is materially different than anticipated, depending, among other things, on how the war will develop and the state of the economy as a whole.

2. Disclosure concerning the Company’s financial reporting

2.1 Disclosure concerning valuations

Below is a breakdown concerning a material valuation pursuant to Regulation 8B(9) of the Israel Securities Regulations (Periodic and Immediate Reports), -1970.

	yes Television and Communication Services Ltd. ("yes") [5] **Material valuation as at March 31, 2024**
Subject of the valuation	Review of impairment of yes assets as at March 31, 2024
Date of the valuation	March 31, 2024 The valuation was signed on May 16, 2024
Value shortly before the valuation date if reevaluation based on the valuation had not been required under GAAP, including depreciation and amortization	Carrying amount prior to impairment as at March 31, 2024, is negative in the amount of NIS 8 million
Value based on the valuation	The value in use of yes assets, under the income capitalization approach (value in use) at a negative value of NIS 76 million. It is noted that the fair value net of selling costs of yes assets as at same date amounted to a negative value of NIS 95 million. Consequently, and pursuant to the provisions of IAS36, the recoverable amount of yes assets were fixed at the higher value between the value in use and fair value net of selling costs, i.e. negative value of NIS 76 million. Based on the valuation, in the current quarter the Group recognized an impairment loss in the amount of NIS 68 million.
Valuator’s identity and profile	The valuation was prepared by Guy Feiwisch, Partner, Valuations and Economic Modeling in the Economic Department at Ernst Young (Israel) Ltd. CPA Feiwisch has a BA in Economics, specializing in Accounting, from Ben Gurion University in Beer Sheva, and is a certified public accountant in Israel. As part of his position, CPA Feiwisch heads projects with leading private and public companies in their fields in Israel and worldwide, and provides assistance for transactions in Israel and abroad. He guides complex valuations for diverse purposes, including for financial reporting, taxation, regulatory compliance and raising of capital in various sectors including the real estate, retail, industry, energy and communications sectors. Furthermore, as part of his duties, he assists companies in planning and implementing strategy and business processes. CPA Feiwisch also has experience in providing financial opinions for legal proceedings and/or commercial disputes. The valuator is not dependent on the Company. The Company undertook to indemnify the valuator for any damages in excess of three times his fee, other than if he acted with malicious intent or gross negligence.
Valuation model	Discounted Cash Flow model (DCF)
Assumptions used by the valuator in the valuation	Discount rate – 11.5% (after tax) Permanent growth rate - 1% Scrap value percentage of total value set in the valuation – N/A

(5) Notwithstanding the negative value of the operations of yes, the Company supports yes by approving credit facilities or investing in the equity of yes (see Note 4.1 to the financial statements). The Company's support of yes 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 the materiality of the legal claims filed against the Group and which at this stage cannot be assessed or for which exposure cannot be calculated, the auditors drew attention to these claims in their opinion on the financial statements.

2.3 Material events in the reporting period and subsequent material events

For further information concerning material events in the reporting period and subsequent to the date of the financial statements, including the Company's entrance into the electricity supply sector, see Note 15 to the financial statements.

3. Information about a debenture series

On January 9, 2024, Maalot announced a rating of ilAA- with positive outlook (see immediate report Ref.No.: 2024-01-004668) and Midroog announced a rating of Aa3.il with positive outlook (see immediate report Ref.No.: 2024-01-004623) for the Company's debentures issued by way of expansion of Series 11 and 13.

On January 11, 2024, the Company completed the public issue of debentures (Series 11 and 13), by way of expansion of the series traded on the TASE, under a shelf tender offer dated January 10, 2024 that was issued under a shelf prospectus dated May 9, 2023. As part of this public offering, NIS 567,877,000 par value Debentures (Series 11) issued for proceeds of NIS 539 million and NIS 432,123,000 par value Debentures (Series 13) issued for proceeds of NIS 353 million.

On May 2, 2024, Maalot upgraded the Company's rating of ilAA- to ilAA with stable outlook, in view of an improvement in the Company's financial ratios (see immediate report, Ref. No. 2024-01-042343).

In addition, on May 19, 2024, Midroog upgraded the rating of the Company's debentures to Aa2.il with stable outlook due to the consistent improvement in the Company's financial position together with improvement in the debt to EBITDA ratio to levels that support this rating (see immediate report, Ref. No. 2024-01-048802).

4. Miscellaneous

For further information concerning the liabilities of the Company and the companies consolidated in its financial statements as at March 31, 2024, see the reporting form posted by the Company on the MAGNA website on May 22, 2024.

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

Tomer Raved	Nir David
Chairman of the board of directors	CEO

Signed on: May 21, 2024

Chapter C

Condensed Consolidated Interim Financial Statements as at March 31, 2024 (Unaudited)

Contents		Page

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 March 31, 2024 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period 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 this interim period 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 this interim period based on our review.

Scope of Review

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

Conclusion

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

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

Explanatory Paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 1.2 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 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.)

May 21, 2024

Condensed Consolidated Interim Statements of Financial Position

	March 31, 2024	March 31, 2023	December 31, 2023
	(Unaudited)	(Unaudited)	(Audited)
Assets	**NIS million**	**NIS million**	**NIS million**
Cash and cash equivalents	**1,097**	1,065	563
Investments	**2,243**	1,346	1,205
Trade receivables	**1,494**	1,510	1,477
Other receivables	**216**	207	162
Inventory	**118**	141	82
Total current assets	**5,168**	4,269	3,489
Trade and other receivables	**448**	458	446
Right-of-use assets	**1,761**	1,719	1,870
Fixed assets	**6,928**	6,629	6,828
Intangible assets	**939**	910	941
Deferred expenses and non-current investments	**305**	298	304
Total non-current assets	**10,381**	10,014	10,389
Total assets	**15,549**	14,283	13,878

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

Condensed Consolidated Interim Statements of Financial Position (Contd.)

	March 31, 2024	March 31, 2023	December 31, 2023
	(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	NIS million	NIS million	NIS million
Debentures, loans, and borrowings	**1,074**	923	1,074
Current maturities of lease liabilities	**418**	443	433
Trade and other payables	**2,111**	1,846	1,750
Employee benefits	**341**	371	332
Provisions	**86**	97	91
Total current liabilities	**4,030**	3,680	3,680
Loans and debentures	**6,985**	6,789	5,889
Lease liabilities	**1,504**	1,428	1,608
Employee benefits	**253**	198	251
Derivatives and other liabilities	**173**	147	160
Provisions	**29**	34	29
Deferred tax liabilities	**76**	66	64
Total non-current liabilities	**9,020**	8,662	8,001
Total liabilities	**13,050**	12,342	11,681
Equity attributable to shareholders of the Company			
Share capital	**3,879**	3,879	3,879
Share premium	**387**	386	387
Reserves	**403**	398	396
Deficit	**(2,171)**	(2,723)	(2,466)
Total equity attributable to shareholders of the Company	**2,498**	1,940	2,196
Noncontrolling interests	**1**	1	1
Total equity	**2,499**	1,941	2,197
Total liabilities and equity	**15,549**	14,283	13,878

Tomer Raved	**Nir David**	**Tobi Fischbein**
Chairman of the board of directors	CEO	CFO Bezeq Group

Approval date of the financial statements: May 21, 2024

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Condensed Consolidated Interim Statements of Income

	Note	Three months ended March 31		Year ended December 31
		2024	2023	2023
		(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million
Revenues	8	**2,255**	2,308	9,103
Operating expenses				
General and operating expenses*	9	**856**	884	3,374
Salaries		**486**	491	1,922
Depreciation, amortization, and impairment losses *		**473**	458	1,867
Other operating expenses, net	10	**1**	7	161
Total operating expenses		**1,816**	1,840	7,324
Operating profit		**439**	468	1,779
Financing expenses (income)				
Financing expenses		**97**	98	408
Financing income		**(51)**	(33)	(164)
Financing expenses, net	11	**46**	65	244
Profit before income tax		**393**	403	1,535
Income tax		**98**	92	346
Net profit for the period attributable to shareholders of the Company		**295**	311	1,189
Earnings per share (NIS)				
Basic and diluted earnings per share		**0.11**	0.11	0.43

For information about the impairment loss recognized by yes and Bezeq International in the reporting period, see Note 5.

Condensed Consolidated Interim Statements of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Net profit for the period	295	311	1,189
Remeasurement of a defined benefit plan, net of tax – not to be carried to profit or loss	-	1	18
Additional items of other comprehensive income (loss) for hedging, net of tax – to be carried to profit or loss	3	2	(6)
Total comprehensive income for the period attributable to the Company's shareholders	**298**	**314**	**1,201**

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	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 March 31, 2024 (unaudited)									
Balance as at January 1, 2024	**3,879**	**387**	**390**	**44**	**(38)**	**(2,466)**	**2,196**	**1**	**2,197**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**295**	**295**	**-**	**295**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**-**	**3**	**-**	**3**	**-**	**3**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**3**	**295**	**298**	**-**	**298**
Transactions with shareholders recognized directly in equity									
Share-based payments	**-**	**-**	**-**	**4**	**-**	**-**	**4**	**-**	**4**
Balance as at March 31, 2024	**3,879**	**387**	**390**	**48**	**(35)**	**(2,171)**	**2,498**	**1**	**2,499**
Three months ended March 31, 2023 (unaudited)									
Balance as at January 1, 2023	3,878	384	390	38	(32)	(3,035)	1,623	1	1,624
Profit for the period	-	-	-	-	-	311	311	-	311
Other comprehensive income for the period, net of tax	-	-	-	-	2	1	3	-	3
Total comprehensive income for the period	-	-	-	-	2	312	314	-	314
Transactions with shareholders recognized directly in equity									
Share-based payments	-	-	-	3	-	-	3	-	3
Exercise of options for shares	1	2	-	(3)	-	-	-	-	-
Balance as at March 31, 2023	3,879	386	390	38	(30)	(2,723)	1,940	1	1,941

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Capital reserve for employee options	Other reserves	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, 2023 (audited)									
Balance as at December 31, 2022	3,878	384	390	38	(32)	(3,035)	1,623	1	1,624
Profit for 2023	-	-	-	-	-	1,189	1,189	-	1,189
Other comprehensive income (loss) for the year, net of tax	-	-	-	-	(6)	18	12	-	12
Total comprehensive income (loss) for 2023	-	-	-	-	(6)	1,207	1,201	-	1,201
Transactions with shareholders recognized directly in equity									
Dividend to the Company's shareholders	-	-	-	-	-	(638)	(638)	-	(638)
Share-based payment	-	-	-	10	-	-	10	-	10
Exercise of options for shares	1	3	-	(4)	-	-	-	-	-
Balance as at December 31, 2023	3,879	387	390	44	(38)	(2,466)	2,196	1	2,197

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flow from operating activities			
Profit for the period	**295**	311	1,189
Adjustments:			
Depreciation, amortization, and impairment loss	**473**	458	1,867
Capital gain, net	**(2)**	(1)	(2)
Financing expenses, net	**49**	69	258
Share-based payment	**4**	3	10
Income tax expenses	**98**	92	346
Change in trade and other receivables	**(65)**	(104)	(7)
Change in inventory	**(44)**	(56)	(15)
Change in trade and other payables	**163**	173	60
Change in provisions	**(2)**	4	(2)
Change in employee benefits	**11**	(31)	(3)
Miscellaneous	**13**	-	23
Net income tax paid (received)	**8**	(65)	(269)
Net cash from operating activities	**1,001**	853	3,455
Cash flow used in investing activities			
Purchase of fixed assets	**(312)**	(335)	(1,333)
Investment in intangible assets and deferred expenses	**(98)**	(81)	(375)
Investment in bank deposits and other financial investments	**(1,222)**	(640)	(1,419)
Proceeds from repayment of bank deposits and other financial investments	**200**	209	1,134
Proceeds from the sale of fixed assets	**3**	33	39
Interest received from bank deposits	**23**	7	72
Acquisition of a subsidiary net of cash acquired	**-**	-	(14)
Miscellaneous	**-**	2	17
Net cash used in investing activities	**(1,406)**	(805)	(1,879)
Cash flow for financing activities			
Issue of debentures and receipt of loans	**1,084**	415	515
Repayment of debentures and loans	**-**	-	(912)
Payments of principal and interest for leases	**(126)**	(125)	(484)
Interest paid	**(19)**	(14)	(236)
Dividend paid	**-**	-	(638)
Proceeds for expired hedging transactions	**-**	-	4
Miscellaneous	**-**	-	(3)
Net cash from (used in) financing activities	**939**	276	(1,754)
Increase (decrease) in cash and cash equivalents	**534**	324	(178)
Cash and cash equivalents at beginning of period	**563**	741	741
Cash and cash equivalents at end of period	**1,097**	1,065	563

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1. General

1.1 Reporting entity

Bezeq The Israeli Telecommunications Corporation Ltd. (the "Company") is a company registered in Israel whose shares are listed on the Tel Aviv Stock Exchange. The consolidated financial statements of the Company as at March 31, 2024 include those of the Company and its subsidiaries (jointly – the "Group"). The Group is a major provider of communications services in Israel (see also Note 13 – Segment Reporting).

1.2 Investigations by the Israel Securities Authority and Israel Police

For information about the investigations by the Israel Securities Authority and the Israel Police into suspected offenses under the Israel Securities Law and the Penal Law, involving, among other things, transactions related to the former controlling shareholder and the announcement of the Tel Aviv District Attorney's Office (Taxation and Economics Division) that it was considering prosecuting the Company and summoning it to a hearing, see Note 1.3 to the Annual Financial Statements.

As set out in Note 1.3.3 to the Annual Financial Statements, the Company still does not have complete information about the investigations, their content, the material, and the evidence in the possession of the law enforcement authorities. Accordingly, the Company is unable to assess any effects of the investigations, their findings, and their outcome on the Company, on the 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 at December 31, 2023 and the year then ended, and their accompanying notes (the "Annual Financial Statements"). The notes to the 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 May 21, 2024.

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.

3.2 New standards not yet adopted:

<u>IFRS 18, Presentation and Disclosure in the Financial Statements:</u>

IFRS 18 replaces IAS 1, Presentation of Financial Statements. The standard promotes improved structure and content for the financial statements, in particular the statement of income. The standard includes new requirements for disclosure and presentation as well as requirements retained from IAS 1, Presentation of Financial Statements, with limited wording changes. As part of the new disclosure requirements, companies are required to present two subtotals in the statement of income: operating profit and profit before financing and taxes. In addition, for most companies, the results in the statement of income will be classified into three categories: operating, investing, and financing. For changes in the structure of the statements of income, the standard also includes a requirement for separate disclosure in the financial statements regarding the use of management-defined performance measures (non-GAAP measures). Additionally, under the amendment, specific provisions were added for the aggregation and disaggregation of line items in the financial statements and the notes. The standard will encourage companies to avoid classification of items as 'other' (for example, other expenses), and such classification will entail further disclosure requirements. IFRS 18 will apply for annual periods beginning on or after January 1, 2027, with an option for early application. Application of the amendment is expected to have an effect on the presentation and disclosure of information in the Group's financial statements, particularly on the statement of income. The Group is assessing the effects of application of the standard on the financial statements.

4. Group Entities

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

4.1 yes Television and Communication Services Ltd. (yes)

4.1.1 As at March 31, 2024, based on the statements of yes, equity amounts to NIS 61 million and the working capital deficit amounts to NIS 176 million. According to the forecasts of yes, it expects to accumulate operating losses in the coming years and therefore it will be unable to meet its obligations and to continue operating as a going concern without the Company's support.

On May 21, 2024, the Company's board of directors approved a credit facility or capital investment for yes in the amount of NIS 40 million, for 14 months starting from April 1, 2024 until May 31, 2025, instead of a similar undertaking from March 2024. It should be noted that to date, in 2024, yes has not made any use of the credit facilities provided by the Company.

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

4.1.2 See Note 5.1 below for information about the impairment of assets recognized by yes in the financial statements as at March 31, 2024.

4.2 Bezeq International Ltd.

See Note 5.2 below for information about the impairment of assets recognized by Bezeq International in the financial statements as at March 31, 2024.

5. Impairment

5.1 Impairment in the multichannel television segment (yes)

Further to Note 10.5 to the Annual Financial Statements regarding impairment recognized in 2023, the valuation as at December 31, 2023 presented a value in use that is significantly lower than the carrying amount of yes.

Based on the valuation prepared by an external appraiser on March 31, 2024 and the assessment of the management of yes, it was found that in the three months since the previous valuation, there have been no changes in the period that could indicate a material change requiring a revision of the forecasts of yes that were used in preparing the valuation as at December 31, 2023.

Nevertheless, due to timing differences in the forecast used for preparing the valuation as at December 31, 2023 and the continuation of the War, an adjustment was made in the calculation of the value-in-use as at March 31, 2024.

The adjustment is mainly due to an irregular change in the trade payables as at the valuation date, which is mainly due to the timing of payments to content and equipment suppliers to be paid later in 2024.

The revised enterprise value as at March 31, 2024, considering the adjustment made, is a negative amounts of NIS 76 million.

As at March 31, 2024, the DCF value of the Company's operations is higher than the fair value of the Company's net assets and liabilities, therefore it was determined as the basis for determining the Company's recoverable amount.

Therefore, in view of the negative value of the operations, yes reduced its assets as at March 31, 2024, up to the higher of: value in use, net fair value or zero, of these assets (the “Value of its Assets”).

Based on the valuation of the fair value of the assets of yes, carried out by an external appraiser as at March 31, 2024, the carrying amount of the depreciable assets is NIS 68 million higher than the value of its assets. Accordingly, in the three months ended March 31, 2024, the Group recognized an impairment loss of NIS 68 million.

It should be noted that the valuation of the value in use is sensitive to the net cash flow in the representative year in general, and to the ARPU and number of users at the end of the range of the forecast in particular. A change of NIS 1 in ARPU throughout the forecast years (and in the terminal year) results in a change in the enterprise value amounting to between NIS 57 million and NIS 61 million, and a change of 5 thousand subscribers throughout the forecast years and in the terminal year) results in a change in the enterprise value amounting to between NIS 72 million and NIS 79 million.

Below is information about the enterprise value and the net fair value of the assets and liabilities of yes, as determined by an external appraiser, and recognized impairment losses:

	Enterprise value of yes (based on the DCF method)	Net fair value of assets and liabilities of yes	Net carrying amount of assets and liabilities of yes, before impairment recognition	Impairment loss
	NIS million	NIS million	NIS million	NIS million
As at March 31, 2024 and for the three months then ended (unaudited)	**(76)**	**(95)**	(8)	(68)
Total impairment recognized in the three months ended March 31, 2024				(68)
As at December 31, 2023 and for the year then ended (audited)	**(24)**	**(60)**		(204)

Attribution of impairment loss to Group assets:

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Broadcasting rights *	**22**	35	103
Fixed assets **	**20**	26	62
Intangible assets **	**20**	7	37
Rights of use for leased assets **	**-**	-	(1)
Other receivables (prepaid expenses) *	**6**	1	3
Total impairment recognized	**68**	69	204

* The expense was presented under operating and general expenses

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

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

5.2 Impairment in ISP, international communications, and ICT solutions (Bezeq International)

Further to Note 10.6 to the Annual Financial Statements regarding impairment recognized in Bezeq International in 2023, the valuation as at December 31, 2023 presented a value-in-use that is significantly lower than the carrying amount of Bezeq International.

As at March 31, 2024, it was found that in the three months since the previous valuation, there were no material changes in the market, or regulatory changes that could have a material effect on the forecasts of Bezeq International in the coming years, and there were no material changes in the discount rate. Accordingly, as at March 31, 2024, there was no change in the enterprise value of Bezeq International, which amounted to a negative amount of NIS 194 million.

The net fair value of the assets of Bezeq International as at March 31, 2024 is a negative amount of NIS 26 million.

Since the enterprise value is lower than the net fair value of the assets and liabilities, Bezeq International depreciated its assets to the amount of the net fair value of these assets. As at March 31, 2024, the carrying amount of the depreciable assets is NIS 23 million higher than the net fair value. Accordingly, in the three months ended March 31, 2024, the Group recognized an impairment loss of NIS 23 million.

Below is information about the enterprise value and the net fair value of the assets and liabilities of Bezeq International, as determined by an external appraiser, and recognized impairment losses:

	Enterprise value of Bezeq International (based on the DCF method)	Net fair value of assets and liabilities of Bezeq International	Net carrying amount of assets and liabilities of Bezeq International before impairment recognition	Impairment loss
	NIS million	NIS million	NIS million	NIS million
As at March 31, 2024 and for the three months then ended (unaudited)	(194)	(26)	(3)	(23)
Total impairment recognized in the three months ended March 31, 2024				(23)
As at December 31, 2023 and for the year then ended (audited)	(194)	(23)		(87)

5.3 Attribution of impairment loss to Group assets:

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Fixed assets and intangible assets **	**11**	14	57
Short-term and long-term prepaid expenses *	**7**	6	17
Rights of use of leased vehicle assets **	**-**	-	1
Long-term prepaid expenses for capacities **	**5**	1	12
Total impairment recognized	**23**	21	87

* The expense was presented under operating and general 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, among other things, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions of NIS 80 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 these provisions) as at March 31, 2024 for Legal Claims filed against Group companies on various matters, which are unlikely to be realized, amounts to NIS 1.8 billion. There is also additional exposure of NIS 2.6 billion for Legal Claims, the chances of which cannot yet be assessed. In addition, motions for certification of class actions have been filed against the Group companies, which do not specify the exact amount of the claim, for which the Group has additional exposure beyond the aforesaid.

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

6.2 Below is a description of the Group's contingent liabilities and provisions that were valid as at March 31, 2024, classified into groups with similar characteristics:

Claims group	Nature of the claims	Provision	Additional exposure	Exposure for claims the chances of which cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions regarding allegations of unlawful collection of payment and faulty service provided by the Group companies	**78**	**1,705**	**792**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or investments	**-**	**68**	**1,808** (1)
Claims by employees and former employees of the Group's companies	Mainly individual legal claims filed by employees and former employees of the Group, regarding various payments.	**-**	**2**	**-**
Miscellaneous	Other legal claims, including claims in tort (excluding claims for which the insurance coverage is not disputed), real estate, infrastructure, and suppliers	**2**	**24**	**8**
Total legal claims against the Company and subsidiaries (2)		**80**	**1,799**	**2,608**

(1) Includes two motions for certification of a class action amounting to a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group, and companies of the group of the Company's controlling shareholder at the time, with respect to the transaction for the Company's acquisition of yes shares from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to be filed instead of these two motions. The proceeding has been stayed in view of the ongoing criminal proceeding following the investigation by the Israel Securities Authority (as described in Note 1.2), and at the request of the Attorney General, until July 20, 2024. It should be noted that the motion for certification of a partial settlement in the consolidated procedure between the applicants, B Communications, and Shaul and Or Elovitch is under discussion.

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

7. Equity

7.1 The Company's share capital:

	March 31, 2024	March 31, 2023	December 31, 2023
	Number of shares	Number of shares	Number of shares
	(Unaudited)	(Unaudited)	(Audited)
Registered share capital	**2,849,485,753**	2,849,485,753	2,849,485,753
Issued and paid up share capital	**2,766,900,858**	2,766,493,877	2,766,839,624

7.2 Dividend distribution

7.2.1 See Note 20.2.1 to the Annual Financial Statements regarding the dividend distribution policy approved by the Company's board of directors on March 12, 2024.

7.2.2 On April 17, 2024, the general meeting of the Company's shareholders approved (further to the recommendation of the Company's board of directors on March 12, 2024), the distribution of a cash dividend to the Company's shareholders for a total of NIS 374 million (representing NIS 0.1351691 per share at the date of record for the distribution). The dividend was paid on May 9, 2024.

8. Revenues

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Domestic fixed-line communications (Bezeq Fixed-Line)			
Internet – infrastructure	**496**	466	1,907
Transmission and data communication	**257**	236	974
Fixed-line telephony	**139**	177	632
Cloud and digital services	**87**	87	349
Other services	**60**	75	295
	1,039	1,041	4,157
Cellular communications – Pelephone			
Cellular services and terminal equipment	**410**	436	1,724
Sale of terminal equipment	**166**	169	585
	576	605	2,309
Multichannel television – yes	**315**	329	1,308
ISP, international communications, and ICT services – Bezeq International	**274**	288	1,139
Other	**51**	45	190
	2,255	2,308	9,103

9. General Operating Expenses

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Terminal equipment and materials	**216**	221	825
Interconnectivity and payments to domestic and international telecommunications operators	**178**	202	762
Content costs (including content impairment)	**128**	141	530
Marketing and general	**124**	109	432
Maintenance of buildings and sites	**62**	64	257
Services and maintenance by subcontractors	**132**	131	504
Vehicle maintenance	**16**	16	64
	856	884	3,374

10. Other Operating Expenses, Net

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Capital gain (mainly disposal of real estate)	**(2)**	(1)	(2)
Creation of a provision for claims	**5**	9	25
Expenses for severance pay in early retirement in the Company	**3**	3	57
Expenses for severance pay in early retirement and the efficiency agreement in Pelephone, Bezeq International, and yes.	**4**	-	17
One-time provision – amendment to the collective agreement of the employees	**-**	-	75
Other income	**(9)**	(4)	(11)
	1	7	161

11. Financing Expenses, Net

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	**68**	57	236
Exchange rate differences	**-**	-	12
Linkage and exchange differences	**7**	21	78
Financing expenses for lease liabilities	**16**	12	63
Financing expenses for employee benefits	**4**	4	10
Other financing expenses	**2**	4	9
Total financing expenses	**97**	98	408
Interest income from investments	**29**	14	89
Income for credit in sales	**7**	7	22
Change in fair value of financial assets at fair value through profit or loss	**10**	8	25
Other financing income	**5**	4	28
Total financing income	**51**	33	164
Financing expenses, net	**46**	65	244

12. Financial Instruments

12.1 Composition of investments

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Bank deposits in NIS (1)	**1,327**	1,124	455
Investment in securities at fair value through profit or loss	**903**	202	745
Derivatives	**13**	20	5
	2,243	1,346	1,205

(1) Bank deposits in NIS are repayable until January 2025.

12.2 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 estimate the fair values of financial instruments are described in Note 30.8 to the Annual Financial Statements.

	March 31, 2024		March 31, 2023		December 31, 2023	
	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 institutions (unlinked)	**1,754**	**1,700**	1,538	1,453	1,546	1,500
Debentures issued to the public (CPI-linked)	**2,455**	**2,416**	2,675	2,616	2,436	2,387
Debentures issued to the public (unlinked)	**3,215**	**3,124**	2,862	2,706	2,298	2,217
	7,424	**7,240**	7,075	6,775	6,280	6,104

12.3 Fair value hierarchy

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

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1 – investment in financial funds	**903**	202	745
Level 2 – forward contracts	**37**	54	25

13. Segment Reporting

13.1 Operating segments

Three months ended March 31, 2024 (unaudited)	Domestic fixed-line communications	Cellular communications	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	1,039	576	274	315	51	-	2,255
Inter-segment revenues	52	7	15	-	-	(74)	-
Total revenues	1,091	583	289	315	51	(74)	2,255
Depreciation, amortization, and impairment	252	138	27	62	-	(6)	473
Segment results – operating profit (loss)	397	40	20	(19)	-	1	439
Financing expenses	89	7	4	2	-	(5)	97
Financing income	(37)	(7)	(2)	(7)	(2)	4	(51)
Total financing expenses (income), net	52	-	2	(5)	(2)	(1)	46
Segment profit (loss) before income tax	345	40	18	(14)	2	2	393
Income tax expenses	87	10	-	-	1	-	98
Segment results – net profit (loss)	258	30	18	(14)	1	2	295

Three months ended March 31, 2023 (unaudited)							
	Domestic fixed-line communications	**Cellular communications**	**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	1,041	605	288	329	45	-	2,308
Inter-segment revenues	70	11	24	-	-	(105)	-
Total revenues	1,111	616	312	329	45	(105)	2,308
Depreciation, amortization, and impairment	245	133	30	60	2	(12)	458
Segment results – operating profit (loss)	403	51	14	(5)	(1)	6	468
Financing expenses	98	10	4	2	-	(16)	98
Financing income	(22)	(16)	(3)	(7)	-	15	(33)
Total financing expenses (income), net	76	(6)	1	(5)	-	(1)	65
Segment profit (loss) before income tax	327	57	13	-	(1)	7	403
Income tax expenses	78	13	-	-	1	-	92
Segment results – net profit (loss)	249	44	13	-	(2)	7	311

* Results of the multichannel television segment are presented net of the total effect of impairment recognized as from 2018. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on the allocation of resources for the segment. See also Note 14.3 for condensed selected information from the financial statements of yes.

Year ended December 31, 2023							
	Domestic fixed-line communications	**Cellular communications**	**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	4,157	2,309	1,139	1,308	190	-	9,103
Inter-segment revenues	255	39	73	1	2	(370)	-
Total revenues	4,412	2,348	1,212	1,309	192	(370)	9,103
Depreciation, amortization, and impairment	1,019	549	137	244	6	(88)	1,867
Segment results – operating profit (loss)	1,451	196	39	(4)	(1)	98	1,779
Financing expenses	370	35	17	8	-	(22)	408
Financing income	(114)	(48)	(7)	(17)	-	22	(164)
Total financing expenses (income), net	256	(13)	10	(9)	-	-	244
Segment profit (loss) before income tax	1,195	209	29	5	(1)	98	1,535
Income tax expenses	294	50	-	1	1	-	346
Segment results – net profit (loss)	901	159	29	4	(2)	98	1,189

* Results of the multichannel television segment are presented net of the total effect of impairment recognized as from 2018. This is in accordance with the way the Group's chief operating decision maker assesses the segment’s performance and decides on the allocation of resources for the segment. See also Note 14.3 for condensed selected information from the financial statements of yes.

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

14.1 Pelephone Communications Ltd.

Information from the statement of financial position:

	March 31, 2024	March 31, 2023	December 31, 2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**772**	857	722
Non-current assets	**2,128**	2,966	2,110
Total assets	**2,900**	3,823	2,832
Current liabilities	**702**	754	659
Long-term liabilities	**783**	857	789
Total liabilities	**1,485**	1,611	1,448
Equity	**1,415**	2,212	1,384
Total liabilities and equity	**2,900**	3,823	2,832

Information from the statement of income:

	Three months ended March 31		Year ended
	2024	2023	December 31, 2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**416**	445	1,756
Revenues from the sale of terminal equipment	**167**	171	592
Total revenues from services and sales	**583**	616	2,348
Operating expenses			
General operating expenses	**316**	351	1,278
Salaries	**83**	84	323
Depreciation and amortization	**138**	133	549
Total operating expenses	**537**	568	2,150
Other operating expenses (income), net	**6**	(3)	2
Operating profit	**40**	51	196
Financing expenses (income)			
Financing expenses	**7**	10	35
Financing income	**(7)**	(16)	(48)
Financing income, net	**-**	(6)	(13)
Profit before income tax	**40**	57	209
Income tax expenses	**10**	13	50
Profit for the period	**30**	44	159

14.2 Bezeq International Ltd.

Information from the statement of financial position:

	March 31, 2024	March 31, 2023	December 31, 2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**427**	409	406
Non-current assets	**494**	354	594
Total assets	**921**	763	1,000
Current liabilities	**398**	427	391
Long-term liabilities	**283**	132	388
Total liabilities	**681**	559	779
Equity	**240**	204	221
Total liabilities and equity	**921**	763	1,000

Information from the statement of income:

	Three months ended March 31		Year ended December 31,
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues	**289**	312	1,212
Operating expenses			
Operating and general expenses and impairment	**193**	208	800
Salaries	**53**	54	216
Depreciation, amortization, and impairment	**27**	30	137
Other (income) expenses, net	**(4)**	6	20
Total operating expenses	**269**	298	1,173
Operating profit	**20**	14	39
Financing expenses (income)			
Financing expenses	**4**	4	17
Financing income	**(2)**	(3)	(7)
Financing expenses, net	**2**	1	10
Profit before income tax	**18**	13	29
Income tax expenses	**-**	-	-
Profit for the period	**18**	13	29

14.3 yes Television and Communication Services Ltd. (yes)

Information from the statement of financial position:

	March 31, 2024	March 31, 2023	December 31, 2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**271**	259	235
Non-current assets	**298**	246	283
Total assets	**569**	505	518
Current liabilities	**447**	464	385
Long-term liabilities	**61**	67	60
Total liabilities	**508**	531	445
Equity (equity deficit)	**61**	(26)	73
Total liabilities and equity	**569**	505	518

Information from the statement of income:

	Three months ended March 31		Year ended December 31,
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues	**315**	329	1,309
Operating expenses			
Operating expenses, general, and impairment	**227**	228	861
Salaries	**48**	52	193
Depreciation, amortization, and impairment	**58**	50	166
Other operating income, net	**-**	(1)	(5)
Total operating expenses	**333**	329	1,215
Operating profit (loss)	**(18)**	-	94
Financing expenses (income)			
Financing expenses	**2**	2	8
Financing income	**(7)**	(7)	(17)
Financing income, net	**(5)**	(5)	(9)
Profit before income tax	**(13)**	5	103
Income tax expenses	**-**	-	1
Profit for the period	**(13)**	5	102

15. Material events in the reporting period and subsequent material events

15.1 In January 2024, the Company raised capital by way of expansion of Debentures (Series 11 and 13) for a consideration of NIS 892 million.

15.2 See Note 8.5 to the Annual Financial Statements regarding the amendment of the hosting services agreement signed by Bezeq International and Serverfarm.

15.3 See Note 7.2.2 for information about the distribution of a cash dividend on May 9, 2024.

15.4 For information about the Company's entry into the electricity supply sector and the MoU signed with Powergen Ltd. ("Powergen") for cooperation in the electricity sector – on April 9, 2024, the Company's board of directors approved the engagement between the Company and Powergen in a detailed shareholder agreement based on the principles set out in the MoU (the "Agreement"). The engagement was also approved by Powergen's board of directors and the Agreement was signed on May 15, 2024.

Condensed Separate Interim Financial Information

as of March 31, 2024

Contents Page

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

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970 of Bezeq - The Israel Telecommunication Corporation Ltd. (hereinafter - "the Company") as of March 31, 202 4and for the three-month period 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 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,

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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.)

May 21, 2024

Condensed Separate Interim Information on Financial Position

	March 31, 2024	March 31, 2023	December 31, 2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**645**	654	134
Investments	**2,237**	1,340	1,200
Trade receivables	**720**	742	738
Other receivables	**112**	91	83
Total current assets	**3,714**	2,827	2,155
Trade and other receivables	**255**	250	255
Fixed assets	**5,907**	5,705	5,849
Intangible assets	**257**	246	252
Goodwill	**265**	265	265
Investment in investees	**1,844**	2,518	1,805
Right-of-use assets	**617**	640	626
Noncurrent and other investments	**183**	175	174
Total noncurrent assets	**9,328**	9,799	9,226
Total assets	**13,042**	12,626	11,381

Condensed Separate Interim Information on Financial Position (cont.)

	March 31, 2024	March 31, 2023	December 31, 2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**1,073**	922	1,073
Trade and other payables	**1,077**	807	845
Employee benefits	**239**	271	237
Current maturities of lease liabilities	**108**	111	108
Provisions (Note 5)	**49**	53	54
Total current liabilities	**2,546**	2,164	2,317
Loans and debentures	**6,985**	6,789	5,889
Loans from subsidiaries	**90**	905	90
Employee benefits	**231**	162	229
Liabilities for lease	**556**	567	558
Derivatives and other liabilities	**104**	76	83
Deferred tax liabilities	**32**	23	19
Total noncurrent liabilities	**7,998**	8,522	6,868
Total liabilities	**10,544**	10,686	9,185
Equity			
Share capital	**3,879**	3,879	3,879
Share premium	**387**	386	387
Reserves	**403**	398	396
Equity deficit	**(2,171)**	(2,723)	(2,466)
Total equity	**2,498**	1,940	2,196
Total liabilities and equity	**13,042**	12,626	11,381

Tomer Raved	**Nir David**	**Tobi Fischbein**
Chairman of the Board of Directors	Chief Executive Officer	CFO Bezeq Group

Date of approval of the financial statements: May 21, 2024

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

Condensed Separate Interim Information on Income

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues (Note 2)	**1,091**	1,111	4,412
Operating expenses			
Salaries	**260**	263	1,028
Depreciation and amortization	**252**	245	1,019
General operating expenses (Note 3)	**183**	195	769
Other operating expenses, net (Note 4)	**(1)**	5	145
Total operating expenses	**694**	708	2,961
Operating profit	**397**	403	1,451
Financial expenses (income)			
Financial expenses	**89**	98	370
Financial income	**(37)**	(22)	(114)
Financial expenses, net	**52**	76	256
Profit after financial expenses, net	**345**	327	1,195
Share in profits of investees, net	**37**	62	288
Profit before income tax	**382**	389	1,483
Income tax	**87**	78	294
Profit for the period	**295**	311	1,189

Condensed Separate Interim Information on Comprehensive Income

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	**295**	311	1,189
Items of other comprehensive income for the period, net of tax	**3**	3	12
Total comprehensive income for the period	**298**	314	1,201

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

Condensed Separate Interim Information on Cash Flows

	Three months ended March 31		Year ended December 31
	2024	**2023**	**2023**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Cash flows from operating activities			
Profit for the period	**295**	311	1,189
Adjustments:			
Depreciation and amortization	**252**	245	1,019
Share in profits of investees, net	**(37)**	(62)	(288)
Financial expenses, net	**45**	70	236
Capital gain, net	**(2)**	-	-
Share-based payment	**1**	1	3
Income tax expenses	**87**	78	294
Change in trade and other receivables	**(9)**	(68)	(74)
Change in trade and other payables	**70**	58	88
Change in provisions	**(5)**	1	2
Change in employee benefits	**5**	(3)	40
Miscellaneous	**22**	1	26
Net cash provided by operating activities due to transactions with subsidiaries	**-**	24	53
Income tax received, net	**24**	(48)	(208)
Net cash provided by operating activities	**748**	608	2,380
Cash flows from investing activities			
Investment in intangible assets and other investments	**(50)**	(44)	(179)
Proceeds from the sale of fixed assets	**2**	29	33
Investment in bank deposits and other financial investments	**(1,222)**	(640)	(1,413)
Proceeds from repayment of bank deposits and other financial investments	**200**	209	1,134
Purchase of fixed assets	**(220)**	(268)	(943)
Dividend received	**-**	115	247
Miscellaneous	**-**	(1)	1
Interest received from bank deposits	**19**	4	56
Net cash used in investing activities	**(1,271)**	(596)	(1,064)
Cash flows from financing activities			
Issue of debentures and receipt of loans	**1,084**	415	515
Repayment of debentures and loans	**-**	-	(912)
Interest paid	**(19)**	(14)	(236)
Payment of principal and interest for a lease	**(31)**	(40)	(158)
Dividend paid	**-**	-	(638)
Payment for expired hedging transactions	**-**	-	4
Net cash provided by financing activities due to transactions with subsidiaries	**-**	(5)	(43)
Net cash provided by (used in) financing activities	**1,034**	356	(1,468)
Net increase (decrease) in cash and cash equivalents	**511**	368	(152)
Cash and cash equivalents at the beginning of the period	**134**	286	286
Cash and cash equivalents at the end of the period	**645**	654	134

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 2023.

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 (the "Report"). The Report should be read together with the separate financial information as of and for the year ended December 31, 2023 and together with the condensed consolidated interim financial statements as of March 31, 2024 (the "Consolidated Statements").

2. Revenues

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Internet infrastructure	**501**	479	1,947
Transmission and data communications	**298**	286	1,163
Fixed-line telephony	**143**	182	650
Cloud and digital services	**87**	87	349
Other services	**62**	77	303
Total revenues	**1,091**	1,111	4,412

3. General Operating Expenses

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**26**	28	114
Marketing and general	**48**	40	168
Interconnectivity and payments to telecom operators	**19**	26	82
Services and maintenance by subcontractors	**48**	58	230
Vehicle maintenance	**10**	9	40
Terminal equipment and materials	**32**	34	135
Total general operating expenses	**183**	195	769

4. Other Operating Expenses (Income), Net

	Three months ended March 31		Year ended December 31
	2024	2023	2023
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Capital gain from the sale of fixed assets (mainly real estate)	**(2)**	-	-
Provision for employee termination expenses due to early retirement	**3**	3	57
One-time provision – amendment to labor agreement	**-**	-	75
Other expenses (mainly provisions for claims)	**(2)**	2	13
Total other operating expenses (income), net	**(1)**	5	145

5. Contingent Liabilities

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

In the opinion of the Company's management, based, *inter alia*, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions in the amount of NIS 49 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 March 31, 2024:

Balance of provision	Additional exposure*	Exposure for claims whose chances cannot yet be assessed*
	NIS million	
49	683	**2,470(1)**

* Nominal

(1) Includes two motions to certify class actions for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's controlling shareholder at the time, with respect to the transaction for the Company's acquisition of yes shares from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed, in view of the criminal proceeding that is being conducted following the investigation by the Israel Securities Authority, as described in Note 1.3 of the Consolidated Statements, and at the request of the Attorney General, until July 20, 2024. It should be noted that an application for approval of a partial settlement in the consolidated proceeding among the petitioners, B-Com and Messrs. Shaul and Or Elovitch is under deliberation.

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

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

6. Events in and Subsequent to the Reporting Period

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

6.2 In May 2024, the Company's Board of Directors approved the grant of an irrevocable undertaking of the Company to provide yes with a credit facility or capital investment in the amount of NIS 40 million for 14 months, as of April 1, 2024 until May 31, 2025, in lieu of a similar undertaking from March 2024. See Note 4.1 to the Consolidated Statements.

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

6.4 See Note 7.2 to the Consolidated Statements regarding the distribution of a dividend by the Company after the reported period.

6.5 For information about additional significant events after the reported period, see Note 15 to the Consolidated Statements.

Chapter E:
Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period Ended March 31, 2024

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. Nir David, CEO[1]
2. Meni Baruch, VP Technologies and Network
3. Guy Hadass, VP Corporate Communications, Responsibility and Governance Relations
4. Erez Hasdai, VP Economics and Regulation
5. Amir Nachlieli, Legal Counsel
6. Tali Poleg, VP Marketing
7. Tobi Fischbein, CFO Bezeq Group
8. Moran Kita, VP Human Resources
9. Eyal Kamil, VP Operations and Logistics
10. Nurit Kantor, VP Consumer Division
11. Daniel Shimoni, VP Business Division

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

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

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

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

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

In the annual report on the effectiveness of internal control over financial reporting and disclosure, that was attached to the periodic report for the period ended December 31, 2023 (the "Last Annual Report on Internal Control"), the Board of Directors and Management carried out an assessment of the internal controls in the Company. Based on that assessment, the Board of Directors and Management of the Company reached the conclusion that said internal controls, as of December 31, 2023, are effective.

[1] Ran Guron, the Company's former CEO, ended his term of office on March 31, 2024. Nir David, the current CEO, began his term of office on April 1, 2024.

[2] Regarding the transfer of the CEO's authority in matters connected with investees of the Company to the Board of Directors – see Section 1.1.3 of the chapter "Description of Company Operations" in the Periodic Report for 2023.

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 presented in the Last Annual Report on Internal Control.

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

Concerning the investigations of the Israel Securities Authority and the Israel Police, as detailed in section 1.1.5 of the Description of Company Operations chapter in this Report, the Company does not have complete information about the investigations (primarily regarding transactions involving the Company's former controlling shareholder and Chairman of the Board of Directors, Mr. Shaul Elovitch, with respect to the purchase of yes shares and provision of satellite communications services to yes), 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, and although on February 1, 2024, the State of Israel and the Company signed a settlement for a conditional stay of proceedings in that case). Accordingly, the Company is unable to assess the full impact of the investigations, their findings and their outcome on the Company and on its financial statements. See in this regard Note 1.3 to the financial statements for 2023.

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, Nir David, declare that:

1. I have reviewed the quarterly report of Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") for the first quarter of 2024 (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 included 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 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: May 21, 2024

Nir David, CEO

B. **Declaration of the most senior financial officer in accordance with Regulation 38C(d)(2) of the 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 first quarter of 2024 (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 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 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 relevant 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 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: May 21, 2024

Tobi Fischbein, CFO Bezeq Group