May 23, 2018

“Bezeq” - The Israel Telecommunication Corp. Ltd.

Quarterly report for period ended March 31, 2018

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2017

Directors' Report on the State of the Company's Affairs for the period ended March 31, 2018

Interim Financial Statements as at March 31, 2018

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended March 31, 2018

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2017

Update to Chapter A (Description of Company Operations) [1] to the Periodic Report for 2017 ("Periodic Report") of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company")

1. General development of the Group's business

Section 1.1 - Group activities and business development

Section 1.1.2 - Control of the Company - Eurocom Communications

On proceedings relating to the liquidation of Eurocom Communications - on April 22, 2018, an order of liquidation was issued for Eurocom Communications (which entered into force on May 3, 2018), where in the framework of the liquidation decision the Court clarified that its ruling does not derogate from the control permit regarding the Company. The decision concerning the liquidation of Eurocom Communications has no implications for the Company's debentures and loans.

Section 1.1.3 - Shareholders' requests and Section 1.1.4 - Organizational structure - Bezeq Group (Composition of the Company's Board of Directors)

On April 26, 2018, the Annual General Meeting of the Company's shareholders elected a new board of directors comprising 2 new external directors (in addition to 3 external directors already serving the Company), 2 independent directors and 6 directors who are not necessarily independent directors (including one director from among the employees), so that at the date of publication of this report 13 directors serve the Company.[2] Furthermore, on April 30, 2018, the Company's Board of Directors resolved to elect Mr. Shlomo Rodav as Chairman of the Board. For the up-to-date composition of the Company's Board of Directors, see the report on the Company's officeholders dated April 30, 2018, included in this report by way of reference.

Section 1.1.5 - Mergers and acquisitions

On a debt of Eurocom DBS to the Company for advances paid by the Company on account of the Second Contingent Payment and a motion on this matter filed by the Company for the liquidation of Eurocom DBS - on April 22, 2018, the court issued an order of liquidation for Eurocom DBS and the Company's attorneys were appointed the liquidator of Eurocom DBS.

Section 1.4 - Dividend distribution

For information about a dividend distribution in the amount of NIS 368 million in respect of profits from the second half of 2017 that was approved by a general meeting of the Company's shareholders on April 26, 2018, and was distributed on May 10, 2018, see Note 6 to the Company's Interim Financial Statements for the period ended March 31, 2018.

Outstanding, distributable profits at the date of the report - NIS 418 million (surpluses accumulated over the last two years, after subtracting previous distributions).

[1] The update is further to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the periodic report. The update relates to the Company's periodic report for the year 2017 and refers to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

[2] On April 18, 2018, in the Company's response to a request from Entropy Corporate Governance Consulting Ltd. in the name of various shareholders, the Company's Board of Directors made it clear that it intends to operate to reduce the number of directors, and this no later than the next annual general meeting of the Company's shareholders. On this matter, see the Company's Immediate Report dated April 18, 2018, included here by way of reference.

Section 1.5.4 - Highlights of the operating results and figures

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

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues (NIS million)	1,063	1,047	1,061	1,058	1,078
Operating profit (NIS million)	473	470	492	496	513
Depreciation and amortization (NIS million)	204	185	186	177	180
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)(1)	677	655	678	673	693
Net profit (NIS million)	263	260	276	317	319
Cash flow from current activities (NIS million)(1)	516	587	573	465	600
Payments for investments in property, plant & equipment, intangible assets and other investments (NIS million)	205	226	170	219	210
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	7	22	46	16	10
Free cash flow (NIS million) (2)	285	383	449	262	400
Number of active subscriber lines at the end of the period (in thousands)(3)	1,889	1,916	1,942	1,961	1,986
Average monthly revenue per line (NIS) (ARPL)(4)	53	53	54	54	56
Number of outgoing use minutes (millions)	1,055	1,068	1,132	1,098	1,177
Number of incoming use minutes (millions)	1,191	1,205	1,266	1,220	1,281
Total number of internet lines at the end of the period (thousands) (7)	1,653	1,635	1,608	1,593	1,580
The number of which provided as wholesale internet lines at the end of the period (in thousands) (7)	574	532	484	444	414
Average monthly revenue per Internet subscriber (NIS) - retail	92	92	90	90	90
Average bundle speed per Internet subscriber - retail (Mbps)(5)	53.5	51.5	49.5	47.2	45.1
Telephony churn rate (6)	3.0%	2.4%	2.3%	2.4%	2.7%

(1) EBITDA (Earnings before income taxes, depreciation and amortization) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as an additional index for assessing its business results since this index is generally accepted in the Company's area of operations which counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. This index is not a substitute for indices which are based on GAAP and it is not used as a sole index for estimating the results of the Company's activities or cash flows. Additionally, the index presented in this report is unlikely to be calculated in the same way as corresponding indices in other companies. Commencing January 1, 2018, the Company has early adopted IFRS 16 - Leases. The effect of applying this standard to EBITDA and to the cash flow from current activities in Q1 2018 is an increase of NIS 23 million, and NIS 26 million, respectively.

(2) Free cash flow is a financial index which is not based on GAAP. Free cash flow is defined as cash from current activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net and as of 2018, with the application of IFRS 16, as described in par. (1) above, payments for leases are also deducted. The Company presents free cash flow as an additional index for assessing its business results and cash flows because the Company believes that free cash flow is an important liquidity index that reflects cash resulting from ongoing operations after cash investments in infrastructure and other fixed and intangible assets.

(3) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (except for a subscriber during (roughly) the first three months of the collection process).

(4) Excluding revenues from transmission services and data communication, internet services, services to communications operators and contractor and other works. Calculated according to average lines for the period.

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

(6) The number of telephony subscribers (gross) who left Bezeq Fixed Line during the period divided by the average number of registered telephony subscribers in the period.

(7) Number of active Internet lines including retail and wholesale lines. Retail - Internet lines provided directly by the Company. Wholesale - Internet lines provided through a wholesale service to other communications providers.

B. <u>Pelephone</u>

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue from services (NIS million)	431	437	461	449	435
Revenue from sale of terminal equipment (NIS million)	188	214	174	183	193
Total revenue (NIS million)	619	651	635	632	628
Operating profit (NIS million)	2	15	22	30	5
Depreciation and amortization (NIS million)	158	90	100	99	94
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)(1)	160	105	122	129	99
Net profit (NIS million)	9	21	24	34	16
Cash flow from current activities (NIS million)(1)	239	86	209	193	117
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	69	76	78	82	73
Free cash flow (NIS million) (1)	95	10	131	111	44
Number of subscribers at the end of the period (thousands) (2) (5)	2,546	2,525	2,475	2,410	2,430
Average monthly revenue per subscriber (NIS) (ARPU) (3)	57	58	63	61	60
Churn rate (4)	8.0%	6.9%	7.1%	6.3%	7.9%

(1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table. Commencing January 1, 2018, the Company has early adopted IFRS 16 - *Leases*. The effect of applying this standard to EBITDA and to the cash flow from current activities in Q1 2018 is an increase of NIS 62 million, and NIS 75 million, respectively.

(2) Subscriber data includes Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network) and does not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call, has not made one call / sent one SMS, performed no surfing activity on his phone or has not paid for Pelephone services. It is noted that a customer may have more than one subscriber number ("line").

(3) Average monthly revenue per subscriber. The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period.

(4) The churn rate is calculated at the ratio of subscribers who disconnected from the company's services and subscribers who became inactive during the period, to the average number of active subscribers during the period. The churn rate in Q2 2017 does not include the effect of the disconnection of 83,000 CDMA subscribers when the network was closed down.

(5) On June 28, 2017, Pelephone discontinued operation of the CDMA network, as a result of which 83,000 subscribers ceased to receive service and were written off the subscriber listings.

C. Bezeq International

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues (NIS million)	352	379	367	407	384
Operating profit (NIS million)	34	41	39	45	49
Depreciation and amortization (NIS million)	43	35	34	33	33
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)(1)	77	76	73	78	82
Net profit (NIS million)	24	31	27	33	36
Cash flow from current activities (NIS million)(1)	67	82	74	69	52
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)(2)	31	35	29	46	29
Free cash flow (NIS million) (1)	27	47	45	23	23
Churn rate (3)	6.0%	6.8%	6.3%	5.0%	5.3%

(1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table. Commencing January 1, 2018, the Company has early adopted IFRS 16 - Leases. The effect of applying this standard to EBITDA and to the cash flow from current activities in Q1 2018 is an increase of NIS 9 million, each.

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

(3) The number of Internet subscribers who left Bezeq International during the period, divided by the average number of registered Internet subscribers in the period.

D. DBS

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues (NIS million)	375	404	406	416	424
Operating profit (NIS million)	(1)	27	35	49	52
Depreciation and amortization (NIS million)	79	72	72	71	70
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million)[(1)]	78	99	107	120	122
Net profit (loss) (NIS million)	1	11	(123)	(151)	19
Cash flow from current activities (NIS million)[(1)]	86	95	115	169	51
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	62	53	69	52	60
Free cash flow (NIS million) [(1)]	16	42	46	117	(9)
Number of subscribers (at the end of the period, in thousands) [(2)]	580	587	597	603	608
Average monthly revenue per subscriber (ARPU) (NIS)[(3)]	214	226	226	229	232
Churn rate [(4)]	6.1%	5.9%	4.8%	3.8%	4.3%

(1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.
Commencing January 1, 2018, the Company has early adopted IFRS 16 - *Leases*. The effect of applying this standard to EBITDA and to the cash flow from current activities in Q1 2018 is an increase of NIS 8 million, each.

(2) Subscriber - a single household or small business customer. In the case of a business customer with multiple reception points or a large number of decoders (such as a hotel, kibbutz, or gym), the number of subscribers is calculated by dividing the total payment received from the business customer by the average revenue from a small business customer. The number of subscribers was corrected retrospectively due to an insignificant change in the counting of subscribers among large customers.

(3) Monthly ARPU is calculated by dividing total DBS revenues (from content and equipment, premium channels, advanced products, and other services) by the average number of customers.

(4) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period.

Section 1.7 - General environment and the influence of outside factors on the Group's activity

Section 1.7.2 - Activities of Bezeq Group as a communications group and the structural separation restriction

Pursuant to a preliminary HQ work, which included an initial review of certain synergies between the Company's subsidiaries and as part of a review of Bezeq Group's strategy and the alternatives available to it in light of changes in the communications market, regulatory requirements, technology developments and customer preferences, on May 23, 2018, the Company's Board of Directors resolved to review certain issues aimed at focusing on the Group's future core operations, including synergies between the activities of the Company's subsidiaries, the sale of the subsidiaries Bezeq Online Ltd. and Walla! News, enhancing the independence of the Company's wholesale activity and establishing an innovation unit that will act to position the Company at the center of the future communications world. All this without derogating from its ongoing activity to cancel the structural separation between it and each of the subsidiaries, as noted in Section 1.7.2.1(B) of the Description of the Company Operations in the Periodic Report for 2017. This entails a review of various topics while a final plan has yet to be determined and the existence or non-existence of regulatory certainty could affect the preferred alternatives. The Company believes that it will take several months to formulate a full plan which will be submitted, inter alia, for prior consideration of the relevant regulatory entities.

Section 1.7.3 - Regulatory oversight and changes in the regulatory environment - wholesale market

Section 1.7.3.3 - wholesale service, use of physical infrastructures - on April 16, 2018, the Ministry of Communications announced that after reviewing the comments of the Company and ISP (Partner), the Ministry has formulated its decision and it instructed, *inter alia*, that the Company must allow the service providers, through parties with the relevant security authorization, to insert communications cables through the Company's telecom manhole which is located at the opening of the conduit leading to private land, and to perform any necessary works in the manhole for this purpose, all this without derogating from the service providers' responsibility to obtain the landowner's permission.

Section 1.7.4 - Additional regulatory aspects relevant to the entire Group or several Group companies

Section 1.7.4.4(A) - hearing on call center waiting times - on May 21, 2018, the Company, Pelephone and Bezeq International received an amendment to their licenses which will enter into force by March 21, 2019. The amendment to the licenses prescribes, among other things, provisions concerning the obligation to route calls on certain matters to a professional human response, call waiting times as well as provisions concerning call center work hours, the recording and documenting of calls and reporting obligations. The Company is studying the implications of the amendment and its implementation which could lead to an increase in the costs of operating the call centers of the Group's companies.

2. Bezeq ("the Company") - Domestic Fixed-Line Communications

Section 2.6.6 - The Company's preparation and ways of coping with the intensifying competition

In April 2018, the Company launched its new router Be. This is an advanced router with an innovative design and cutting-edge capabilities including, among others, smart Wi Fi which provides quality, continuous browsing on home Internet, cyber protection and preparation for a smart home. The router and services are managed by a designated application.

Section 2.7.4 – Real estate

Section 2.7.4.4 (sale of real estate) - on the entering into an agreement by the Company for the sale of the Sakia property to Naimi Towers Ltd. - on May 21, 2018, the Company received a demand from the Israel Land Authority to pay a permit fee with respect to a property improvement plan approved prior to signing the agreement, in which the Company was required to pay NIS 148 million plus VAT ("the Demand"). Notably, the amount of the Demand for payment of a permit fee to be determined at the end of the proceedings will also have an effect on the amount of the betterment levy that the Company will be required to pay the planning committee. If the Company is ultimately required to pay the full amount of the Demand, the capital gain to be recorded in its financial statements is expected to be significantly lower than NIS 400 million. The Company disputes the Demand and it intends to file an objection. The Company believes that the final permit fee it will be required to pay will be lower than the amount of the Demand.

The information contained in this section relating to the Company's estimates and the capital gains resulting from the sale of the property is forward-looking information as this term is defined in the Securities Law, 1968, and it is based, *inter alia*, on the foregoing and on the Company's estimates regarding the cost of the transaction, various costs to the Company in connection with the property and regarding the Company's arguments pertaining to payment of the Demand. The information may not fully materialize insofar as the Company's aforementioned estimates materialize differently than expected**.**

Section 2.9.3 – Early retirement plans

On May 23, 2018, the Company's Board of Directors approved an early retirement plan in 2018 at a cost of NIS 80 million, following a previous decision of the Board of Directors in March 2018, which approved early retirement at a cost of NIS 10 million in respect of the first quarter of 2018 (hereinafter together "the Retirement Plan"). The Retirement Plan is for the early retirement of 75 employees in accordance with the terms of the collective agreement between the Company and the Labor Union and the Histadrut from December 2006, as last amended in August 2015. On this matter, see also Note 12.6 to the Company's **Interim Financial Statements** for the period ended March 31, 2018.

Section 2.9.5 - Officers and senior management in the Company

On changes in the composition of the Company's Board of Directors, see the update to sections 1.1.3 and 1.1.4.

On May 21, 2018, the general meeting of the Company's shareholders approved an amendment to the Company's compensation policy whereby the annual premium for insuring Directors and Officers (D&O) of the Company will not exceed USD 1 million, with a deductible of up to USD 1 million.

Section 2.11 – Working capital

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

Section 2.13.6 - Credit rating

On April 26, 2018, S&P Global Rating Maalot Ltd. affirmed the Company's ilAA rating and downgraded the rating outlook to negative. Furthermore, on April 30, 2018, Midroog affirmed the current Aa2.il rating for the Company's debentures (6, 7, 9 and 10) with a stable outlook. On these and on the aforementioned rating reports, see Immediate Reports of the Company dated April 26, 2018 (Maalot) and April 30, 2018 (Midroog), included here by way of reference.

Section 2.16.1 - Control of Company tariffs

On May 23, 2018, the Ministry of Communications announced an update of the Company's tariffs stipulated in the regulations, effective from June 1, 2018, based on the update formula set out in the Communications Regulations (Telecommunications and Broadcasts) (Calculation and Linkage of Payments for Telecommunications Services), 2007, so that the tariffs for the services provided by the Company which are stipulated in the regulations will be reduced by 11.88%, except for the fixed monthly payment for the telephone line, which will remain unchanged. According to the Ministry's announcement and in the Company's estimate, the implications of this tariff change are an annual decline of NIS 16 million in the Company's revenues.

Section 2.16.10 – Consumer legislation

On the Consumer Protection Authority's requirement to provide documents on the description of the Company's cyber service in various advertisements - on May 10, 2018 the Company received notice of an intention to impose a financial penalty of NIS 243,000. The Company has the right to submit its arguments requesting cancellation of the intention to impose this penalty.

Section 2.18 – Legal proceedings

In April 2018, a motion was filed against the Company in the Tel Aviv District Court to certify a claim as a class action. The motion alleges that the Company is in breach of the prohibition prescribed in the Communications Law on sending advertisements ("spam"), in part by means of text messages to customers who contact it, which include a link to Bezeq's website. The petitioners estimate the amount of the class action at NIS 85 million, consisting of monetary loss (estimate of the loss for time wasted in dealing with the spam messages) and non-monetary loss due to mental anguish, causing a nuisance and so forth. Notably, a similar motion for the same matter (but for a later period) and in the amount of NIS 52 million was filed in March 2015 in the same court ("the Previous Motion") and on January 9, 2018, it was certified as a class action. The Company filed a motion for leave to appeal the decision and it is scheduled for a court hearing, with a stay of implementation. The present motion for certification was filed in respect of text messages sent by the Company after the Previous Motion was filed. Concurrently with the filing of the present motion, the petitioners also filed a motion to consolidate the hearing on the current motion with that of the Previous Motion.

Subsection J - two motions to certify a class action in connection with the agreement to purchase DBS - further to a motion filed by the Securities Authority to extend the stay of proceedings in view of the Investigation, on May 2, 2018 the court approved a further stay of proceedings of four months and it instructed the ISA's attorney to advise the court of any progress in the Investigation by August 12, 2018.

Subsection K - par. (b) - motions to disclose documents in connection with the DBS - Spacecom transaction - on April 15, 2018, the court resolved to consolidate the four motions that had been filed on this matter and it instructed the petitioners to file a consolidated motion for the disclosure of documents and to inform the court which of the petitioners' attorneys will be the leading attorney and will actually administer the proceedings (and to the extent that the petitioners fail to reach agreement, this decision will be made by the court). Furthermore, further to a motion filed by the Securities Authority to extend the stay of proceedings in view of the Investigation, the court approved the extension and it instructed the ISA's attorney to advise the court of any progress in the Investigation by August 12, 2018.

Subsection K - par. (c) - an additional motion to disclose documents in connection with the agreement for the purchase of DBS and in connection with the DBS - Spacecom transaction - pursuant to the court's decisions from April 15, 2018 and April 24, 2018, the motion was struck out in view of the similarity with other existing motions on the same matter (motion to certify a derivative claim from March 2015, described in Section 2.18 B in the Chapter on the Description of Company Operations in the Periodic Report for 2017, and four motions that were consolidated as detailed above with respect to par. (b)).

Subsection K - par. (d) - on a motion to disclose documents with respect to advance payments on account of the Second Contingent Consideration in the YES transaction - on April 17, 2018, the motion was struck out with the petitioner's agreement in view of the similarity with another motion on the same matter (motion to certify a derivative claim from March 2015, detailed in Section 2.18 B in the chapter on Description of Company Operations in the Periodic Report for 2017).

A new legal proceeding against an investee company which is not a key operating segment (Walla) - in May 2018 an action was filed in the court against Walla, together with a motion for its certification as a class action. The motion alleges that on its website, Walla publishes "advertising-related articles" without due disclosure of the fact that they contain marketing content, and that the publication of marketing content without proper disclosure, as alleged, is, among other things, a breach of the provisions of the Consumer Protection Law, violation of the Rules of Journalism Ethics, a tort and unjust enrichment. The petitioner estimates that the value of the loss caused to the class members is NIS 60 million.

3. Pelephone - Mobile radio-telephone (cellular telephony)

Section 3.1 - General information about the area of operations

Section 3.1.8.1 - in April 2018, Marathon 018 (Xfone) began to operate (thus increasing the number of cellular telephony operators to six), further increasing competition in this sector.

Section 3.16 – Legal proceedings

In April 2018, an action was filed against Pelephone in the Tel Aviv District Court together with a motion for its certification as a class action. The main subject of the action is the allegation that Pelephone markets and sells repair services while requiring customers to commit to unreasonable periods of time and without the possibility in the agreement of canceling the transaction during the commitment period and/or of transferring the service to another cellular device. The petitioners do not explicitly state the amount of the action against the respondent, but estimate that the value of the loss caused to each class member by the inability to cancel the repair service before the end of the commitment period is hundreds of shekels each year for each class member.

4. Bezeq International – International communications, Internet and NEP services

Section 4.8 – Human resources

On a collective labor agreement dated January 12, 2016 between Bezeq International and the New Histadrut Labor Federation and the workers committee of Bezeq International - on May 15, 2018, the validity of the agreement was extended for an additional year, until December 31, 2019.

Further to reports in relation to announcements in January 2018 regarding labor disputes in the Company and Pelephone with respect to the possible transfer of control in the Company (Sections 2.9 and 3.9 in the Periodic Report for 2017), it is noted that on that date, Bezeq International received similar notice.

Section 4.13 – Legal proceedings

Subsection B - on a claim and motion for its recognition as a class action with respect to content filtering services - in April 2018, the court approved part of the action as a class action (the part relating to additional compensation of NIS 1,000 for each of the students using the website filtering software was struck out). Additionally, Bezeq International's service provider was removed from the proceeding.

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

Section 5.8.2 - Terminal satellite equipment

In April 2018, Altech, the manufacturer of Zapper HD decoders and 4KPVR decoders which DBS purchases from Draco and OSI, announced its intention of discontinuing its decoder manufacturing activity in November 2018 and in May 2018 it announced that it will not supply some of the existing orders of decoders to Draco and OSI. DBS is working with Altech to clarify the significance of this announcement. Additionally, the possibility is being examined that decoders of these models will be manufactured by suppliers with which Altech had agreements in a manner that will enable further orders of these decoders to be made, so as to meet DBS's requirements until alternative decoders produced by another manufacturer, and to reduce, wherever possible, the loss of income that it might incur due to a prolonged deployment period until decoders from an alternative manufacturer can be purchased and integrated.[3]

Section 5.8.5 - Operating and encryption systems

In May 2018, Cisco informed DBS of the sale of its activity for serving multi-channel providers to a third party, where according to publications by Cisco, this transaction has been signed but not yet completed. DBS is reviewing the significance of this announcement, taking note of its agreements with Cisco and its relevant activity.

Section 5.16.4 - Space segment leasing agreement

In April 2018, a space segment leased by DBS was replaced, following an amendment to the 2017 agreement.

In April 2018, Spacecom announced that it had received a letter from a government entity whereby "government entities intend to take action to launch and operate a communications satellite through Israel Aerospace Industries at the 4^0W orbital position, in accordance with their requirements". Spacecom further noted that it is unable to estimate the feasibility and chances of launching this satellite. DBS asked Spacecom for clarifications with respect to this announcement and its implications, and at this stage it is unable to estimate the repercussions for DBS.

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[3] The estimates in this section relating to the expected discontinuation of Altech's manufacturing activity with respect to DBS's requirements until decoders can be obtained from a substitute manufacturer and with respect to the resulting projected activity of DBS and the losses it may sustain are forward-looking information according to its definition in the Securities Law, which is based, *inter alia*, on the information provided to DBS by Altech and on DBS's estimates with respect to its requirements and the estimated timing of the agreement to purchase decoders from an alternative manufacturer. Consequently, these estimates may not materialize, or may materialize differently than expected, in part depending on conditions relating to Altech, Altech's decisions, the actual materialization of the supply chain and production of decoders produced by Altech, requirements of the market in which DBS operates and the ability and timing of DBS to purchase decoders from an alternative source.

Section 5.17 – Pending legal proceedings

Subsection C - allegation regarding discrimination of DBS customers - in its decision dated March 27, 2018, on motions to approve procedural arrangements, the court ruled that proceedings against all the communications companies, including the television companies and the motions against DBS, will be heard jointly and it established court proceedings for clarifying the motions for certification.

Subsection F - class action on the discontinuation of broadcasts of the Children's Channel - on April 11, 2018, the Council informed the applicant in response to her request that it rejects her arguments whereby there is a period in which no worthy alternative was provided for the discontinued Children's Channel.

Subsection I - on various motions to disclose documents prior to filing a motion for certification of a derivative claim under Section 198(a) of the Companies Law, which was filed subsequent to the ISA investigation, see the update to Section 2.18 K.

May 23, 2018	
Date	"Bezeq" The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:
Shlomo Rodav, Chairman of the Board of Directors
Stella Handler, CEO

Chapter B -
Board of Directors' Report on the State of the Company's Affairs for the Period Ended March 31, 2018

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.

We hereby present the Board of Directors' report on the state of affairs of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company") and the consolidated Group companies (the Company and the consolidated companies, jointly - "the Group"), for the three months ended March 31, 2018 ("Quarter").

The Board of Directors' report includes a condensed review of its subject-matter, and was prepared assuming the Board of Directors' report of December 31, 2017 is also available to the reader.

For information concerning the Israel Securities Authority and the Israel Police's investigation, see Note 1.2 to the financial statements.

The auditors have drawn attention to the matter in their opinion of the financial statements.

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

1. **Domestic Fixed-Line Communications**
2. **Cellular Communications**
3. **International Communications, Internet and NEP Services**
4. **Multi-Channel Television**

It is noted that the Company's financial statements also include an "Others" segment, which comprises mainly online content and commerce services (through "Walla") and contracted call center services (through "Bezeq Online"). The "Others" segment is immaterial at the Group level.

The Group's results were as follows:

	1-3.2018	**1-3.2017**	**Increase (decrease)**	
	NIS millions	**NIS millions**	**NIS millions**	**%**
Profit	**260**	350	(90)	(25.7)
EBITDA (operating profit before depreciation and amortization)	**987**	994	(7)	(0.7)

Profit was down in the present Quarter, as compared to the same quarter last year, mainly due to a decrease in revenues across all Group segments, as well as an increase in other operating expenses, net in the Domestic Fixed-Line Communications segment.

EBITDA in the present Quarter was significantly affected by early adoption of IFRS 16 - Leases starting January 1, 2018 (see Note 3.1 to the financial statements).

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

1.1 Financial position

	March 31, 2018	March 31, 2018	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Cash and current investments	**3,216**	1,370	1,846	134.7	The increase was mainly attributable to the Domestic Fixed-Line Communications segment, including through receipt of loans. For more information, see Section 1.4 - Cash Flows, below.
Current and non-current trade and other receivables	**2,599**	2,868	(269)	(9.4)	The decrease was mainly attributable to the Cellular Communications segment, due to a decrease in trade receivables following a decrease in revenues from installment-based handset sale and a decrease in other accounts receivable.
Eurocom D.B.S.	**25**	35	(10)	(28.6)	The Company has updated the fair value of the amount expected to be repaid to the Company from overpayment of advances for the second contingent consideration for the purchase of DBS's shares and loans. This amount has been updated to NIS 25 million. See Note 4.2.1 to the financial statements.
Inventory	**130**	114	16	14.0	
Broadcasting rights	**451**	438	13	3.0	
Right-of-use assets	**1,417**	-	1,417	-	Following early adoption of IFRS 16 - Leases ("IFRS 16"), the Group has recognized right-of-use assets for agreements in which the Group is the lessee. See Note 3.1 to the financial statements.
Property, plant and equipment	**6,782**	6,886	(104)	(1.5)	
Intangible assets	**2,728**	2,986	(258)	(8.6)	The decrease was mainly due to write-downs of surplus costs for intangible assets recorded upon assuming control of DBS, and impairment of DBS's goodwill to the amount of NIS 87 million in the fourth quarter of 2017.
Deferred tax assets	**1,027**	1,008	19	1.9	
Deferred costs and non-current investments	**547**	429	118	27.5	The increase was mainly due to an increase in net subscriber acquisition asset balances, following recognition of sales commissions as an asset starting from the corresponding quarter last year.
Total assets	**18,922**	16,134	2,788	17.3	

1.1. Financial Position (Contd.)

	March 31, 2018	March 31, 2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Debt to financial institutions and debenture holders	**12,156**	10,703	1,453	13.6	Receipt of loans and debenture issuances in the Domestic Fixed-Line Communications segment offset by loan and debenture repayments in the Domestic Fixed-Line Communications and Multi-Channel Television segments.
Liabilities for leases	**1,434**	-	1,434	-	Following early adoption of IFRS 16, the Group recognized liabilities for leases. See Note 3.1 to the financial statements.
Trade and other payables	**1,820**	1,705	115	6.7	
Current and deferred tax liabilities	**129**	215	(86)	(40.0)	Income tax payment under a final assessment agreement for 2011-2014.
Employee benefits	**558**	568	(10)	(1.8)	
Liability towards Eurocom D.B.S. Ltd.	**-**	6	(6)	(100)	
Other liabilities	**400**	378	22	5.8	
Total liabilities	**16,497**	13,575	2,922	21.5	
Total equity	**2,425**	2,559	(134)	(5.2)	Equity comprises 12.8% of the balance sheet total, as compared to 15.9% of the balance sheet total on March 31, 2017.

1.2 Results of operations

1.2.1 Highlights

	1-3.2018	1-3.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Revenues	**2,361**	2,453	(92)	(3.8)	Revenues were down across all of the Group's primary segments.
Depreciation and amortization expenses	**525**	428	97	22.7	The increase was mainly due to depreciation of right-of-use assets following the early adoption of IFRS 16 starting January 1, 2018. See Note 3.1 to the financial statements.
Salary expenses	**510**	504	6	1.2	
General and operating expenses	**841**	959	(118)	(12.3)	The decrease was mainly due to early adoption of IFRS 16, whereby rent expenses, associated with properties rented under operating leases, are recognized as assets. See Note 3.1 to the financial statements.
Other operating expenses (income), net	**23**	(4)	27	-	This change was mainly attributable to the Domestic Fixed-Line Communications segment.
Operating profit	**462**	566	(104)	(18.4)	
Finance expenses, net	**108**	101	7	6.9	The increase in net finance expenses in the Domestic Fixed-Line Communications segment was offset by lower expenses in the Multi-Channel Television segment.
Share in losses of equity accounted investees	**1**	2	(1)	(50.0)	
Income tax	**93**	113	(20)	(17.7)	The decrease was due to a reduction in taxable income and a decrease in the corporate tax rate from 24% to 23% starting 2018.
Profit for the period	**260**	350	(90)	(25.7)	

1.2.2 Operating segments

A. Revenue and operating profit data, presented by the Group's operating segments:

	1-3.2018		1-3.2017	
	NIS millions	**% of total revenues**	**NIS millions**	**% of total revenues**
Revenues by operating segment				
Domestic Fixed-Line Communications	**1,063**	**45.0**	1,078	43.9
Cellular Communications	**619**	**26.2**	628	25.6
International Communications, Internet and NEP Services	**352**	**14.9**	384	15.7
Multi-Channel Television	**375**	**15.9**	424	17.3
Other and offsets	**(48)**	**(2.0)**	(61)	(2.5)
Total	**2,361**	**100**	2,453	100

	1-3.2018		1-3.2017	
	NIS millions	**% of segment revenues**	**NIS millions**	**% of segment revenues**
Operating profit by segment				
Domestic Fixed-Line Communications	**473**	**44.5**	513	47.6
Cellular Communications	**2**	**0.3**	5	0.8
International Communications, Internet and NEP Services	**34**	**9.7**	49	12.8
Multi-Channel Television	**(1)**	**(0.3)**	52	12.3
Other and offsets	**(46)**	**-**	(53)	-
Consolidated operating profit/ percentage of Group revenues	**462**	**19.6**	566	23.1

1.2.2 Operating segments (contd.)

B. Domestic Fixed-Line Communications Segment

	1-3.2018	1-3.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Fixed-line telephony	**302**	334	(32)	(9.6)	The decrease was due to lower average revenues per phone line and a decrease in the number of lines.
Internet - infrastructure	**396**	382	14	3.7	The increase was mainly due to growth in the number of internet subscribers through the wholesale service and higher ARPU (retail), offset by a decline in the number of retail internet subscribers.
Transmission, data communications and others	**303**	306	(3)	(1.0)	The decrease was mainly due to lower transmission revenues from telecom operators.
Digital and cloud services	**62**	56	6	10.7	
Total revenues	**1,063**	1,078	(15)	(1.4)	
Depreciation and amortization	**204**	180	24	13.3	The increase was mainly due to depreciation of right-of-use assets following early adoption of IFRS 16 starting January 1, 2018.
Salaries	**228**	224	4	1.8	
General and operating expenses	**140**	165	(25)	(15.2)	The decrease was mainly due to a decrease in vehicle leasing and building leasing expenses recognized as an asset following early adoption of IFRS 16.
Other operating expenses (income), net	**18**	(4)	22	-	The transition to expenses was due to recognition of expenses for termination of employment by way of early retirement of NIS 12 million, an increase in expenses for legal actions, and a decrease in capital gains.
Operating profit	**473**	513	(40)	(7.8)	
Finance expenses, net	**121**	92	29	31.5	The increase in net financing expenses was mainly due to a NIS 18 million decrease in the fair value of the amount expected to be repaid to the Company from the overpayment of advances on the second contingent consideration for the acquisition of DBS's shares and loans (see Note 4.2 to the financial statements), and an increase in interest expenses on loans.
Income tax	**89**	102	(13)	(12.7)	The decrease was due to a reduction in taxable income, and a reduction in the corporate tax rate from 24% to 23% starting 2018.
Segment profit	**263**	319	(56)	(17.6)	

1.2.2 Operating segments (contd.)

C. Cellular Communications segment

	1-3.2018	1-3.2017	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Services	**431**	435	(4)	(0.9)	Subscriber growth stopped the erosion in revenues seen in recent years. The additional revenue from new subscribers was offset by lower ARPU, following transition of existing customers to cheaper plans offering greater data volumes at current market prices.
Equipment sales	**188**	193	(5)	(2.6)	The decrease was mainly attributable to a decrease in the number of handsets sold, and cancellation of the purchasing tax on imported cellular handsets which lowered prices. These were countered by higher revenues per handset, following a change in the handset sales mix.
Total revenues	**619**	628	(9)	(1.4)	
Depreciation and amortization	**158**	94	64	68.1	The increase in expenses was mainly due to an increase in expenses from the depreciation of right-of-use assets following early adoption of IFRS 16 starting January 1, 2018, and an increase in expenses from the depreciation of subscriber acquisition assets following early adoption of IFRS 15 starting January 1, 2017. On the other hand, there was a decrease in expenses from the depreciation of property, plant and equipment and other assets.
Salaries	**100**	98	2	2	
General and operating expenses	**359**	431	(72)	(16.7)	The decrease was mainly due to a reduction in leasing expenses following early adoption of IFRS 16, and a decrease in the cost of sales for handsets. The decrease was slightly offset by an increase in call completion fees.
Operating profit	**2**	5	(3)	(60.0)	
Finance income, net	**11**	14	(3)	(21.4)	The decrease in net finance income was mainly due to an increase in finance expenses recognized following early adoption of IFRS 16.
Income tax	**4**	3	1	33.3	
Segment profit	**9**	16	(7)	(43.8)	

1.2.2 Operating segments(contd.)

D. International Communications, Internet and NEP Services

	1-3.2018	1-3.2017	Increase (decrease)		
	millions NIS	millions NIS	NIS millions	%	Explanation
Revenues	**352**	384	(32)	(8.3)	The decrease was due mainly to decreased revenues from call transfers between global operators (hubbing) and international calls due to a decrease in call minutes driven by continued competition with cellular operators and increasing use of substitute software products, and a decrease in revenues from the sale of PBXs and enterprise communications solutions.
Depreciation and amortization	**43**	33	10	30.3	The increase was mainly due to depreciation of right-of-use assets following early adoption of IFRS 16.
Salaries	**83**	84	(1)	(1.2)	
General and operating expenses	**190**	218	(28)	(12.8)	The decrease was due to lower expenses on call transfers between international operators (hubbing) and international calls, plus a decrease in leasing expenses following adoption of IFRS 16 and a decrease in cost of sales for PBXs and enterprise communications solutions, corresponding with revenues as detailed above.
Other operating expenses	**2**	-	2	-	
Operating profit	**34**	49	(15)	(30.6)	
Finance expenses, net	**3**	2	1	50.0	
Income tax	**7**	11	(4)	(36.4)	
Segment profit	**24**	36	(12)	(33.3)	

1.2.2 Operating segments (contd.)

E. Multi-Channel Television

	1-3.2018	1-3.2017	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Revenues	**375**	424	(49)	(11.6)	The decrease was mostly due to a decrease in the subscriber base and a decrease in ARPU.
Depreciation and amortization	**79**	70	9	12.9	The increase was mainly due to depreciation of right-of-use assets following early adoption of IFRS 16.
Salaries	**57**	59	(2)	(3.4)	
General and operating expenses	**240**	243	(3)	(1.2)	
Operating profit (loss)	**(1)**	52	(53)	-	
Finance expenses (income), net	**(4)**	27	(31)	-	The change was mainly attributable to the fair value of financial assets.
Finance expenses for shareholder loans, net	**1**	-	1	-	
Income tax	**1**	6	(5)	(83.3)	
Segment profit	**1**	19	(18)	(94.7)	

1.3 Cash flow

	1-3.2018	1-3.2017	Change		
	NIS millions	NIS millions	NIS millions	%	Explanation
Net cash from operating activities	**909**	826	83	10.0	The increase in net cash from operating activities was attributable mainly to the Cellular Communications segment following reclassification of payments for lease agreements as financing activities, following early adoption of IFRS 16 (see Note 3.1 to the financial statements), and a decrease in working capital. The increase was partially offset by a decrease in net cash in Domestic Fixed-Line Communications operations, mainly due to an increase in income taxes paid for final tax assessments.
Net cash used in investing activities	**(1,451)**	(373)	(1,078)	-	The increase in net cash used in investing activities was due to a net investment in bank and other deposits in the Domestic Fixed-Line Communications segment to the amount of NIS 1.1 billion.
Net cash from (used in) financing activities	**187**	(309)	496	-	The change in net cash from financing activities was due to the receipt of loans in the present Quarter, as compared to loan repayments in the same quarter last year in the Domestic Fixed-Line Communications segment. Furthermore, data for the same quarter last year includes payment to Eurocom DBS for the acquisition of DBS's shares and loans. On the other hand, the present Quarter includes principal and interest payments on leases (see Note 3.1 to the financial statements).
Net increase (decrease) in cash	**(355)**	144	(499)	-	

Average volume in the reported Quarter:

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 12,009 million.

Supplier credit: NIS 953 million.

Short-term credit to customers: NIS 1,871 million. Long-term credit to customers: NIS 383 million.

1.3 Cash flow (contd.)

As of March 31, 2018, the Group had a working capital surplus of NIS 1,215 million, as compared to a working capital deficit of NIS 14 million on March 31, 2017.

According to its separate financial statements, the Company had a working capital surplus of NIS 1,098 million as of March 31, 2018, as compared to a working capital deficit of NIS 560 million on March 31, 2017.

The transition from deficit to surplus in the Group's and the Company's working capital was mainly due to the raising of long-term debt which increased cash and investment balances. The increase was partially offset by current maturities on liabilities for leases which were recognized starting from the present Quarter following early adoption of IFRS 16 (see Note 3.1 to the financial statements).

2. Disclosure Concerning the Company's Financial Reporting

2.1 Disclosure on the early adoption of IFRS 16 - Leases

Following publication of IFRS 16 - Leases ("the Standard"), the Company reviewed the Standard's possible impact on its financial statements, including by consultation with its auditing accountants. This review was conducted across all Group companies. As a result, the Company decided on the early adoption of the Standard, starting from January 1, 2018.

For information concerning the Standard's guidelines, its application, and adjustments to the Group's financial statements following the Standard's first-time application, see Note 3.1 to the financial statements.

Actions taken by the Group in preparation for adopting the Standard, and measures for reducing the risk for errors in its financial statements:

1. The Group studied the possible impact of the Standard on its financial statements. This process included a review of the Standard's provisions, a review of professional information issued by international accounting firms, and internal discussions with Group companies. In addition, consultations and professional meetings were held with the auditing accountants. These meetings included a thorough discussion of issues raised by the Standard's application, application of the transitional provisions, and a review of its impact on the Group's companies. Each company documented the relevant issues and their impact on the financial statements.
2. The Group has reviewed the necessary adjustments to the Group's information systems supporting the Standard's application. Following this review, specialized software was purchased which supports the accounting treatment required under the Standard, and adjustments were made to existing information systems.
3. The Group has studied the adaptation of its internal controls to the Standard, in order to achieve effective control over proper first-time application of the Standard, and the plausibility of significant judgments and estimates made in such application.

2.2 Due to legal actions brought against the Group, which cannot yet be assessed or for which the Group cannot yet estimate its exposure, the auditors drew attention to these actions in their opinion concerning the financial statements.

2.3 For information concerning **material events subsequent to the financial statements' date** – see Note 12 to the financial statements.

3. Details of debt certificate series

3.1 On April 26, 2018, S&P Global Ratings Maalot Ltd. affirmed the Company's ilAA rating and downgraded its rating forecast to negative due expectations for a continued increase in competition and in light of the volatility in the Company's executive suite (see immediate report, ref. no. 2018-01-033573). Furthermore, on April 30, 2018, Midroog Ltd. maintained its Aa2.il/Stable rating for the Company's Debentures (Series 6,7,9, and 10) (see immediate report, ref. no. 2018-01-034470).

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

3.2 See Note 12.1 to the financial statements concerning a commitment to issue Company Debentures (Series 9) in 2018.

4. Miscellaneous

For information concerning the liabilities balances of the reporting corporation and those companies consolidated in its financial statements as of March 31, 2018, see the Company's reporting form on the MAGNA system, dated May 24, 2018.

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

Shlomo Rodav	Stella Handler
Chairman of the Board	CEO

Signed: May 23, 2018

Part C:

Condensed Consolidated Interim Financial Statements as at March 31, 2018 (Unaudited)

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

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Somekh Chaikin
KPMG Millennium Tower
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800068403

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 – "the Group") comprising of the condensed consolidated interim statement of financial position as of March 31, 2018 and the related 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 this interim financial information in accordance with IAS 34 "Interim Financial Reporting", and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose assets constitute 1% of the total consolidated assets as of March 31, 2017, and whose revenues constitute 1% of the total consolidated revenues for the three month period then ended. The condensed interim financial information of that company was reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of that company, is based solely on the said review report of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "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.

Somekh Chaikin
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Conclusion

Based on our review and the review report of other auditors, 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 and the review report of other auditors, 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 Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our abovementioned opinion, we draw attention to Note 1.2 which refers to Note 1.2 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in respect to transactions related to the controlling shareholder, and the transfer of the investigation file to the District Attorney's Office, and regarding the opening of a joint investigation by the Securities Authority and the Unit for Combating Economic Crime at Lahav 433. As stated in the above note, at this stage, the Company is unable to assess the effects of the investigations, their findings and their effect on the Company and its officers, on the evaluation of the internal controls of the Company, and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Group which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 5.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 23, 2018

Condensed Consolidated Interim Statements of Financial Position

	March 31, 2018*	March 31, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
Assets	NIS million	NIS million	NIS million
Cash and cash equivalents	**1,826**	792	2,181
Investments	**1,390**	578	289
Trade receivables	**1,827**	1,976	1,915
Other receivables	**306**	297	270
Eurocom DBS, related party	**25**	35	43
Inventory	**130**	114	125
Total current assets	**5,504**	3,792	4,823
Trade and other receivables	**466**	595	493
Broadcasting rights, net of rights exercised	**451**	438	454
Right-of-use assets - see Note 3.1	**1,417**	-	-
Fixed assets	**6,782**	6,886	6,798
Intangible assets	**2,728**	2,986	2,768
Deferred tax assets	**1,027**	1,008	1,019
Deferred expenses and non-current investments	**547**	429	494
Total non-current assets	**13,418**	12,342	12,026
Total assets	**18,922**	16,134	16,849

Condensed Consolidated Interim Statements of Financial Position (Contd.)

	March 31, 2018*	March 31, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	NIS million	NIS million	NIS million
Debentures, loans and borrowings	**1,609**	1,594	1,632
Current maturities of liabilities for leases - see Note 3.1	**428**	-	-
Trade and other payables	**1,820**	1,705	1,699
Current tax liabilities	**43**	112	152
Employee benefits	**286**	308	280
Liability to Eurocom DBS Ltd. related party	**-**	6	-
Provisions	**103**	81	94
Total current liabilities	**4,289**	3,806	3,857
Loans and debentures	**10,547**	9,109	10,229
Liabilities for leases (see Note 3.1)	**1,006**	-	-
Employee benefits	**272**	260	272
Derivatives and other liabilities	**258**	250	234
Deferred tax liabilities	**86**	103	73
Provisions	**39**	47	40
Total non-current liabilities	**12,208**	9,769	10,848
Total liabilities	**16,497**	13,575	14,705
Total equity	**2,425**	2,559	2,144
Total liabilities and equity	**18,922**	16,134	16,849

Shlomo Rodav
Chairman of the Board of Directors

Stella Handler
CEO

Yali Rothenberg
Bezeq Group CFO

* See Note 3.1 for information about early adoption of IFRS 16, Leases.

Date of approval of the financial statements: May 23, 2018

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

Condensed Consolidated Interim Statements of Income

	Note	Three months ended March 31		Year ended December 31
		2018*	2017	2017
		(Unaudited)	(Unaudited)	(Audited)
	Note	NIS million	NIS million	NIS million
Revenues	7	**2,361**	2,453	9,789
Costs of activity				
General and operating expenses	3.1, 8	**841**	959	3,891
Salaries		**510**	504	2,005
Depreciation and amortization	3.1	**525**	428	1,715
Other operating expenses (income), net		**23**	(4)	68
Total operating expenses		**1,899**	1,887	7,679
Operating profit		**462**	566	2,110
Financing expenses (income)				
Financing expenses		**127**	126	477
Financing income		**(19)**	(25)	(60)
Financing expenses, net		**108**	101	417
Profit after financing expenses, net		**354**	465	1,693
Share in losses of equity-accounted investees		**(1)**	(2)	(5)
Profit before income tax		**353**	463	1,688
Income tax		**93**	113	453
Profit for the period		**260**	350	1,235
Earnings per share (NIS)				
Basic earnings per share		**0.09**	**0.13**	0.45

Condensed Consolidated Interim Statements of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	**260**	350	1,235
Items of other comprehensive income (loss) (net of tax)	**21**	6	(8)
Total comprehensive income for the period	**281**	356	1,227

* See Note 3.1 for information about early adoption of IFRS 16, Leases.

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Attributable to shareholders of the Company						
Three months ended March 31, 2018 (Unaudited)*						
Balance as at January 1, 2018	**3,878**	**384**	**390**	**(85)**	**(2,423)**	**2,144**
Profit for the period	**-**	**-**	**-**	**-**	**260**	**260**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**21**	**-**	**21**
Total comprehensive income for the period	**-**	**-**	**-**	**21**	**260**	**281**
Balance as at March 31, 2018	**3,878**	**384**	**390**	**(64)**	**(2,163)**	**2,425**
Three months ended March 31, 2017 (Unaudited)						
Balance as at January 1, 2017	3,878	384	390	(88)	(2,361)	2,203
Profit for the period	-	-	-	-	350	350
Other comprehensive income for the period, net of tax	-	-	-	6	-	6
Total comprehensive income for the period	-	-	-	6	350	356
Balance as at March 31, 2017	3,878	384	390	(82)	(2,011)	2,559
Year ended December 31, 2017 (Audited)						
Balance as at January 1, 2017	3,878	384	390	(88)	(2,361)	2,203
Net profit in 2017	-	-	-	-	1,235	1,235
Other comprehensive income (loss) for the year, net of tax	-	-	-	3	(11)	(8)
Total comprehensive income for 2017	-	-	-	3	1,224	1,227
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders	-	-	-	-	(1,286)	(1,286)
Balance as at December 31, 2017	3,878	384	390	(85)	(2,423)	2,144

* See Note 3.1 for information about early adoption of IFRS 16, Leases.

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

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended March 31		Year ended December 31
	2018*	**2017**	**2017**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Cash flows from operating activities			
Profit for the period	**260**	350	1,235
Adjustments:			
Depreciation and amortization (see Note 3.1)	**525**	428	1,715
Capital gain, net	**(1)**	(6)	(66)
Share in losses of equity-accounted investees	**1**	2	5
Financing expenses, net	**111**	110	426
Income tax	**93**	113	453
Loss from impairment of goodwill	**-**	-	87
Change in trade and other receivables	**74**	(7)	193
Change in inventory	**(5)**	(20)	(35)
Change in trade and other payables	**42**	(24)	10
Change in provisions	**8**	1	15
Change in employee benefits	**7**	(6)	(33)
Change in other liabilities	**1**	(9)	(34)
Net income tax paid	**(207)**	(106)	(446)
Net cash from operating activities	**909**	826	3,525
Cash flow used for investing activities			
Purchase of fixed assets	**(273)**	(277)	(1,131)
Investment in intangible assets and deferred expenses	**(95)**	(103)	(399)
Investment in deposits with banks and others	**(1,170)**	-	(276)
Proceeds from bank deposits and others	**75**	4	564
Proceeds from the sale of fixed assets	**8**	10	98
Miscellaneous	**4**	(7)	(4)
Net cash used in investing activities	**(1,451)**	(373)	(1,148)
Cash flows used in financing activities			
Issue of debentures and receipt of loans	**320**	-	2,517
Repayment of debentures and loans	**-**	(224)	(1,587)
Payments of principal and interest for leases (see Note 3.1)	**(126)**	-	-
Dividend paid	**-**	-	(1,286)
Interest paid	**(5)**	(22)	(415)
Payment to Eurocom DBS for acquisition of shares and DBS loan	**-**	(61)	(61)
Miscellaneous	**(2)**	(2)	(12)
Net cash from (used in) financing activities	**187**	(309)	(844)
Increase (decrease) in cash and cash equivalents, net	**(355)**	144	1,533
Cash and cash equivalents at beginning of period	**2,181**	648	648
Cash and cash equivalents at end of period	**1,826**	792	2,181

* See Note 3.1 for information about early adoption of IFRS 16, Leases.

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

1. General

1.1 Reporting Entity

Bezeq – The Israel Telecommunication Corporation Limited ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Company as at March 31, 2018 include those of the Company and its subsidiaries (jointly referred to as "the Group"). The Group is a principal provider of communication services in Israel (see also Note 10 – Segment Reporting).

1.2 Investigation of the Israel Securities Authority and the Police Force

For information about the investigation of the Israel Securities Authority and the Police Force, see Note 1.2 to the annual financial statements.

As set out in Note 1.2.3 to the annual financial statements, the Company does not have full information about the investigations described in this section, their content, the materials, and the evidence in the possession of the legal authorities. In addition, in view of the provisions of Israeli law and the concern of obstructing investigation proceedings, at this stage, the Company is prevented from and is avoiding examination of all matters that were raised in the investigations, and this restricts the Company's activity, including in all matters relating to audits and assessments required for publishing the Company's reports. Accordingly, the Company is unable to assess the effects of the investigations, their findings and their results on the Company and its officers, on the internal control of the Company, and on the financial statements, and on the estimates used in the preparation of these financial statements, if any.

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 should be reviewed in the context of the annual financial statements of the Company and its subsidiaries as of December 31, 2017 and the year then ended, and their accompanying notes ("the Annual Financial Statements"). The notes to the 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 23, 2018.

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 policy and the principal assumptions underlying assessments that involve uncertainty, are consistent with those used in the Annual Financial Statements, other than as set out below and in Note 3 regarding early application of IFRS 16.

Subject	Principal assumptions	Possible effects
Determining the lease term	When determining the term of the lease, the Group takes into consideration the period in which the lease cannot be canceled, including options to extend that will probably be exercised and/or options to cancel that will probably not be exercised.	An increase or decrease in the initial measurement of a right-of-use asset and a lease liability and in depreciation and financing expenses in subsequent periods.
Discount rate for a lease liability	The Group discounts the lease payments at the incremental borrowing rate (the borrowing rate that the Group would be required to pay to borrow the amounts required to obtain an asset at a similar value to the right-of-use asset in a similar economic environment, in a similar period and with similar collateral)	An increase or decrease in the lease liability, right-of-use asset, capital, and financing expenses to be recognized.

3. Reporting Principles and Accounting Policy

The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual Financial Statements, except as described in this section below.

3.1 Initial application of IFRS 16, Leases

3.1.1 Further to Note 3.17.2 to the Annual Financial Statements as at December 31, 2017 and for the year then ended, as from January 1, 2018 ("the Initial Application Date"), the Group early adopts IFRS 16, Leases (“IFRS 16” or "the Standard").

The main effect of early adoption of IFRS 16 is reflected in annulment of the existing requirement from lessees to classify leases as operating (off-balance sheet) or finance leases and the presentation of a unified model for the accounting treatment of all leases like the accounting treatment of finance leases in the previous accounting standard on leases, IAS 17. Accordingly, until the date of initial application, the Group classified most of the leases in which it is the lessee as operating leases, since it did not substantially bear all the risks and rewards from the assets.

In accordance with IFRS 16, for agreements in which the Group is the lessee, the Group applies a unified accounting model, by which it recognizes a right-of-use asset and a lease liability at the inception of the lease contract for all the leases in which the Group has a right to control identified assets for a specified period of time. Accordingly, the Group recognizes depreciation and amortization expenses in respect of a right-of-use asset, examines the right-of-use asset for impairment in accordance with IAS 36, Impairment of Assets and recognizes financing expenses on the lease liability. Therefore, as from the date of initial application, lease expenses relating to assets leased under an operating lease, which were presented as part of general and administrative expenses in the income statement, are recognized as assets that are depreciated in the depreciation and amortization expense item.

The Group applied IFRS 16 using the cumulative effect approach without a restatement of comparative information.

In respect of all the leases, the Group has elected to apply the transitional provision of recognizing a lease liability at the initial application date according to the present value of the future lease payments discounted at the incremental interest rate of the lessee at that date and concurrently recognizing a right-of-use asset at the same amount of the liability, adjusted for any prepaid or accrued lease payments that were recognized as an asset or liability before the date of initial application. Therefore, application of IFRS 16 did not have an effect on the balance of the Group’s equity and retained earnings at the date of initial application.

Upon initial application, the Group also elected to apply the following expedients, as permitted by the Standard:

A. Relying on a previous assessment of whether an arrangement is a lease or contains a lease at the application date of the Standard. Accordingly, the agreements that were previously classified as operating leases are accounted for in accordance with the new standard, and the agreements that were previously classified as service contracts continue to be accounted for as such without change.

B. Applying a single discount rate to a portfolio of leases with similar characteristics

C. Not separating non-lease components from the lease components and accounting for all the components as a single lease component

D. Relying on a previous assessment of whether a contract is onerous in accordance with IAS 37 at the transition date, as an alternative to assessing the impairment of right-of-use assets

E. Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application

F. Using hindsight in determining the lease period if the contract includes options to extend or cancel the lease

3.1.2 Presented below are the principal accounting policies for leases in which the Group is the lessee, which were applied as from January 1, 2018 following the application of IFRS 16:

(1) Determining whether an arrangement contains a lease

At the inception of the arrangement, the Group determines whether the arrangement is or contains a lease, and examines whether the arrangement transfers the right to control the use of an identifiable asset for a period of time in return for payment. When assessing whether the arrangement transfers control over the use of an identifiable asset, the Group estimates, over the lease term, whether it has both rights set out below:

(A) The right to essentially obtain all the economic rewards associated with the use of the identifiable asset; and

(B) The right to direct the use of the identifiable asset

For lease contracts that include non-lease components, such as services or maintenance, which are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

(2) Leased assets and lease liability

Contracts that award the Group the right to control the use of an identifiable asset over a period of time for a consideration are accounted for as leases. At initial recognition, the Group recognizes a liability at the present value of the future minimum lease payments (these payments do not include variable lease payments that are not linked to the CPI, or to any change in the rate of interest, or any change in the exchange rate), and concurrently, the Group recognizes a right-of-use asset at the amount of the liability, adjusted for lease payments paid in advance or accrued, plus direct costs incurred in the lease.

Since the interest rate implicit in the lease is not readily determinable, the incremental borrowing rate of the Group is used (the borrowing rate that the Group would be required to pay to borrow the amounts required to obtain an asset at a similar value to the right-of-use asset in a similar economic environment, in a similar period and with similar collateral).

Subsequent to initial recognition, the asset is accounted for using the cost model and it is amortized over the lease term or the useful life of the asset (whichever is earlier).

(3) The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the Group will exercise or not exercise the option.

(4) Depreciation of a right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

Type of asset	Weighted average of depreciation period as at January 1, 2018
Cellular communications sites	6.5
Buildings	7
Vehicles	2

3.1.3 At the date of initial application of IFRS 16, the Group recognized right-of-use assets and lease liabilities in the amount of NIS 1.5 billion. In measurement of the lease liabilities, the Group discounted lease payments using the nominal incremental borrowing rate at January 1, 2018. The discount rates used to measure lease liabilities range between 1.3% and 3.5% (weighted average of 1.5%). This range is affected by differences in the lease term.

The difference between the Group’s agreements for the minimum contractual lease payments in the amount of NIS 1,020 million, as reported in Note 18.1 to the Annual Financial Statements, and the lease liabilities recognized at the initial application date of IFRS 16, amounting to NIS 1.5 billion, is mainly due to the options for extending the lease, which will most likely be exercised, which were not included in the reporting in Note 18.1 to the Annual Financial Statements.

3.1.4 The tables below summarize the effects on the condensed consolidated interim statement of financial position as at March 31, 2018 and on the condensed consolidated interim statements of income and cash flows for the three months then ended, assuming that the Group's previous policy regarding leases continued during that period.

Effect on the condensed consolidated interim statement of financial position as at March 31, 2018

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Receivables	352	**(46)**	**306**
Right-of-use assets	-	**1,417**	**1,417**
Trade and other payables	1,883	**(63)**	**1,820**
Current maturities of liabilities for leases	-	**428**	**428**
Long-term lease liabilities	-	**1,006**	**1,006**
Equity	2,425	**-**	**2,425**

Effect on the consolidated interim statement of income for the three months ended March 31, 2018:

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	943	**(102)**	**841**
Depreciation and amortization expenses	428	**97**	**525**
Operating profit	457	**5**	**462**
Financing expenses	103	**5**	**108**
Profit after financing expenses	354	**-**	**354**
Profit for the period	260	**-**	**260**

Effect on the consolidated interim statement of cash flow for the three months ended March 31, 2018:

	In accordance with the previous policy	Change	In accordance with IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Net cash from operating activities	790	**119**	**909**
Net cash used in investing activities	(1,458)	**7**	**(1,451)**
Net cash from financing activities	313	**(126)**	**187**

3.2 Initial application of IFRS 9, Financial Instruments (2014)

As from January 1, 2018, the Group applies IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement. The new Standard includes revised guidance on the classification and measurement of financial instruments, a new ‘expected credit loss’ model for calculating impairment for most financial assets, and new guidance and requirements with respect to hedge accounting Initial application of the Standard did not have a material quantitative effect on the Group's financial statements.

4. Group entities

4.1 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 publication of the Annual Financial Statements.

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

4.2.1 Further to Note 12.2.1 to the Annual Financial Statements regarding the Company’s advance payments on account of the second contingent consideration for acquisition of the shares and loans of DBS, on April 22, 2018, a liquidation order was issued for Eurocom Communications Ltd. which came into effect on May 3, 2018, and a liquidation order was issued for Eurocom DBS Ltd. Due to the above, the Company adjusted the fair value of the amount expected to be returned to it from the surplus of advance payments that it paid, to NIS 25 million. As a result, the Company recognized financing expenses in the amount of NIS 18 million in the statement of income.

4.2.2 Further to Note 18.2 to the Annual Financial Statements regarding the amendment to the agreement between DBS and Space Communications Ltd ("Spacecom") in 2018, on March 29, 2018, the amendment was signed.

4.2.3 In April 2018, the space segment leased by DBS was replaced following the amendment to the 2017 agreement set out in section 4.2.2 above. In April 2018, Spacecom announced that it had received a letter from the government stating that "government entities intend to operate a satellite of Israel Aerospace Industries at point 4.00 W in accordance with their requirements." Spacecom further stated that it is unable to estimate the feasibility and likelihood of operating such a satellite. DBS has asked Spacecom to clarify this notice and its implications, and at this stage, it is unable to assess the implications.

4.2.4 In April 2018, Altech Multimedia International Ltd. ("Altech"), the manufacturer of HD Zapper and 4KPVR decoders purchased by DBS from Draco and OSI, announced its intention to discontinue production of its decoders in November 2018. In May 2018, it announced that it will not supply some of the current orders for decoders to Draco and OSI. DBS is exploring the significance of its announcement together with Altech. In addition, the option is being examined for the manufacture of these decoders by suppliers connected to Altech, to allow the continued order of these decoders, to meet the requirements of DBS to the extent possible, until alternative decoders are obtained from another manufacturer.

4.2.5 In May 2018, Cisco informed DBS that it had sold its multi-channel television services to a third party. And according to Cisco publications, this transaction has been signed and not yet completed. DBS is assessing the significance of this notice, taking into account its agreements with Cisco and its relevant operations.

4.2.6 Following the conversion of the shareholders loans by the Company and investment in the capital in 2016 and the conversion of the Company's share in the debentures of DBS to capital in the current quarter, the equity of DBS as at March 31, 2018 and December 31, 2017 amounted to NIS 771 million and NIS 348 million, respectively. As at March 31, 2018, the working capital deficit amounts to NIS 339 million. The management of DBS believes that the financial resources at its disposal, which include the deficit in working capital and receipt of loans from the Company, will be sufficient for the operations of DBS for the coming year.

5. Contingent Liabilities

During the normal course of business, legal claims were filed against Group companies or there are pending claims 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 96 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, 2018 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 6.2 billion. There is also additional exposure of NIS 3.3 billion for claims, the chances of which cannot yet be assessed.

In addition, motions for certification of class actions have been filed against the Group companies, for which the Group has additional exposure beyond the aforesaid, since the exact amount of the claim is not stated in the claim.

This amount and all the amounts of the additional exposure in this note are linked to the CPI and are stated net of interest.

For updates subsequent to the reporting date, see section 5.2 below.

5.1 Following is a detailed description of the Group's contingent liabilities as at March 31, 2018, classified into groups with similar characteristics:

Claims group	Nature of the claims	Provision	Additional exposure	Exposure for claims that cannot yet be assessed
		(Unaudited)		
		NIS million		
Customer claims	Mainly motions for certification of class actions concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	**68**	**3,990**	**1,411**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.	**11**	**2,005(1)**	**1,815 (2)**
Claims of employees and former employees of Group companies	Mainly collective and individual claims filed by employees and former employees of the Group in respect of various payments and recognition of various salary components as components for calculation of payments to Group employees.	**1**	**4**	**1**
Claims by the State and authorities	Various claims by the State of Israel, government institutions and authorities ("the Authorities"). These are mainly procedures related to regulations relevant to the Group companies and financial disputes concerning monies paid by the Group companies to the Authorities (including property taxes).	**16**	**13**	**31**
Supplier and communication provider claims	Legal claims for compensation for alleged damage as a result of the supply of the service and/or the product.	**-**	**149**	**2**
Claims for punitive damages, real estate and infrastructure	Claims for alleged physical damage or damage to property caused by Group companies and in relation to real estate and infrastructure. The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	**-**	**66**	**1**
Total legal claims against the Company and subsidiaries		**96**	**6,227**	**3,261**

(1) Including exposure of NIS 2 billion for a motion for certification as a class action filed by a shareholder against the Company and officers in the Company, referring to alleged reporting omissions by the Company regarding the wholesale market and the reduction of interconnect fees, which the plaintiff estimates at NIS 1.1 billion or NIS 2 billion (depending on the method used to calculate the damage).

(2) 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 in the Group and companies in the group of the Company's controlling shareholders regarding the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a joint motion is expected to be filed instead of these two motions.

On May 2, 2018, the Court approved the request of the Attorney General to stay the proceedings until August 12, 2018.

5.2 Subsequent to the reporting date, claims amounting to NIS 172 million were filed against Group companies, and three claims without a monetary estimate. At the approval date of the financial statements, the chances of these claims cannot yet be assessed. In addition, two claims came to an end without a monetary assessment.

5.3 See Notes 17.2 to 17.4 to the Annual Financial Statements regarding additional proceedings against the Group companies and officers.

6. Equity

On April 26, 2018, the general meeting of the Company's shareholders approved the distribution of a cash dividend of NIS 368 million to the Company's shareholders (following the recommendation of the Company's Board of Directors of March 28, 2018). The dividend was paid on May 10, 2018.

7. Revenues

	Three months ended March 31		Year ended December 31
	2018	2017*	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Domestic fixed-line communication – Bezeq Fixed			
Internet - infrastructure	**380**	370	1,488
Fixed-line telephony	**294**	323	1,255
Transmission and data communication	**196**	199	775
Cloud and digital services*	**62**	56	230
Other services	**54**	55	205
	986	1,003	3,953
Cellular telephony - Pelephone			
Cellular services and terminal equipment	**420**	425	1,743
Sale of terminal equipment	**188**	191	757
	608	616	2,500
Multichannel television - DBS	**375**	424	1,650
International communications, ISP, and NEP services - Bezeq International	**339**	358	1,467
Others	**53**	52	219
	2,361	2,453	9,789

* Cloud and digital services were reclassified and presented separately to reflect the change in the mix of revenues in fixed-line domestic communications.

8. General and operating expenses

	Three months ended March 31		Year ended December 31
	2018	2017*	2017*
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Terminal equipment and materials	**189**	202	855
Interconnectivity and payments to domestic and international operators	**192**	196	805
Maintenance of buildings and sites*	**71**	147	595
Marketing and general	**145**	144	636
Content costs	**156**	161	584
Services and maintenance by sub-contractors	**71**	67	260
Vehicle maintenance*	**17**	42	156
	841	959	3,891

* See Note 3.1 for information about early implementation of IFRS 16, Leases.

9. Financial instruments

9.1 Fair value

9.1.1 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 29.8 to the Annual Financial Statements.

	March 31, 2018		March 31, 2017		December 31, 2017	
	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)	**4,797**	**5,051**	2,825	2,962	4,436	4,693
Debentures issued to the public (CPI-linked)	**4,102**	**4,343**	3,487	3,682	4,088	4,338
Debentures issued to the public (unlinked)	**1,662**	**1,732**	1,607	1,626	1,649	1,745
Debentures issued to financial institutions (CPI-linked)	**13**	**13**	832	875	15	17
Debentures issued to financial institutions (unlinked)	**307**	**327**	410	444	302	326
	10,881	**11,466**	9,161	9,589	10,490	11,119

9.1.2 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 estimate the fair value are described in Note 29.7 to the Annual Financial Statements.

	March 31, 2018	**March 31, 2017**	**December 31, 2017**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Level 1: Investment in marketable securities at fair value through profit or loss	**14**	27	14
Level 2: forward contracts	**(189)**	(182)	(212)
Level 3: contingent consideration for a business combination	**25**	(84)	43

10. Segment Reporting

10.1 Operating segments

	Three months ended March 31, 2018 (Unaudited)						
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multichannel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	986	608	338	375	54	-	2,361
Inter-segment revenues	77	11	14	-	3	(105)	-
Total revenues	1,063	619	352	375	57	(105)	2,361
Depreciation and amortization	204	158	43	79	6	35	525
Segment results – operating profit (loss)	473	2	34	(1)	(8)	(38)	462
Financing expenses	127	3	4	11	-	(18)	127
Financing income	(6)	(14)	(1)	(14)	(1)	17	(19)
Total financing expenses (income), net	121	(11)	3	(3)	(1)	(1)	108
Segment profit (loss) after financing expenses, net	352	13	31	2	(7)	(37)	354
Share in losses of associates	-	-	-	-	1	-	1
Segment profit (loss) before income tax	352	13	31	2	(8)	(37)	353
Income tax	89	4	7	1	-	(8)	93
Segment results – net profit (loss)	263	9	24	1	(8)	(29)	260
Segment assets*	9,866	4,159	1,414	1,560	202	375	17,576
Investment in associates	-	-	5	-	(8)	11	8
Goodwill	-	-	6	-	10	1,322	1,338
Segment liabilities*	14,754	1,460	659	789	100	(1,265)	16,497

* Segment assets and liabilities include the right-of-use assets and liabilities for leases, due to early adoption of IFRS 16, Leases, as described in Note 3.1.

	Three months ended March 31, 2017 (Unaudited)						
	Domestic fixed-line communication	**Cellular communications**	**International communications and internet services**	**Multichannel television**	**Other**	**Adjustments**	**Consolidated**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Revenues from external sources	1,003	616	358	424	52	-	2,453
Inter-segment revenues	75	12	26	-	4	(117)	-
Total revenues	1,078	628	384	424	56	(117)	2,453
Depreciation and amortization	180	94	33	70	4	47	428
Segment results – operating profit (loss)	513	5	49	52	(6)	(47)	566
Financing expenses	97	1	3	36	-	(11)	126
Financing income	(5)	(15)	(1)	(9)	-	5	(25)
Total financing expenses (income), net	92	(14)	2	27	-	(6)	101
Segment profit (loss) after financing expenses, net	421	19	47	25	(6)	(41)	465
Share in losses of associates	-	-	-	-	2	-	2
Segment profit (loss) before income tax	421	19	47	25	(8)	(41)	463
Income tax	102	3	11	6	-	(9)	113
Segment results – net profit (loss)	319	16	36	19	(8)	(32)	350

	Year ended December 31, 2017 (Audited)						
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multichannel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,953	2,500	1,466	1,650	220	-	9,789
Inter-segment revenues	291	46	71	-	17	(425)	-
Total revenues	4,244	2,546	1,537	1,650	237	(425)	9,789
Depreciation and amortization	728	383	135	285	20	164	1,715
Segment results – operating profit (loss)	1,971	72	174	163	(20)	(250)	2,110
Financing expenses	439	3	12	81	-	(58)	477
Financing income	(36)	(54)	(4)	(10)	(5)	49	(60)
Total financing expenses (income), net	403	(51)	8	71	(5)	(9)	417
Segment profit (loss) after financing expenses, net	1,568	123	166	92	(15)	(241)	1,693
Share in profits (losses) of associates	-	-	-	-	(4)	(1)	(5)
Segment profit (loss) before income tax	1,568	123	166	92	(19)	(242)	1,688
Income tax	396	28	39	336	-	(346)	453
Segment results – net profit (loss)	1,172	95	127	(244)	(19)	104	1,235
Segment assets	9,086	3,271	1,199	1,502	174	269	15,501
Investment in associates	-	-	5	-	(6)	11	10
Goodwill	-	-	6	-	10	1,322	1,338
Segment liabilities	13,901	536	410	1,154	64	(1,360)	14,705
Investments in fixed assets and intangible assets	851	331	169	237	19	-	1,607

10.2 Adjustment for segment reporting of profit or loss, assets and liabilities

	Three months ended March 31		Year ended
	2018	2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Operating profit for reporting segments	**508**	619	2,380
Amortization of surplus cost for intangible assets	**(38)**	(47)	(250)
Financing expenses, net	**(108)**	(101)	(417)
Share in losses of associates	**(1)**	(2)	(5)
Loss for operations classified in other categories and other adjustments	**(8)**	(6)	(20)
Consolidated profit before income tax	**353**	463	1,688

	March 31, 2018	December 31, 2017
	(Unaudited)	(Audited)
	NIS million	NIS million
Assets		
Assets from reporting segments	**17,032**	15,069
Assets attributable to operations in other categories	**204**	178
Goodwill not attributable to an operating segment	**1,322**	1,322
Surplus cost not attributable to an operating segment	**1,635**	1,636
Less inter-segment assets and other adjustments	**(1,271)**	(1,356)
Consolidated assets	**18,922**	16,849
Liabilities		
Liabilities from reporting segments	**17,662**	16,001
Liabilities attributable to operations in other categories	**100**	64
Less inter-segment liabilities	**(1,265)**	(1,360)
Consolidated liabilities	**16,497**	14,705

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

11.1 Pelephone Communications Ltd.

Selected data from the statement of financial position

	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**1,020**	1,315	1,128
Non-current assets	**3,139**	1,999	2,143
Total assets	**4,159**	3,314	3,271
Current liabilities	**687**	471	442
Long-term liabilities	**773**	102	94
Total liabilities	**1,460**	573	536
Equity	**2,699**	2,741	2,735
Total liabilities and equity	**4,159**	3,314	3,271

Selected data from the statement of income

	Three months ended March 31		Year ended December 31,
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**431**	435	1,782
Revenues from sales of terminal equipment	**188**	193	764
Total revenues from services and sales	**619**	628	2,546
Cost of services and sales	**531**	553	2,171
Gross profit	**88**	75	375
Selling and marketing expenses	**62**	48	215
General and administrative expenses	**24**	22	88
	86	70	303
Operating profit	**2**	5	72
Financing expenses	**3**	1	3
Financing income	**(14)**	(15)	(54)
Financing income, net	**(11)**	(14)	(51)
Profit before income tax	**13**	19	123
Income tax	**4**	3	28
Profit for the period	**9**	16	95

11.2 Bezeq International Ltd.

Selected data from the statement of financial position

	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**532**	498	490
Non-current assets	**893**	700	720
Total assets	**1,425**	1,198	1,210
Current liabilities	**402**	341	295
Long-term liabilities	**257**	78	115
Total liabilities	**659**	419	410
Equity	**766**	779	800
Total liabilities and equity	**1,425**	1,198	1,210

Selected data from the statement of income

	Three months ended March 31		Year ended December 31,
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**352**	384	1,537
Operating expenses	**238**	258	1,058
Gross profit	**114**	126	479
Selling and marketing expenses	**50**	48	187
General and administrative expenses	**28**	29	115
Other expenses, net	**2**	-	3
	80	77	305
Operating profit	**34**	49	174
Financing expenses	**4**	3	12
Financing income	**(1)**	(1)	(4)
Financing expenses, net	**3**	2	8
Profit before income tax	**31**	47	166
Income tax	**7**	11	39
Profit for the period	**24**	36	127

11.3 DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**276**	421	269
Non-current assets	**1,284**	1,572	1,233
Total assets	**1,560**	1,993	1,502
Current liabilities	**615**	898	804
Long-term liabilities	**174**	484	350
Total liabilities	**789**	1,382	1,154
Equity	**771**	611	348
Total liabilities and equity	**1,560**	1,993	1,502

Selected data from the statement of income

	Three months ended March 31		Year ended December 31,
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**375**	424	1,650
Operating expenses	**318**	315	1,260
Gross profit	**57**	109	390
Selling and marketing expenses	**35**	35	131
General and administrative expenses	**23**	22	96
	58	57	227
Operating profit (loss)	**(1)**	52	163
Financing expenses	**11**	36	81
Financing income	**(14)**	(9)	(10)
Financing expenses (income), net	**(3)**	27	71
Profit before income tax	**2**	25	92
Income tax	**1**	6	336
Profit (loss) for the period	**1**	19	(244)

12. Additional significant events in and subsequent to the reporting period

12.1 See Note 13.6 to the Annual Financial Statements for information about the undertaking to issue Debentures (Series 9) of the Company in 2018 and the raising of debt in March 2018 in the amount of NIS 320 million.

12.2 Further to Note 13.3.4 to the Annual Financial Statements regarding the terms that the Company undertook for the loans and debentures, on April 22, 2018, a liquidation order was issued for Eurocom Communications Ltd. (which came into effect on May 3, 2018). As part of the liquidation ruling, the court clarified that the ruling does not derogate from the control permit in the Company. The ruling to liquidate Eurocom Communications has no implications on the Company's debentures and loans.

12.3 Further to Note 18.8 to the Annual Financial Statements regarding the Company's agreement for the sale of a real estate asset in the Saqiya complex, as at the date of the financial statements, the buyer deposited NIS 30 million with a trustee and an additional NIS 153.3 million subsequent to the reporting date on account of the transaction.

In addition, on May 21, 2018, a demand was received from Israel Lands Authority for payment of a permit fee for the asset betterment plan approved prior to signing the agreement, for which the Company was required to pay NIS 148 million plus VAT (“the Demand”). It should be noted that the amount of the demand for a permit fee to be determined at the end of the proceedings will also affect the amount of the betterment levy the Company will be required to pay to the Planning Committee.

If the Company is ultimately required to pay the full amount of the Demand, the capital gain to be recognized in its financial statements is expected to be significantly lower than NIS 400 million (the estimated profit expected on the signing date of the sale agreement).

The Company disputes the Demand and intends to file an objection. The Company believes that the final permit fee that it will be required to pay is expected to be lower than the amount of the Demand.

12.4 Further to Note 28.6 to the Annual Financial Statements regarding the Company's insurance policy for directors and officers liability in the Company and its subsidiaries, on May 21, 2018, the general meeting of the Company's shareholders approved an amendment to the Company's compensation policy according to which the annual premium for officers insurance in the Company will not exceed USD 1 million, with a deductible of up to USD 1 million.

12.5 See Note 6 above regarding the approval of the general meeting of April 26, 2018 for the distribution of a cash dividend to the Company's shareholders.

12.6 On May 23, 2018, the Company's Board of Directors approved a voluntary redundancy plan in 2018 at a cost of NIS 80 million, following an earlier decision of the Board of Directors in March 2018, which approved voluntary redundancy at a cost of NIS 10 million for the first quarter of 2018 (jointly below: "the Retirement Plan"). The Retirement Plan is for the voluntary redundancy of 75 employees according to the collective agreement between the Company and the employees union and the Histadrut New General Federation of Labor of December 2006, as recently amended in August 2015.

In view of the aforesaid, the Company is expected to recognize an expense of NIS 80 million in its financial statements for the second quarter of 2018, in addition to an expense of NIS 10 million in the Company's financial statements for the first quarter of 2018.

Condensed Separate Interim Financial Information as at March 31, 2018

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

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Somekh Chaikin
KPMG Millennium Tower
17 Ha-Arbaa Street, PO Box 609
Tel Aviv 6100601, Israel
800068403

To: The Shareholders of
"Bezeq"- The Israel Telecommunication Corporation Ltd.

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, 2018 and 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.

We did not review the separate interim financial information of an investee company the investment in which amounted to NIS 80 million as of March 31, 2018, and the loss from this investee company amounted to NIS 11 million for three-month period then ended. The financial statements of that company were reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of that company, is based solely on the said review report of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "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 and the review report of other auditors, 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

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with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Without qualifying our abovementioned opinion, we draw attention to Note 6.1, which refers to Note 1.2 to the consolidated financial statements, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in respect to transactions related to the controlling shareholder, and the transfer of the investigation file to the District Attorney's Office, and regarding the opening of a joint investigation by the Securities Authority and the Unit for Combating Economic Crime at Lahav 433. As stated in the above note, at this stage, the Company is unable to assess the effects of the investigations, their findings and their effect on the Company and its officers, on the evaluation of the internal controls of the Company, and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 4.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 23, 2018

Condensed Interim Information on the Financial Position

	March 31, 2018 * (Unaudited) NIS million	March 31, 2017 (Unaudited) NIS million	December 31, 2017 (Audited) NIS million
Assets			
Cash and cash equivalents	**1,376**	274	1,769
Investments	**1,376**	551	275
Trade receivables	**695**	687	685
Other receivables	**223**	119	172
Dividend receivable from investees	**103**	65	-
Loans granted to investees	**100**	80	69
Eurocom DBS Ltd, an affiliate	**25**	35	43
Investment in DBS debentures	**-**	-	202
Total current assets	**3,898**	1,811	3,215
Trade and other receivables	**109**	181	121
Property, plant and equipment	**4,951**	4,912	4,933
Intangible assets	**226**	221	224
Investment in investees	**7,313**	7,046	6,958
Loans granted to investees	**208**	98	196
Right of use assets - see Note 1.3	**298**	-	-
Investment in DBS debentures	**-**	-	257
Non-current and other investments	**176**	124	141
Total non-current assets	**13,281**	12,582	12,830
Total assets	**17,179**	14,393	16,045

Condensed Interim Information on the Financial Position (cont'd)

	March 31, 2018 *	March 31, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**1,587**	1,181	1,589
Loan from an investee	**-**	105	-
Trade and other payables	**788**	681	604
Current tax liabilities	**38**	99	148
Employee benefits	**222**	249	223
Current maturities of leasing liabilities - see Note 1.3	**101**	-	-
Liability to Eurocom DBS Ltd, an affiliate	**-**	6	-
Provisions (Note 4)	**64**	50	59
Total current liabilities	**2,800**	2,371	2,623
Loans and debentures	**10,522**	8,615	10,223
Loan from an investee	**710**	325	570
Employee benefits	**230**	222	229
Leasing liabilities – see Note 1.3	**200**	-	-
Derivatives and other liabilities	**242**	238	220
Deferred tax liabilities	**50**	63	36
Total non-current liabilities	**11,954**	9,463	11,278
Total liabilities	**14,754**	11,834	13,901
Capital			
Share capital	**3,878**	3,878	3,878
Share premium	**384**	384	384
Reserves	**326**	308	305
Deficit	**(2,163)**	(2,011)	(2,423)
Total equity	**2,425**	2,559	2,144
Total liabilities and equity	**17,179**	14,393	16,045

Shlomo Rodav
Chairman of the Board of Directors

Stella Handler
CEO

Yali Rothenberg
Bezeq Group CFO

* See Note 1.3 concerning early application of IFRS 16 - Leasing

Date of approval of the financial statements: May 23, 2018

The accompanying additional information is an integral part of these condensed separate interim financial information

Condensed Interim Information on Profit or Loss

	For the three months ended March 31		Year ended December 31
	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues (Note 2)	**1,063**	1,078	4,244
Costs of activity			
Salaries	**228**	224	891
Depreciation and amortization	**204**	180	728
Operating and general expenses (Note 3)	**140**	165	677
Other operating income, net	**18**	(4)	(23)
Cost of Activities	**590**	565	2,273
Operating profit	**473**	513	1,971
Financing expenses (income)			
Financing expenses	**127**	97	439
Financing income	**(6)**	(5)	(36)
Financing expenses, net	**121**	92	403
Profit after financing expenses, net	**352**	421	1,568
Share in profits (losses) of investees, net	**(3)**	31	63
Profit before income tax	**349**	452	1,631
Income tax	**89**	102	396
Profit for the period	**260**	350	1,235

Condensed Interim Information on Comprehensive Income

	Three months ended March 31		Year ended December 31
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	**260**	350	1,235
Other comprehensive income (loss) items for the period, net of tax	**21**	6	(8)
Total comprehensive income for the period	**281**	356	1,227

* See Note 1.3 concerning early application of IFRS 16 - Leasing

The accompanying additional information is an integral part of these condensed separate interim financial information.

Condensed Interim Information on Cash Flows

	Three months ended March 31		Year ended December 31
	2018*	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**260**	350	1,235
Adjustments:			
Depreciation and amortization	**204**	180	728
Share in losses (profits) of investees, net	**3**	(31)	(63)
Financing expenses, net	**114**	87	358
Capital gain, net	**(1)**	(5)	(65)
Income tax expenses	**89**	102	396
Change in trade and other receivables	**(64)**	15	61
Change in trade and other payables	**97**	33	2
Change in provisions	**5**	2	11
Change in employee benefits	**-**	(12)	(37)
Miscellaneous	**1**	-	6
Net cash used for operating activities due to transactions with subsidiaries	**(2)**	(26)	(39)
Net income tax paid	**(190)**	(95)	(368)
Net cash from operating activities	**516**	600	2,225
Cash flows from investment activities			
Investment in intangible assets and other investments	**(29)**	(26)	(110)
Proceeds from the sale of property, plant and equipment	**7**	10	94
Investment in bank and other deposits	**(1,170)**	-	(276)
Disposal of bank and other deposits	**75**	-	547
Purchase of property, plant and equipment	**(176)**	(184)	(715)
Investment in DBS debentures	**-**	-	(20)
Proceeds from investment in DBS debentures	**-**	-	194
Miscellaneous	**4**	(7)	(12)
Net cash (used in) from investment activities due to transactions with investees	**(41)**	(106)	5
Net cash used for investing activities	**(1,330)**	(313)	(293)
Cash flow from finance activities			
Issue of debentures and receipt of loans	**320**	-	2,517
Repayment of debentures and loans	**-**	(224)	(1,363)
Dividends paid	**-**	-	(1,286)
Payment to Eurocom DBS for acquisition of DBS shares and loans	**-**	(61)	(61)
Interest paid	**(6)**	(15)	(397)
Payment of principal and interest for lease	**(33)**	-	-
Net cash from financing activities due to transactions with subsidiaries	**140**	105	245
Net cash from (used in) financing activities	**421**	(195)	(345)
Net increase (decrease) in cash and cash equivalents	**(393)**	92	1,587
Cash and cash equivalents at beginning of period	**1,769**	182	182
Cash and cash equivalents at the end of the period	**1,376**	274	1,769

* See Note 1.3 concerning early application of IFRS 16 - Leasing

The accompanying additional information is an integral part of these condensed separate interim financial information.

Additional Information to the Condensed Separate Interim Financial Information

1. Manner of preparing financial information

1.1 Definitions

"The Company": Bezeq The Israel Telecommunication Corporation Limited

"Investee", the "Group", "Subsidiary": as these terms are defined in the Company's consolidated financial statements for 2017.

1.2 Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38(D) of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Regulation") and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Tenth Addendum") with respect to the separate interim financial information of the corporation. They should be read in conjunction with the separate financial information for the year ended December 31, 2017 and in conjunction with the condensed interim consolidated financial statements as at March 31, 2018 ("the Consolidated Financial Statements").

The accounting policies used in preparing this condensed separate interim financial information is in accordance with the accounting policies set out in the separate financial information as of and for the year ended December 31, 2017, other than that described in section 1.3 below.

1.3 First-time Application of Accounting Standards

As of January 1, 2018, the Group applies early adoption of the international financial reporting standard "Leasing" (IFRS 16) (the “Standard”).

For further information concerning the first-time adoption of IFRS 15 see Note 3.1 to the Consolidated Financial Statements.

The tables below present a breakdown of the effects on the condensed interim statement of financial position as at March 31, 2018 and on the condensed statement of income and interim statement of cash flows for the three month period then ended, assuming that the Group's previous policy regarding leasing activities would have continued during this period.

Effect on the condensed interim statement of financial position as at March 31, 2018:

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Receivables	226	**(3)**	**223**
Rights of use of leased assets	-	**298**	**298**
Trade and other payables	794	**(6)**	**788**
Current liabilities with regard to leasing agreements	-	**101**	**101**
Non-current liabilities with regard to leasing agreements	-	**200**	**200**
Capital	2,425	**-**	**2,425**

Effect on the interim statement of income for the three months ended March 31, 2018:

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
General and operating expenses	163	**(23)**	**140**
Depreciation and amortization costs	182	**22**	**204**
Operating profit	472	**1**	**473**
Financing expenses	120	**1**	**121**
Profit after financing expenses	352	**-**	**352**
Profit before income tax	349	**-**	**349**
Income tax	89	**-**	**89**
Profit for the period	260	**-**	**260**

Effect on the interim statement of cash flows for the three months ended March 31, 2018:

	Per the previous policies	Change	Per IFRS 16
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million
Net cash from operating activities	490	**26**	**516**
Net cash used for investing activities	(1,337)	**7**	**(1,330)**
Net cash from finance activities	454	**(33)**	**421**

For information concerning first time application of other accounting standards, see Notes 3.2 and 3.3 to the Consolidated Financial Statements

2. Revenues

	For the three months ended March 31		Year ended December 31
	2018	2017*	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Internet - infrastructure	**396**	382	1,544
Fixed-line telephony	**302**	334	1,281
Transmission and data communication	**247**	250	975
Cloud and digital services	**62**	56	230
Other services	**56**	56	214
	1,063	1,078	4,244

* Cloud and digital services were reclassified and presented separately to reflect the change in revenue mix. See Note 7 to the Consolidated Financial Statements.

3. Operating and general expenses

	For the three months ended March 31		Year ended December 31
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Maintenance of buildings and sites *	**34**	47	185
Marketing and general	**40**	42	188
Interconnectivity and payments to communications operators	**28**	31	118
Services and maintenance by sub-contractors	**20**	17	73
Vehicle maintenance *	**7**	18	69
Terminal equipment and materials	**11**	10	44
	140	165	677

* See Note 1.3 concerning early application of IFRS 16 - Leasing

4. Contingent liabilities

4.1 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 these litigations, the financial statements include appropriate provisions in the amount of NIS 64 million, where provisions are required to cover the exposure arising from such litigation.

At March 31, 2018:

Provision	* Amount of additional exposure for which probability of realization cannot be foreseen	* Amount of exposure for Claims that cannot yet be assessed
NIS million		
64	**3,222**(1)	**2,218**(2)

* CPI-linked and prior to addition of interest.

Furthermore, other claims have been filed against the Company as class actions with respect to which the Company has additional exposure beyond the aforesaid amounts, which cannot be quantified as the exact amounts of the claims are not stated in the claims.

(1) Including exposure of NIS 2 billion for a motion to certify a class action filed by a shareholder against the Company and officers in the Company, claiming Company reporting failures concerning the wholesale market and decrease in interconnect fees, which the plaintiff estimates at NIS 1.1 billion or NIS 2 billion (depending on the method to be determined for calculating the damage).

(2) Including two motions to certify class action suits, 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 that is the controlling shareholder of the Company, concerning the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. Pursuant to the court's decision, a consolidated motion is expected to be filed, replacing these two motions. On May 2, 2018 the court approved the Attorney General's request to stay the proceedings until August 12, 2018.

4.2 Subsequent to the reporting date, claims amounting to NIS 105 million were filed against the Company. At the date of approval of the financial statements, the chances of these claims succeeding cannot as yet be assessed. Furthermore, two claims were concluded without monetary evaluation.

4.3 See Notes 11.2 through 11.4 to the annual financial statements for 2017 with regard to additional proceedings against the Company and its officers.

For further information concerning contingent liabilities see Note 5 to the Consolidated Financial Statements.

5. Dividends from investees

5.1 On March 5, 2018 the board of directors of Bezeq International resolved to distribute a dividend to the Company in the amount of NIS 58 million in May 2018.

5.2 On March 7, 2018 the board of directors of Pelephone resolved to distribute a dividend to the Company in the amount of NIS 45 million in May 2018.

6. Events in and subsequent to the Reporting Period

6.1 For further information concerning investigations by the Securities Authority and Israel Police, see Note 1.2 to the Consolidated Financial Statements.

6.2 On January 15, 2018, the Company received a loan from Pelephone of NIS 140 million. The loan bears annual interest of 3.48% and is repayable in four equal annual installments commencing from December 1, 2022.

6.3 On February 12, 2018, the Company provided a loan to Bezeq International of NIS 95 million. The loan bears annual interest of 2.61% and is repayable in three equal annual installments commencing from February 12, 2019.

6.4 For information regarding the second contingent consideration to be paid to Eurocom DBS based on the business results of DBS, see Note 4.2.1 to the Consolidated Financial Statements and fair value assessment of the amount expected to be reimbursed to it from the excess advance payments made.

6.5 For information regarding engagements for the issue of debentures and receipt of a loan, see Note 12.1 to the Consolidated Financial Statements.

6.6 For information regarding the conversion of the Company's investment in DBS debentures (Series B) into DBS share capital in February 2018, see Note 13.4 to the Consolidated Financial Statements.

6.7 For information concerning the Company's engagement in an agreement for the sale of a real estate property in the Sakia complex, see Note 12.3 to the Consolidated Financial Statements.

Chapter E:

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended March 31, 2018

1. Report of 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 Periodic and Immediate Reports Regulations, 1970:

Management, under the supervision of the Board of Directors of “Bezeq” The Israel Telecommunication Corp Limited, ("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. Stella Handler, CEO[1];
2. Yaacov Paz, VP Business Division;
3. Ehud Mezuman, VP Human Resources Division;
4. Eyal Kamil, VP Operations and Logistics Division;
5. Itamar Harel, VP Private Division;
6. Amir Nachlieli, Legal Counsel;
7. Guy Hadass, VP Corporate Communications;
8. Gil Rosen, VP Marketing & Innovation Division;
9. Yali Rothenberg, CFO Bezeq Group;
10. Yaacov Zano, VP IT and Network Division;
11. Sharon Fleischer Ben-Yehuda, VP Regulation;

In addition to the said members of Management, the following serve in the Group’s headquarters:

1. Yehuda Porat, Head of Security Unit;
2. Lior Segal, Internal Auditor;
3. Amikam Shorer, Group Chief Strategy and Corporate Development Officer[2];
4. Shelly Bainhoren, Group Corporate Secretary and Internal Compliance Officer;

Internal control over financial reporting and disclosure includes controls and procedures in the Company, which were planned by the CEO 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 controls and procedures planned to ensure that the information that 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

[1] Expected to end her tenure on July 1, 2018.

[2] Expected to end his tenure on July 30, 2018.

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, the 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 the internal controls over financial reporting and disclosure that was attached to the Periodic Report for the period ended December 31, 2017 ("the Last Annual Report on Internal Control"), the Board and Management assessed the internal control in the Company.

Based upon this assessment, the Board and Management of the Company reached the conclusion that the said internal control over financial reporting and disclosure as of December 31, 2017 was ineffective on account of several significant deficiencies identified in the entity level controls, and which in the opinion of Management and the Board cumulatively represent a material weakness, as detailed below.

Up until the reporting date no event or matter was brought to the attention of the Board and Management that would change the assessment of the effectiveness of the internal control, as reported in the Last Annual Report on Internal Control;

At the reporting date, based upon the assessment of the effectiveness of the internal control in the Last Annual Report on Internal Control, there is a material weakness, and accordingly the internal control is ineffective.

Below are details of the material weakness in the internal control[3]:

An Investigation of the Israel Securities Authority is being conducted against the Company and DBS. The Investigation involved the questioning of the Chairman of the Company's Board of Directors (at that time), the CEO of the Company, the CEO and CFO of DBS, and other senior officers and additional senior employees in the Bezeq Group. On November 6, 2017, the Israel Securities Authority published a press release regarding the conclusion of the Investigation and transfer of the Investigation file to the Tel-Aviv District Attorney's Office (Taxation and Economics). According to the press release, the Israel Securities Authority concluded that there is prima facie evidence establishing the involvement of the main suspects in the case in offenses of fraudulent receipt of funds, leaking material from the Independent Committee to the controlling shareholder and his relatives concerning transactions with interested parties, and promoting the Company's interests at the Ministry of Communications in violation of the Penal Code and the Securities Law.

On February 18, 2018, a new joint investigation was opened by the Israel Securities Authority and the Israel Police against several of the Company's senior officers. To the best of the Company's knowledge, these officers are suspected, together with others, of offenses of fraud, administrative offenses, obstruction of justice, bribery, offenses under the Israel Securities Law, deception and breach of trust in a company, and some also of offenses under the Prohibition of Money Laundering Law.

For further details on these matters see section 1.1.6 of the Chapter, Description of Company Operations in the 2017 Periodic Report and the Company's Immediate Reports referred to in that section.

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[3] Disclosure concerning material weakness was provided by the Company for the first time in the Last Annual Report on Internal Control published on March 29, 2018.

The Company does not have complete information about the Investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter. Furthermore, in view of the provisions of Israeli law and concern of obstructing the investigation proceedings, at this stage the Company must refrain from conducting any examinations relating to matters that arose in the course of those investigations. This limits the Company's ability to operate, including in connection with performing audit activity and reviews for the purpose of publishing the Company's reports. Accordingly, the Company is unable to assess the effects of the investigations, their findings and their effect on the Company and its officers, on the assessment of the internal controls of the Company, on the financial statements and on the estimates used in the preparation of these financial statements, if any. Similarly, it is not possible to determine, in respect of matters related to these Investigations, whether all significant deficiencies and material weaknesses have been identified and assessed as part of the assessment of the internal control over financial reporting and disclosure.

Without derogating from the foregoing, a number of significant deficiencies identified in the assessment of the effectiveness of internal control over financial reporting and disclosure are deficiencies arising from or impacted by the Investigations as stated above. Among them, during the period of the Investigations as stated, conditions were set for release under restrictions of some of those under investigation serving in key positions in the Company and DBS, which led to the extended absence of some of those under investigation, thereby constraining the Company and Group companies in their operations. As a result, and due to the large number of meetings of the Board and their committees in the Company and DBS in the period from the opening of the Investigation, there were also delays in preparation of the minutes of a significant number of meetings of the Board and their committees in these companies in 2017. In addition, there were indications of procedural deficiencies in respect of the work of the Independent Committee of the Board of Directors related to the engagements that, to the best of the Company's knowledge, are under investigation.

Moreover, it was found that a limited number of employees who took part in the change management control process in one of the Company's IT systems acted in an improper manner in contravention of the Company's procedures. In addition, suspicion arose, as part of the Company's internal review concerning the period after November 1, 2017, that the Company's Corporate Secretary (at that time) listened in on discussions to which she was prohibited from being privy to.

In addition, in some of the Group companies, a lack of procedures and a need to update certain procedures were found.

Management and the Board are implementing various actions, under the constraints arising from the Investigations, with assistance from outside professional consultants, to act to correct the material weakness and in order to deepen the correctness of the Company's control process and to ensure that despite there being a material weakness in the internal control, the reports are prepared in compliance with the law. All this is in addition to the various developments that have occurred in the Company from the start of the Investigations, all as detailed below.

Actions carried out by the Company and developments that occurred until reporting date of the Company's 2017 Periodic Report:

1. The Company has retained the services of professional accounting support to assist in the process of preparing the financial statements of DBS for 2017. These services were received by the reporting date. Similarly, as part of the preparation of the 2017 Periodic Report, the Company and

DBS have added supplementary procedures on specific subjects in order to enhance the internal control over financial reporting and disclosure on those subjects.

2. In the period following the opening of the Investigation and until the reporting date, there were changes in the composition of the Company's Board of Directors and Management, and, among other things, director David Granot was appointed Interim Chairman of the Board by the Company's Board; directors Shaul Elovitch and Or Elovitch (who have been investigated as part of the Investigations) resigned their positions and in their place two new directors were appointed by the Company's Board; Mr. Yaacov Paz, Vice President of the Business Division, was appointed temporarily as the Company's Interim CEO.
3. On March 18, 2018 the Company's CEO announced her resignation as of July 1, 2018.
4. The employees who took part in the change management control process in one of the Company's IT systems and who acted in an improper manner in contravention of the Company's procedures, have been moved to other positions that are not involved in the financial reporting and disclosure process, and supplementary procedures have been implemented in respect of those employees. In addition, the former Corporate Secretary has been transferred to another position that is not one of an officer (and later ended her employment in the Company).
5. Bezeq Group has started to implement a special review of the issues of corporate governance led by the Company's Internal Auditor and supported by outside consultants. The work includes deeper reviews on the issues of risk management, compliance, enforcement and internal control. The review is expected to be completed by the middle of 2018.
6. Similarly, the Company carried out a special review of the appropriateness of the Company's control processes. The review was carried out by outside consultants, led by the Company's Internal Auditor and under the supervision of a special, independent committee from among the Company's Board members. The review was completed by the reporting date, however, it was limited in scope and did not include factual reviews in respect of matters raised in the Investigations. Further to this review, the special committee approved various changes to the control processes and the work within the Company, which are expected to be completed by the end of 2018.
7. Completion of the preparation of minutes of Board meetings and those of its committees of the Company and DBS has commenced. The process is expected to be completed by September 30, 2018.
8. The Group companies will work throughout 2018 to complete the missing procedures and to update procedures as required.
9. Once the constraints on carrying out reviews and controls related to issues that arose in the Investigations are lifted, the review of all matters related to subjects that arose during those Investigations will be completed as required.

Additional actions taken by the Company and developments that occurred after the reporting date of the Company's 2017 Periodic Report until this reporting date:

1. During the process to identify and appoint candidates to the Company's Board of Directors, which was carried out with the support of a specialist company in the field, on April 26, 2018 the Annual General Meeting of the Company's shareholders elected a new composition of the Board including 2 new external directors (in addition to the three external directors serving in the Company), 2

independent directors and 6 directors who are not necessarily independent directors (including one director from among the employees), so that at reporting date there are 13 directors serving. Similarly, on April 30, 2018 the Company's Board decided to elect Mr. Shlomo Rodav as Chairman of the Company's Board of Directors.

Further to this, new appointments were made of directors to the Company's board committees and to the boards of the subsidiaries.

2. On April 30, 2018 the Group Chief Strategy and Corporate Development Officer announced his resignation, effective from July 30, 2018.

3. Further to the Company's decision to carry out a review of the effectiveness of the Board's work and a review of the Board's working procedures, the work has commenced and is being led by the Company's Internal Auditor, some with the assistance of professional consultants. The review is expected to be completed by the end of 2018.

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[4]:

I, Stella Handler, declare that:

1. I have reviewed the quarterly report of “Bezeq” The Israel Telecommunication Corp Limited, ("the Company") for the first quarter of 2018 ("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 reporting period.

3. To the best of my knowledge, the financial statements and other financial information in the Reports fairly present in all material respects, the financial condition, 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 to the auditor of the Company, to the Board of Directors, to the Audit and the Financial Statements 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 the internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and 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 involve other employees who have a significant role in the Company’s internal control over financial reporting and disclosure

5. I, alone or together with others in the Company:

   A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010 is brought to my knowledge 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 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 reported to me that would change the

[4] This declaration is subject to the limitations arising from the Investigations, as stated in the preamble to this Chapter in the Company’s 2017 Periodic Report.

conclusions of the Board and Management concerning the effectiveness of internal controls 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 23, 2018

Stella Handler, CEO;

B. Declaration of the CFO of the Company and the Group in accordance with Regulation 38C(d)(2) of the Securities Regulations (Periodic and Immediate Reports), 1970[5]:

I, Yali Rothenberg, 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 Corp Limited, ("the Company") for the first quarter of 2018 ("the Reports" or “the Reports for the Interim Period”).

2. To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period do not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports;

3. To the best of my knowledge, the interim financial statements and other financial information in the Reports for the Interim Period fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the dates and periods presented in the Reports:

4. I have disclosed the following to the auditor of the Company, to the Company’s Board of Directors, to the Audit and the Financial Statements Committees of the Board of Directors of the Company, based on my most recent evaluation of the 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 they refer 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 record, 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; and -

   B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involve 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 our supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports; and -

   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 financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles;

[5] This declaration is subject to the limitations arising from the Investigations, as stated in the preamble to this Chapter in the Company’s 2017 Periodic Report.

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 reported to me in respect of the interim financial statements and to any other financial information included the Reports for the Interim Period, that would change in my opinion the conclusions of the Board and Management concerning the effectiveness of the 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 23, 2018

Yali Rothenberg,
CFO Bezeq Group