May 23, 2022

Bezeq - The Israel Telecommunication Corporation Ltd.

Quarterly Report for Period Ended March 31, 2022

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

Report of the Board of Directors on the State of the Company's Affairs for the period ended March 31, 2022

Condensed Interim Financial Statements as of March 31, 2022

Quarterly report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the period ended March 31, 2022

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

Update to Chapter A (Description of Company Operations)[1]
to the Periodic Report for 2021 (hereinafter - the “Periodic Report”)
of Bezeq - Israel Telecommunications Corp. Ltd. (hereinafter - the “Company”)

1. General development of the Group's business

Section 1.1.5 - Structural Changes - Restructuring of the Subsidiaries

Regarding the establishment of ISP activity in DBS - In April 2022, DBS submitted an application to the Ministry of Communications for a special license for Internet access services (ISP).

On May 17, 2022, the Company’s Board of Directors approved the appointment of Mr. Ilan Sigal as CEO of the subsidiaries, Pelephone, DBS and Bezeq International, replacing Mr. Ran Guron, who was appointed as the Company CEO (see the update to Section 2.9.5).

Section 1.4.2 – Dividend Distribution

For details regarding the distribution made by the Company in May 2022, see Note 7 to the Financial Statements.

The balance of distributable profit as of the date of the report: approx. NIS 1,694 million (retained earnings accumulated in the last two years after deduction of the distribution in May 2022).

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

Section 1.5.4 – Main Results and Operational Data

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

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

(1) EBITDA (earnings before interest, taxes, depreciation and amortization) is a financial index that is not based on generally accepted accounting principles. The Company presents this metric as an additional metric for assessing its business results, since this is a generally accepted metric in the Company's area of operations that offsets aspects arising from variance of the capital structure, various tax aspects, and the depreciation/amortization method and period for fixed assets and intangible assets. This metric is not a substitute for metrics which are based on GAAP, and is not used as a sole metric for assessing the results of the Company's operations or cash flows. Additionally, the metric presented in this report may be calculated differently from corresponding metrics in other companies. The Company's EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from the impairment of property, plant and equipment and intangible assets. In order to present fairly its financial activities, the Company presents continuing losses from the impairment of fixed assets and intangible assets in DBS and Bezeq International under the line item depreciation and amortization, and continuing losses from the impairment of broadcasting rights under the line item general and operating expenses (in the income statement). On this matter, see Note 5 to the Financial Statements and Section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

(2) Free cash flow is a financial metric that is not based on GAAP. Free cash flow is defined as cash from operating activities less cash for the purchase/sale of fixed assets and intangible assets, net, and from 2018, with the application of IFRS 16, lease payments are also deducted. The Company presents free cash flow as an additional metric for assessing its business results and cash flows, since it believes that free cash flow is an important indicator of liquidity that reflects cash resulting from operating activities after cash investments in infrastructure and other fixed assets and intangible assets. On this matter, see Section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

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

(4) Calculated according to average number of lines for the period. On this matter, see also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

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

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

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

(8) Revenue from retail internet services is divided by the average number of retail customers in the period. On this matter, see also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

(9) As of the date of publication of the report, deployment of the fiber optic network - approx. 1.25 million households available for connection, of which approx. 143 thousand subscribers are connected to the fiber network.

B. Pelephone

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

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

(2) Subscriber data includes Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network and excluding IOT subscribers) and does not include subscribers connected to Pelephone's service 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 or not made at least one call / sent at least one SMS, or has performed no surfing activity on his phone, or has not paid for Pelephone services. Prepaid subscribers are included in the number of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if the subscriber makes no outgoing use of his device for six months or more. It is noted that a customer may have more than one subscriber number ("line"). The subscriber list includes subscribers who use various services (such as data for vehicle media systems) from which the average revenue is substantially lower than for other subscribers. It is noted that Pelephone markets bundles with an increased browsing volume adapted also for 5G needs, and as of shortly before the report publication date, Pelephone has over 624,000 subscribers for bundles of this kind.

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

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

C. Bezeq International

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

(1) On the definition of EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table.
(2) The line item also includes long-term investments in assets.
(3) The number of internet subscribers who left Bezeq International during the period, divided by the average number of registered internet subscribers in the period. See also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2021.

D. DBS

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

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

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

(3) The number of DBS subscribers using yes+ and STINGTV services transmitted over the internet (as detailed in Sections 5.2.2.1 and 5.2.2.2 of the Description of the Corporation's Business chapter in the Periodic Report for 2021) as of the date of publication of the report is approx. 265 thousand (of which approx. 91 thousand use STINGTV), which constitutes approx. 47% of all DBS subscribers. This number includes subscribers that use satellite services as well.

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

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

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

Section 1.7.2 - Activity of Bezeq Group as a communications group and the structural separation restrictions

Subsection 1.7.2.4 - Marketing of a basket of Internet infrastructure services with ISP - Regarding the elimination of the separation between broadband infrastructure service and Internet access service (ISP), following on from the description in the section, on April 3, 2022 (the effective date) the Company began marketing and providing a unified infrastructure and ISP service.

Section 1.7.4 – Regulatory Aspects Relevant to the Entire Group or Several Group Companies

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

Subsection 1.7.4.14 - Regarding a hearing on the subject of the preparation for cyber defense management - On May 2, 2022, the licenses of the Company, Pelephone and Bezeq International were amended in an amendment regulating the main issues raised at the hearing, including the addition of a section and appendix to the cyber defense management license. The Company, Pelephone and Bezeq International are working to implement the license amendments.

Section 1.7.6 - Pandemic – Covid-19 outbreak

See in this regard Note 1.2 to the Financial Statements.

Section 1.8.3 - Streamlining measures and promoting implementation of synergies between the subsidiaries

Regarding the implementation of measures to promote and assimilate streamlining and synergy between the subsidiaries - the extent of assimilation of streamlining and synergy processes is being negotiated as part of the renewal of the collective agreements with the employee representations of Bezeq International and Pelephone Communications.

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

Section 2.6.6 – The Company's Deployment and Ways of coping with the Intensifying Competition

Subsection 2.6.6.6 on the Company's Be router – As of the report publication date, the number of Company customers using the Be router was 699,000 (68.4% of the Company's retail internet customers). In addition, the Company marketed approx. 380 thousand units of products for improving the reception range of the Be Spot and Be Mesh home Internet networks.

Section 2.9.5 – Officers and Senior Management in the Company

On April 24, 2022, the Company CEO, Mr. Dudu Mizrahi, announced the termination of his position as the Company CEO. His term of office will end on June 15, 2022. On May 12, 2022, the Company's Board of Directors approved the appointment of Mr. Ran Guron (CEO of the subsidiaries, Pelephone, Bezeq International and DBS) as the Company CEO.

On April 28, 2022, the General Meeting of the Company's shareholders approved, among other things, the updated compensation policy for a period of three (3) years, effective from January 1, 2022, which includes, among other things, clarifying amendments regarding a restitution on compensation paid based on incorrect financial information, adjustment of the compensation policy in a manner that enables the granting of a performance-dependent variable compensation to the Chairman of the Company's Board of Directors, as well as wording amendments and other technical amendments.

Section 2.11 – Working Capital

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

Section 2.13 – Financing

Regarding the shelf prospectus published by the Company on April 7, 2020 - In April 2022, the Securities Authority approved an extension of the period for the offering of securities under the shelf prospectus until April 7, 2023. According to the Authority's approval, in view of the existence of enforcement proceedings regarding the Company, to the extent that the Company wishes to publish a shelf offering report under the shelf prospectus during the period stated and as long as the proceedings continue, any such shelf offering report will be subject to a Securities Authority permit in accordance with the provisions of Rule 2(8) of the Securities Rules (Cases in which the Publication of a Shelf Offering Report will be Subject to a Permit from the Securities Authority), 2016.

Section 2.13.6 – Credit Rating

On May 10, 2022, Maalot affirmed its ilAA-/Stable rating for the Company and its debentures. In addition, on May 15, 2022, Midroog affirmed an Aa3.il rating of the Company's debentures with a stable outlook. On this matter, see also the Company's immediate reports dated May 10, 2022 and May 15, 2022, included herein by way of reference as well as Section 3 of the Report of the Board of Directors.

Section 2.16 – Restrictions and Supervision on the Company's Operations

On May 16, 2022, the Company received a call for proposals issued by the Ministry of Communications regarding the provision of communications services to the business sector, in which the Ministry is calling on companies in the communications market that provide communications services to the medium-large business sector to describe in detail their activities in the field and the existing barriers to expanding their activities. This is in order to promote regulation that will increase competition in the field. According to that stated in the call for proposals, the medium-large business customer market is characterized by a significant economy of scale and significant barriers to entry and expansion that also limit players who have been operating therein for many years. In addition, the Company's market share in the sector and the rate of change therein are an indication of a low level of competition in the sector that affects the prices and the level of services received by businesses in Israel, and therefore, the Ministry is taking steps to examine the state of competition and barriers in the field and is asking for the positions of the players. The Company is studying the call for proposals and intends to submit its position to the Ministry by the deadline set for the submission of positions (June 6, 2022).

Section 2.16.1 – Supervision of Company tariffs

Following on from the hearing to determine the maximum tariff for passive infrastructure access service (access service to the duct) and dark fiber service in the incentive areas published by the Ministry of Communications on February 21, 2022- on March 27, 2022 the Company submitted its reference to the hearing according to which there were material flaws in the economic opinion at the hearing, and that there should be a freeze on the intention to reduce the rates for use of the Company's infrastructure in those areas, noting that according to the Ministry's intention the matter of use of Bezeq infrastructure and the wholesale price to be set for the service is expected to be discussed as part of the renewal of the wholesale tariff period and the matter of the service price in the incentive areas should be part of the same arrangement.

Section 2.18.1 – Pending Legal Proceedings

Subsection A regarding a class action for compensation in respect of losses claimed to have been caused to the Company's shareholders due to the Company's reporting failures, and the partial approval of the claim as a class action - negotiations are being held between the parties to conclude the proceeding by way of a settlement in which the plaintiffs will be paid, by the officers insurance company and at no cost to the Company and the officers as defendants, a total amount of NIS 75 million (including compensation and attorney's fees). It should be noted that at this stage it is only a matter of negotiation and there is no assurance that it will mature into a binding agreement. In addition, a settlement agreement in the matter, to the extent it is signed, will require the approval of the court where the proceeding is conducted. However, in view of accounting standard provisions a provision for the settlement amount was recorded in the Company's financial statements for the first quarter of 2022, and on the other hand, in view of the existence of full insurance coverage, an indemnity asset was recognized in the same statements in the amount of the provision, so that the recording has no effect on the Company's results.

Subsection I regarding a request for disclosure and review of documents prior to the filing of a derivative claim that was filed against the Company and Bezeq International in which an order for disclosure and review of documents was requested regarding asset balances in the books of Bezeq International - On March 25, 2022, the court approved an agreed request for the applicants' departure from the request for disclosure and review of the documents by way of its rejection.

Subsection M regarding a claim and a request for approval as a class action that was filed against the Company with the claim of misleading on the part of the Company in connection with the B144 service - On March 23, 2022 a judgment was given rejecting the request for approval while stating that the applicants did not provide an evidential or factual basis, even minimal, to show a cause of action in the case.

3. **Cellular telephony – Pelephone Communications Ltd. (hereinafter - "Pelephone")**

Section 3.16.1 – Pending Legal Proceedings

Subsection E regarding an application for approval of a class action filed against Pelephone and another cellular company, claiming that they do not allow their subscribers to take advantage of the full "overseas packages" purchased in advance - On April 26, 2022, a judgment was rendered rejecting the applicants' appeal of the rejection of the request for approval.

4. **ISP, International communications and NEP services – Bezeq International Ltd. (hereinafter - "Bezeq International")**

Section 4.12.1 – Pending Legal Proceedings

Regarding the departure from the request for disclosure and review of documents prior to the filing of a derivative claim that was filed against the Company and Bezeq International regarding asset balances in the books of Bezeq International, see the update to Section 2.18.1(I).

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

Section 5.1 - General information about the area of operations

On May 19, 2022, DBS signed an agreement with a corporation from the Walt Disney Group (hereinafter - "**Disney**"), according to which as part of Disney's entry into the Israeli market, DBS, Pelephone and Bezeq International (hereinafter - the "**Subsidiaries**") will be allowed to distribute the "Disney+" streaming service in Israel (hereinafter - "**Disney+ Service**"), in tandem with communication bundles marketed by them, under the conditions determined, for a period of about three years from the date of the launch of Disney+ service by Disney in Israel (hereinafter - the "**Agreement**"). Disney will be entitled to a payment based on the amount of subscriptions of the subsidiaries that will purchase the Disney+ service, and which will not be less than the amounts set forth in the agreement, which are not material to the Company. The agreement provides a number of marketing advantages to DBS, some of which are subject to the approval of the Competition Authority.

Section 5.13 – Financing

In April 2022, the Company approved the provision of a credit facility or capital investment to DBS for a total of up to NIS 40 million, for 15 months as of April 1, 2022. The foregoing approval replaces a similar approval given in November 2021 (and is not in addition thereto).

Section 5.18 – Goals and Strategy

Section 5.18.1 on DBS's gradual migration from satellite broadcasts to OTT broadcasts – See update to Section 1.5.4(d) (Footnote 3).

Date: May 23, 2022

Bezeq - The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:
Gil Sharon, Chairman of the Board of Directors
Dudu Mizrahi, Chief Executive Officer

Chapter B –

Board of Directors' Report on the State of the Company's Affairs for the Period Ended March 31, 2022

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

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, 2022.

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

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

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

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

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

The Group's results were as follows:

	1-3/2022	1-3/2021	Increase(decrease)	
	NIS million		NIS million	%
Profit	**282**	408	(126)	(30.9)
EBITDA *	**908**	1,062	(154)	(14.5)
Adjusted EBITDA*	**958**	918	40	4.4

* Regarding non-GAAP financial measures, see below.

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

For further information see section 1.2 below.

<u>* Non-GAAP Financial Measures</u>

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

These measures include:

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

The metrics were calculated as follows:

	1-3/2022	1-3/2021
	NIS million	
Operating profit	**460**	586
Net of depreciation, amortization and impairment	**448**	476
EBITDA	**908**	1,062
Net of other operating expenses (income), net	**46**	(152)
Net of equity compensation plan expenses	**4**	8
Adjusted EBITDA	**958**	918

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

1.1. Financial position - Assets

	March 31, 2022	March 31, 2021	Increase (decrease)		Explanation
	NIS million			%	
Cash and current investments	**2,091**	1,787	304	17.0	The increase was mainly attributable to increased current investment reserves in the Domestic Fixed-Line Communications segment. For more information, see Section 1.3 below.
Current and non-current trade and other receivables	**2,424**	2,369	55	2.3	The increase was mainly due to growth in other receivables due to an insurer's obligation for indemnification coverage for a provision for legal claims (see Note 6.2 to the financial statements), offset by a decrease in trade receivables.
Inventory	**108**	87	21	24.1	The growth in inventory was mainly attributable to the Cellular Communications segment as a result of a stocking up ahead of the launch of new handset models.
Held-for-sale assets	**-**	2	(2)	-	
Broadcasting rights	**62**	62	-	-	
Right-of-use assets	**1,816**	1,735	81	4.7	
Fixed assets	**6,400**	6,182	218	3.5	The increase was attributable to the Domestic Fixed-Line Communications segment, due, among other things, to the progress made by the fiber network deployment project.
Intangible assets	**931**	937	(6)	(0.6)	
Deferred tax assets	**-**	57	(57)	-	
Deferred costs and non-current investments	**235**	330	(95)	(28.8)	The decrease was primarily due to redemption of a long-term shekel deposit in the Domestic Fixed-Line Communications segment.
Total assets	**14,067**	13,548	519	3.8	

1.1 Financial position (cont.) – Liabilities and Equity

	March 31, 2022	March 31, 2021	Increase (decrease)		Explanation
	NIS million			%	
Debt to financial institutions and debenture holders	**7,723**	8,396	(673)	(8.0)	The decrease in debt was due to debenture and loan repayments (including early repayments), offset by the issuance of debenture Series 13 and 14 plus the receipt of new loans in the Domestic Fixed-Line Communications segment.
Lease liabilities	**1,943**	1,840	103	5.6	
Trade and other payables	**1,915**	1,793	122	6.8	The increase stemmed primarily from the reclassification of the liability for payment of the cost of 5G frequencies in the Cellular Communications segment to a current liability.
Employee benefits	**642**	779	(137)	(17.6)	The decrease was due to payments for employee retirement and efficiency plans across the Group and a higher discount rate on employee liabilities, offset by an increased provision for termination of employment by way of early retirement during 2021.
Provisions	**233**	136	97	71.3	The increase was attributable to an increase in provisions for claims in the Domestic Fixed-Line Communications segment.
Other liabilities	**191**	316	(125)	(39.6)	The decrease stemmed mainly from reclassification of the liability for payment of the cost of 5G frequencies in the Cellular Communications segment as a current liability, as well as from a decrease in derivatives in the Domestic Fixed-Line Communications segment.
Total liabilities	**12,647**	13,260	(613)	(4.6)	
Total equity	**1,420**	288	1,132	-	
Total liabilities and equity	**14,067**	13,548	519	3.8	

1.2. Results of operations

1.2.1. Highlights

	1-3/2022	1-3/2021	Increase (decrease)		Explanation
	NIS million			%	
Revenues	**2,255**	2,221	34	1.5	The increase in revenues was attributable to the Domestic Fixed-Line Communications segment and Cellular Communications segment, offset by lower revenues in the "Others" segment.
General operating expenses	**827**	831	(4)	(0.5)	
Salaries	**474**	480	(6)	(1.3)	The decrease was primarily attributable to the "Others" segment, offset by higher expenses mainly in the Domestic Fixed-Line Communications segment.
Depreciation, amortization and impairment	**448**	476	(28)	(5.9)	The higher expenses in the Domestic Fixed-Line Communications segment were offset by lower expenses in the rest of the Group.
Other operating expenses (income), net	**46**	(152)	198	(130.3)	The change was due to higher provision expenses for legal claims in the Domestic Fixed Line Communications segment, plus the fact that the same quarter a year ago included a capital gain on the sale of a real estate property. See Note 10 to the financial statements.
Operating profit	**460**	586	(126)	(21.5)	
Finance expenses, net	**85**	51	34	66.7	The increase was mainly attributable to the Domestic Fixed-Line Communications segment. See Note 11 to the financial statements.
Income tax	**93**	127	(34)	(26.8)	
Profit for the period	**282**	408	(126)	(30.9)	

1.2.2. Operating segments

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

	1-3/2022		1-3/2021	
	NIS million	% of total revenues	NIS million	% of total revenues
Revenues by operating segment				
Domestic Fixed-Line Communications	**1,096**	**48.6**	1,054	47.5
Cellular Communications	**600**	**26.6**	570	25.7
Bezeq International Services	**307**	**13.6**	312	14.0
Multichannel Television	**316**	**14.0**	315	14.2
Others and adjustments	**(64)**	**(2.8)**	(30)	(1.4)
Total	**2,255**	**100**	2,221	100

	1-3/2022		1-3/2021	
	NIS million	% of segment revenues	NIS million	% of segment revenues
Operating profit (loss) by operating segment				
Domestic Fixed-Line Communications	**386**	**35.2**	593	56.3
Cellular Communications	**64**	**10.7**	(3)	(0.5)
Bezeq International Services	**(4)**	**(1.3)**	(8)	(2.6)
Multichannel Television*	**(7)**	**(2.2)**	(18)	(5.7)
Others and adjustments	**21**	**-**	22	-
Consolidated operating profit/ % of Group revenues	**460**	**20.4**	586	26.4

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

1.2.2. Operating segments

B. Domestic Fixed-Line Communications segment

	1-3/2022	1-3/2021	Increase (decrease)		Explanation
	NIS million			%	
Internet infrastructure	**434**	398	36	9.0	Retail ARPU increased primarily due to customer services over the fiber network (as of March 2021) and supplementary terminal equipment, coupled with a rise in the number of retail internet lines and higher wholesale Internet service rates, offset by a decrease in the number of wholesale internet lines.
Fixed-line telephony	**220**	242	(22)	(9.1)	The decrease was attributable to lower average revenue per telephone line (ARPL), owing primarily to a lessening of the impact of the COVID-19 pandemic on telephone use, as well as a decrease in the number of lines.
Transmission, data communications and others	**361**	332	29	8.7	The increase was mainly due to growth in revenues from transmission services for ISPs and businesses, and from development work.
Digital and cloud services	**81**	82	(1)	(1.2)	
Total revenues	**1,096**	1,054	42	4.0	
General operating expenses	**178**	155	23	14.8	The increase was largely due to a rise in subcontractor expenses and in the cost of terminal equipment and materials, brought on, among other things, by the deployment of the fiber network.
Salaries	**246**	233	13	5.6	The increase was mainly due to the hiring of employees and higher salaries, offset by the retirement of employees.
Depreciation and amortization	**239**	223	16	7.2	
Other operating expenses (income), net	**47**	(150)	197	-	The change was due to higher provision expenses for legal claims versus a decrease in said expenses in the same quarter a year ago, and the fact that the same quarter a year ago included a capital gain on the sale of a real estate property. See Note 10 to the financial statements.
Operating profit	**386**	593	(207)	(34.9)	
Finance expenses, net	**94**	68	26	38.2	The increase stemmed mainly from costs for early repayment of debentures (Series 9) and from higher linkage differentials on debentures due to a CPI increase in the current quarter, offset by financing income in respect of employee benefits. See Note 11 to the financial statements.
Income tax	**74**	125	(51)	(40.8)	
Segment profit	**218**	400	(182)	(45.5)	

1.2.2 Operating segments

C. Cellular Communications segment

	1-3/2022	1-3/2021	Increase (decrease)		Explanation
	NIS million			%	
Services	**437**	392	45	11.5	The increase was primarily due to recovery from the effects of the COVID-19 pandemic, reflected in higher revenues from roaming services and continued growth in the post-paid subscriber base, including subscribers to 5G bundles.
Sales of terminal equipment	**163**	178	(15)	(8.4)	The decrease was mainly attributable to a change in the device sales mix in light of the timing of the launch dates for new models and a reduction in wholesale sales.
Total revenues	**600**	570	30	5.3	
General operating expenses	**333**	352	(19)	(5.4)	The decline was largely due to a decrease in the costs of terminal equipment sales in parallel with lower revenues, as well as a reduction in IT costs as a result of the recognition of cloud computing system integration in the prior year quarter.
Salaries	**82**	79	3	3.8	The increase was mainly attributable to the adjustment of salary provisions and the placing of employees on unpaid leave in the prior year quarter, partially offset by a reduction in the number of jobs.
Depreciation and amortization	**122**	142	(20)	(14.1)	The decrease was chiefly due to a decrease in the cost of right-of-use assets at cellular sites.
Other operating income, net	**(1)**	-	(1)	-	
Operating profit (loss)	**64**	(3)	67	-	
Finance income, net	**9**	10	(1)	(10)	
Income tax (tax benefits)	**17**	(1)	18	-	
Segment profit	**56**	8	48	-	

1.2.2 Operating segments

D. ISP, International Communications and NEP Services and ICT Solutions ("Bezeq International Services")

	1-3/2022	1-3/2021	Increase (decrease)		Explanation
	NIS million			%	
Revenues	**307**	312	(5)	(1.6)	The decrease stemmed from a decline in revenues from equipment and licensing due to longer delivery times to customers, coupled with a decrease in revenues from Internet services due to a decline in the number of subscribers and the cessation of retail internet sales during the current quarter. The decrease in said revenues was partially offset by increased revenues from business applications, resulting from an increase in cloud licensing sales.
General operating expenses and impairments	**216**	211	5	2.4	The increase was primarily due to higher expenses from business applications in parallel with rising cloud licensing sales and higher expenses in respect of internet activity, resulting primarily from growing broadband volume consumption. The increase in these expenses was partially offset by lower expenses on sales of equipment and licenses to businesses coupled with reduced revenues from this area.
Salaries	**56**	60	(4)	(6.7)	The decrease was mainly due to continued downsizing of the Company's workforce.
Depreciation, amortization and impairments	**38**	49	(11)	(22.4)	The decrease was mainly due to a decrease in the expenses on amortization of the subscriber acquisition asset, amortization of bandwidth capacities and amortization of other property, as well as a decrease in net impairments.
Other operating expenses, net	**1**	-	1	-	
Operating profit (loss)	**(4)**	(8)	4	(50.0)	
Finance expenses, net	**1**	-	1	-	
Income tax	**-**	-	-	-	
Segment (loss) profit	**(5)**	(8)	3	(37.5)	

1.2.2. Operating segments

E. Multichannel Television *

	1-3/2022	1-3/2021	Increase (decrease)		Explanation
	NIS million			%	
Revenues	**316**	315	1	0.3	
General operating expenses	**208**	213	(5)	(2.3)	The decrease was mainly due to lower content costs.
Salaries	**49**	47	2	4.3	
Depreciation and amortization	**66**	75	(9)	(12.0)	The decrease was mainly due to fully amortized assets and an update of depreciation estimates.
Other operating income, net	**-**	(2)	2	-	
Operating (loss)	**(7)**	(18)	11	(61.1)	
Finance expenses (income), net	**(1)**	(7)	6	(85.7)	The decrease was mainly due to a decrease in the number of hedging transactions and the effect of a change in the dollar exchange rate on hedging transactions.
Income tax	**1**	1	-	-	
Segment (loss)	**(7)**	(12)	5	(41.7)	

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

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

	1-3/2022		1-3/2021	
	Accounting Profit and Loss	**Proforma Profit and Loss**	**Accounting Profit and Loss**	**Proforma Profit and Loss**
	NIS million			
Revenues	**316**	**316**	315	315
General operating expenses	**206**	**208**	212	213
Salaries	**50**	**49**	50	47
Depreciation and amortization	**50**	**66**	61	75
Other operating (income)	**-**	**-**	(2)	(2)
Operating profit (loss)	**10**	**(7)**	(6)	(18)
Finance income, net	**(1)**	**(1)**	(7)	(7)
Income tax	**1**	**1**	1	1
Profit (loss)	**10**	**(7)**	-	(12)

1.3. Cash Flow

	1-3/2022	1-3/2021	Change		Explanation
	NIS million			%	
Net cash from operating activities	**1,096**	700	396	56.6	The increase in net cash from operating activities stemmed from changes in working capital, mainly due to the deferral of collection from customers from the fourth quarter of 2021 to the first quarter of 2022, owing to sanctions by employees in the Cellular Communications segment and the Bezeq International Services segment, as well as the transition to a daily clearing procedure vis-à-vis the credit card companies in the Domestic Fixed-Line Communications segment. There is also a decrease in income tax paid. The increase in cash flow occurred in all segments of the Group.
Net cash used in investing activities	**(327)**	(309)	(18)	5.8	The increase in net cash used in investing activities stemmed primarily from a decrease in proceeds from the sale of fixed assets, offset by an increase in net proceeds from the redemption of bank deposits and a decrease in the purchase of fixed assets in the Domestic Fixed-Line Communications segment.
Net cash used in financing activities	**(516)**	(107)	(409)	382.2	The increase in net cash used in financing activities stemmed mainly from partial early repayment at the Company's initiative of debentures (Series 9) in the amount of NIS 370 million, as well as early repayment costs totaling NIS 26 million.
Net increase in cash	**253**	284	(31)	(10.9)	

<u>Average volume in the reported quarter</u>
Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 7,893 million
Supplier credit: NIS 974 million
Short-term credit to customers: NIS 1,726 million
Long-term credit to customers: NIS 263 million

The Company has surplus working capital (according to the separate financial statements) as of March 31, 2022 amounting to NIS 278 million, compared with surplus working capital of NIS 228 million as of March 31, 2021.
The Group's surplus working capital as of March 31, 2022 amounted to NIS 267 million, compared with surplus working capital of NIS 224 million as of March 31, 2021.

1.4 Impact of COVID-19 pandemic outbreak

Further to Note 1.4 to the Annual Financial Statements for 2021 regarding the outbreak of COVID-19, it is noted that as of the date of approval of the financial statements, the effects of the COVID-19 pandemic on the Group's operations in 2022 have thus far been insignificant. The decline in infection rate, the Israeli economy's return to full routine activity, and the easing of restrictions on travel abroad have led to a significant recovery in Pelephone's revenues from roaming services in recent months, having reached slightly lower than pre-pandemic levels. It is further noted that in 2022 till now the supply chain disruptions and global chip shortage have continued to affect the times and prices of supply of equipment by the main suppliers of the Group companies. In view of the foregoing, the Group companies are taking various steps to limit the damage to their operations.

It should be emphasized that the COVID-19 pandemic is an unfolding event that is not within the Group's control, thus should the pandemic continue or worsen, this may have a material adverse effect on the Group's results, reflected, among other things, in lower revenues from roaming services and sales of cellular terminal equipment as well as a decrease in revenues from the business sector across all the Group companies. This may also affect employee availability, customer and technical services, supply chain operations, and the amounts and times of payments collected from customers of the Group. The impacts of the COVID-19 pandemic on the Group may change depending on various developments, in particular the duration and scope of the pandemic, the nature and extent of the economic and other related restrictions, and the intensity and duration of the resulting economic slowdown.

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

2. Disclosure Concerning the Company's Financial Reporting

2.1. Disclosure on a material valuation

Below are details of a material valuation in accordance with Regulation 8B of the Securities Regulations (Periodic and Immediate Reports), 1970:

	D.B.S. (*)
Subject of valuation	Recoverable amount of DBS Satellite Services (1998) Ltd. in order to test for impairment of non-current assets.
Date of valuation	March 31, 2022; the valuation was signed on May 17, 2022.
Value prior to the valuation had GAAP, including depreciation and amortization, not required a change in value in accordance with the valuation	Negative amount – NIS 60 million.
Value set in the valuation	Negative amount – NIS 125 million.
Appraiser's identity and profile	The valuation was prepared by Prof. Hadas Gelander, Partner and Head of Valuations and Economic Modeling in the Economic Department at Ernst Young (Israel) Ltd. Prof. Gelander holds a Bachelor Degree in Accounting from the College of Management – Academic Studies, Rishon Lezion; an MBA from the Hebrew University of Jerusalem; and a PhD (with honors) from the Ben Gurion University, Beer Sheva; and is a Certified Public Accountant in Israel. In her position, Prof. Gelander oversees projects of leading companies in Israel and the world, in various sectors such as: technology, finance, pharmaceuticals, energy, infrastructures, real estate and industry. As part of her duties, she assists and advises companies in the preparation of valuations for business purposes (fair value valuations and opinions) and for accounting purposes (purchase price allocation, valuation of intangible assets, valuation of employee options, etc.), and has provided professional financial opinions as an expert court witness. The appraiser is not dependent on the Company. The Company undertook to indemnify the appraiser for damages above three times the fee she was paid, except if she acted with malicious intent or gross negligence.
Valuation model	First stage –The value-in-use was revised using the discounted cash flow (DCF) method compared with the valuation as of December 31, 2021. Second stage –The fair value of non-current assets less sales costs was determined for DBS as of March 31, 2022.
Assumptions used in the valuation	Assumptions were made concerning the fair value less costs to sell of DBS's assets. In calculating the revised value-in-use by the DCF method, the following parameters were used: Discount rate – 9% (post-tax); terminal growth rate – 1%

For more information, see Note 5 to the financial statements.

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

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

2.3. Material subsequent events

For information on material subsequent events – see Note 15 to the financial statements.

3. Details related to debt certificate series

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

On May 10, 2022, S&P Maalot affirmed an ilAA-/Stable rating for the Company and its debentures (see Immediate Report).

On May 15, 2022, Midroog affirmed a rating of Aa3.il with a stable outlook for the Company's debentures (see Immediate Report).

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

4. Miscellaneous

For information concerning the balance of liabilities of the reporting corporation and those companies consolidated in its financial statements as of March 31, 2022, see the Company's reporting form that will be uploaded on the MAGNA system on May 24, 2022.

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

Gil Sharon Chairman of the Board of Directors	Dudu Mizrahi Chief Executive Officer

Signed: May 23, 2022

Chapter C:

Condensed Consolidated Interim Financial Statements as of March 31, 2022 (Unaudited)

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

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Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 531 2000

Auditors' Review Report to the Shareholders of

Bezeq - The Israel Telecommunication Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of Bezeq -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – "Group") comprising the condensed consolidated interim statement of financial position as of March 31, 2022 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for this interim period in accordance with IAS 34 "Interim Financial Reporting," and are also responsible for the preparation of the financial information for this interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

Scope of Review

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

Conclusion

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

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

Explanatory Paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 1.3 of the financial information, which refers to that stated in Note 1.3 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) and the Israel Police investigation of the suspicion of committing offenses under the Securities Law and Penal Code, with respect inter alia to transactions related to the former controlling shareholder, and notifying the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of the company's prosecution and holding a hearing on suspicion of bribery and reporting in

Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 531 2000

order to mislead a reasonable investor, and as mentioned in that note, regarding the indictment filed against the former controlling shareholder for various offenses, including bribery and misleading information in an immediate report and regarding the filing of an indictment against the former controlling shareholder in the company and former senior executives in the Bezeq Group, which accuses the defendants of receiving anything fraudulently in aggravated circumstances, fraud and breach of trust in the corporation, and reporting offenses under the Securities Law. In addition, subsequent to the investigation opening, a number of civil legal proceedings were initiated against the company, former officers of the company as well as companies from the group that previously controlled the company, including requests for approval of class actions. As stated in the above note, the Company is unable to assess the effects of the investigations, their findings and their results on the Company, and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

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

Somekh Chaikin

Certified Public Accountants (Isr.)

May 23, 2022

Condensed Consolidated Interim Statements of Financial Position

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**1,226**	1,124	973
Investments	**865**	663	954
Trade receivables	**1,593**	1,648	1,859
Other receivables	**400**	209	279
Inventory	**108**	87	74
Assets held for sale	**-**	2	-
Total current assets	**4,192**	3,733	4,139
Trade and other receivables	**431**	512	433
Broadcasting rights	**62**	62	60
Right-of-use assets	**1,816**	1,735	1,828
Fixed assets	**6,400**	6,182	6,312
Intangible assets	**931**	937	912
Deferred expenses and non-current investments	**235**	330	226
Deferred tax assets	**-**	57	24
Total non-current assets	**9,875**	9,815	9,795
Total assets	**14,067**	13,548	13,934

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

Condensed Consolidated Interim Statements of Financial Position (cont.)

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities and equity			
Debentures, loans and borrowings	**949**	785	980
Current maturities of lease liabilities	**449**	402	466
Trade and other payables	**1,915**	1,793	1,748
Employee benefits	**424**	442	510
Provisions	**188**	87	69
Total current liabilities	**3,925**	3,509	3,773
Loans and debentures	**6,774**	7,611	7,082
Lease liabilities	**1,494**	1,438	1,511
Employee benefits	**218**	337	243
Derivatives and other liabilities	**147**	282	142
Provisions	**45**	49	49
Deferred tax liabilities	**44**	34	38
Total non-current liabilities	**8,722**	9,751	9,065
Total liabilities	**12,647**	13,260	12,838
Total equity	**1,420**	288	1,096
Total liabilities and equity	**14,067**	13,548	13,934

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

Date of approval of the financial statements: May 23, 2022

Condensed Consolidated Interim Statements of Income

		Three months ended March 31		Year ended December 31
		2022	2021	2021
		(Unaudited)	(Unaudited)	(Audited)
	Note	NIS million	NIS million	NIS million
Revenues	8	**2,255**	2,221	8,821
Operating expenses				
General operating expenses*	9	**827**	831	3,257
Salaries		**474**	480	1,882
Depreciation, amortization and impairment*		**448**	476	1,889
Other operating expenses (income), net	10	**46**	(152)	(77)
Total operating expenses		**1,795**	1,635	6,951
Operating profit		**460**	586	1,870
Financial expenses (income)				
Financial expenses		**119**	77	349
Financial income		**(34)**	(26)	(44)
Financial expenses, net	11	**85**	51	305
Profit before income tax		**375**	535	1,565
Income tax		**93**	127	382
Net profit for the period attributable to shareholders of the Company		**282**	408	1,183
Earnings per share (NIS)				
Basic and diluted earnings per share		**0.10**	0.15	0.43

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Net profit for the period	**282**	408	1,183
Additional items of other comprehensive income, net of tax	**12**	22	37
Remeasurement of a defined benefit plan, net of tax	***26**	-	(1)
Total comprehensive income for the period attributable to shareholders of the Company	**320**	430	1,219

* Comprehensive income was recognized due to an update of the discount rate used to calculate the net defined benefit obligation, as of March 31, 2022.

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Capital reserve for employee options	Other reserves	Accumulated deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to shareholders of the Company						
Three months ended March 31, 2022 (unaudited)							
Balance at January 1, 2022	3,878	384	390	27	(26)	(3,557)	1,096
Profit for the period	**-**	**-**	**-**	**-**	**-**	**282**	**282**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**-**	**12**	**26**	**38**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**12**	**308**	**320**
Transactions with shareholders recognized directly in equity							
Share-based payment	**-**	**-**	**-**	**4**	**-**	**-**	**4**
Balance at March 31, 2022	**3,878**	**384**	**390**	**31**	**(14)**	**(3,249)**	**1,420**
Three months ended March 31, 2021 (unaudited)							
Balance at January 1, 2021	3,878	384	390	-	(63)	(4,739)	(150)
Profit for the period	-	-	-	-	-	408	408
Other comprehensive income for the period, net of tax	-	-	-	-	22	-	22
Total comprehensive income for the period	-	-	-	-	22	408	430
Transactions with shareholders recognized directly in equity							
Share-based payment	-	-	-	8	-	-	8
Balance at March 31, 2021	3,878	384	390	8	(41)	(4,331)	288
Year ended December 31, 2021 (audited)							
Balance at January 1, 2021	3,878	384	390	-	(63)	(4,739)	(150)
Profit for the year 2021	-	-	-	-	-	1,183	1,183
Other comprehensive income (loss) for the year, net of tax	-	-	-	-	37	(1)	36
Total comprehensive income for the year 2021	-	-	-	-	37	1,182	1,219
Transactions with shareholders recognized directly in equity							
Share-based payment	-	-	-	27	-	-	27
Balance at December 31, 2021	3,878	384	390	27	(26)	(3,557)	1,096

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

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**282**	408	1,183
Adjustments:			
Depreciation, amortization and impairment loss	**448**	476	1,889
Capital loss (gain), net	**2**	(125)	(175)
Financial expenses, net	**106**	56	324
Share-based payment	**4**	8	27
Income tax expenses	**93**	127	382
Change in trade and other receivables	**218**	(59)	(229)
Change in inventory	**(37)**	(18)	(19)
Change in trade and other payables	**89**	26	(41)
Change in provisions	**43**	(29)	(47)
Change in employee benefits	**(83)**	(37)	(65)
Change in other liabilities	**(2)**	2	(5)
Net income tax paid	**(67)**	(135)	(385)
Net cash provided by operating activities	**1,096**	700	2,839
Cash flow for investing activities			
Purchase of fixed assets	**(335)**	(356)	(1,328)
Investment in intangible assets and deferred expenses	**(95)**	(102)	(363)
Investment in bank deposits	**(409)**	(511)	(1,031)
Proceeds from repayment of bank deposits	**499**	474	800
Proceeds from the sale of fixed assets	**15**	183	278
Miscellaneous	**(2)**	3	(2)
Net cash used in investing activities	**(327)**	(309)	(1,646)
Cash flow for financing activities			
Principal and interest payments for leases	**(111)**	(102)	(387)
Interest paid	**(9)**	(5)	(254)
Issue of debentures and receipt of loans	**-**	-	695
Repayment of debentures and loans	***(370)**	-	(1,067)
Costs for early repayment of loans and debentures	**(26)**	-	(15)
Payment for expired hedging transactions	**-**	-	(30)
Miscellaneous	**-**	-	(2)
Net cash used in financing activities	**(516)**	(107)	(1,060)
Increase in cash and cash equivalents	**253**	284	133
Cash and cash equivalents at the beginning of the period	**973**	840	840
Cash and cash equivalents at the end of the period	**1,226**	1,124	973

* Partial early redemption, at the Company's initiative, of Company Debentures (Series 9) totaling a par value of NIS 370 million, as detailed in Note 13.2 to the Annual Financial Statements.

1. General

1.1 Reporting Entity

Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Company as of March 31, 2022 include those of the Company and its subsidiaries (jointly – the "Group"). The Group is a major provider of communications services in Israel (see also Note 13 – Segment Reporting).

1.2 Impact of COVID-19 pandemic outbreak

Further to Note 1.4 to the Annual Financial Statements for 2021 regarding the outbreak of COVID-19, it is noted that as of the date of approval of the financial statements, the effects of the COVID-19 pandemic on the Group's operations in 2022 have thus far been insignificant. The decline in infection rate, the Israeli economy's return to full routine activity, and the easing of restrictions on travel abroad have led to a significant recovery in Pelephone's revenues from roaming services in recent months, having reached slightly lower than pre-pandemic levels. It is further noted that in 2022 till now the supply chain disruptions and global chip shortage have continued to affect the times and prices of supply of equipment by the main suppliers of the Group companies. In view of the foregoing, the Group companies are taking various steps to limit the damage to their operations.

It should be emphasized that the COVID-19 pandemic is an unfolding event that is not within the Group's control, thus should the pandemic continue or worsen, this may have a material adverse effect on the Group's results, reflected, among other things, in lower revenues from roaming services and sales of cellular terminal equipment as well as a decrease in revenues from the business sector across all the Group companies. This may also affect employee availability, customer and technical services, supply chain operations, and the amounts and times of payments collected from customers of the Group. The impacts of the COVID-19 pandemic on the Group may change depending on various developments, in particular the duration and scope of the pandemic, the nature and extent of the economic and other related restrictions, and the intensity and duration of the resulting economic slowdown.

1.3 Investigations by the Israel Securities Authority and the Israel Police

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

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

2. Basis of Preparation

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

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

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on May 23, 2022.

2.4 Use of estimates and judgments

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

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

3. Reporting Principles and Accounting Policy

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

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

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

A. Incremental costs; and

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

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

4. Group Entities

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

4.1 Structural change in the Subsidiaries

As stated in Note 12.1.2 to the Annual Financial Statements, on March 16, 2022, the Company's Board of Directors decided, pursuant to the resolutions passed on the same day by the Subsidiaries' boards of directors, to cancel the Merger/Spin-off Plan (a previous plan for a structural change in the Subsidiaries, whereby Bezeq International's consumer activity was to be merged with and into DBS, while Bezeq International's ICT activity was to be spun off into a new wholly owned subsidiary of the Company), and to approve an alternative outline, for which an implementation plan would be presented within 60 days to the Subsidiaries' boards of directors, whereby Bezeq International's ISP activity in the consumer sector would be reduced following cancellation of the separation of broadband infrastructure services and Internet access (ISP) services, while ISP activity would be established at DBS for the sale of "Triple Play" packages to customers ("the Alternative Outline"), with a view to achieving, insofar as possible, the strategic, business and financial objectives underlying the decision to promote the structural change, namely, adapting the activity to the structure of the industry and to the evolving regulation, focusing on increasing revenues and growth, and boosting operational synergy and efficiency.

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

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

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

4.2.1 As of March 31, 2022, DBS has an equity deficit of NIS 38 million and a working capital deficit of NIS 206 million. According to its own forecasts, DBS expects to accumulate operating losses in the coming years and therefore will not be able to meet its obligations and to continue operating as a going concern without the Company's support.

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

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

4.2.2 See Note 5.1 below for information about an impairment of assets recognized by DBS in the financial statements as of March 31, 2022.

4.3 Bezeq International Ltd.

See Note 5.2 below for information about an impairment of assets recognized by Bezeq International in the financial statements as of March 31, 2022.

5. Impairment

5.1 Impairment of the Multichannel Television segment (DBS)

Further to Note 10.5 to the Annual Financial Statements regarding impairment recognized in 2021, the valuation as of December 31, 2021 presented a value-in-use significantly lower than the carrying amount of DBS. According to the impairment test carried out by an external appraiser as of March 31, 2022, as well as the assessment by DBS's management, it was found that during the three months since the date of the previous valuation there had been no significant changes in DBS's economic performance, or in the market in which DBS operates, or within its regulatory, legal and economic environment, which could materially affect DBS's forecasts for the years ahead. It is clarified that as of the date of this report, in the absence of an ISP license (an application for said license was submitted to the Ministry of Communications), DBS's forecast does not include its strategic plan for establishing ISP activity and selling "Triple Play" packages, combining fiber-optics and television, to its customers (which is described in Note 4.1 above).

In light of the negative enterprise value, as determined in the valuation as of December 31, 2021, DBS reduced its assets as of March 31, 2022 to their net realizable value.

Based on the fair value valuation of DBS's assets which was carried out by an external appraiser as of March 31, 2022, the carrying amount of the depreciable and amortizable assets is NIS 65 million higher than their fair value less costs to sell. Accordingly, in the three-month period ended March 31, 2022, the Group recognized an impairment loss of NIS 65 million.

Allocation of impairment loss to Group assets:

	Three months ended March 31		Year ended December 31
	2022	**2021**	**2021**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Broadcasting rights*	**32**	37	146
Fixed assets**	**20**	28	91
Intangible assets**	**10**	14	48
Rights of use of leased assets **	**2**	-	-
Other receivables (prepaid expenses)*	**1**	3	4
Total impairment recognized	**65**	82	289

* The expense was presented under general operating expenses

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

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

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

Further to Note 10.6 to the Annual Financial Statements regarding impairment of the ISP, International Communications and NEP Services and ICT Solutions cash-generating unit in 2021 – the valuation as of December 31, 2021 presented a significantly lower value-in-use than the book value of Bezeq International

A valuation carried out by an external appraiser as of March 31, 2022, was based on up-to-date forecasts made by Bezeq International following cancellation of the Merger/Spin-off Plan and approval of the Alternative Outline described in Note 4.1 above. In the valuation, significant changes were made to the assumptions and management's forecasts pertaining to the streamlining of manpower, in accordance with the provisions of IAS 36 concerning structural change.

The enterprise value of Bezeq International totaled a negative NIS 176 million. The fair value of Bezeq International's assets less costs to sell, as of March 31, 2022, is a negative NIS 15 million. In view of the negative enterprise value as determined in the valuation as of March 31, 2022, Bezeq International reduced its assets to their net realizable value. Based on the fair value valuation of Bezeq International's assets by an external appraiser as of March 31, 2022, the carrying amount of Bezeq International's depreciable and amortizable assets is NIS 34 million higher than their fair value less costs to sell. Accordingly, in the three-month period ended March 31, 2022, the Group recognized an impairment loss of NIS 34 million.

Allocation of impairment loss to Group assets:

	Three months ended March 31		Year ended December 31
	2022	**2021**	**2021**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Fixed assets and intangible assets **	**24**	23	75
Short-term and long-term prepaid expenses *	**8**	1	28
Long-term prepaid expenses for bandwidth capacity**	**2**	5	17
Rights of use of leased assets **	**-**	-	2
Total impairment recognized	**34**	29	122

* The expense was presented under general operating expenses.

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

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

6. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, *inter alia*, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions in the amount of NIS 184 million, where provisions are required to cover the exposure arising from such Legal Claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond those provisions) as of March 31, 2022, for Legal Claims filed against Group companies on various matters, which are unlikely to be realized, amounts to NIS 3 billion. There is also additional exposure of NIS 2.5 billion for Legal Claims the chances of which cannot yet be assessed. In addition, motions to certify class actions have been filed against the Group companies, which do not specify the exact amount of the claim and for which the Group has additional exposure beyond the aforesaid.

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

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

6.2 Following are details of the Group's contingent liabilities as of March 31, 2022, classified into groups with similar characteristics:

Claims group	Nature of the claims	Balance of provision	Additional exposure	Exposure for claims whose chances cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions (and claims by virtue thereof) on grounds of unlawful collection of payment and faulty service provided by the Group companies.	**101**	**2,261**	**687**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or investments.	**(1)75**	**677**	**(2)1,813**
Claims of employees and former employees of Group companies	Mainly individual lawsuits filed by employees and former employees of the Group, regarding various payments.	**-**	**2**	**-**
Claims by the State and authorities	Various legal proceedings by the State of Israel, government institutions and authorities (the "Authorities"). These are mainly proceedings related to regulation applicable to the Group companies and financial disputes concerning amounts payable by the Group companies to the Authorities (including municipal property taxes). See also Note 6.6 to the Annual Financial Statements.	**8**	**-**	**-**
Miscellaneous	Other lawsuits, including claims in tort (excluding claims whose insurance coverage is not disputed), or claims related to real estate, infrastructure, suppliers, etc.	**-**	**36**	**4**
Total legal claims against the Company and subsidiaries		**184**	**2,976**	**2,504**

(1) The balance of provision was recognized as an indemnification asset in the full amount of the provision, in view of the existence of insurance coverage. The asset was presented under the item "Other receivables" in the statement of financial position as of March 31, 2022, pursuant to the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets."

(2) The amount includes two motions to certify class actions for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's controlling shareholder at the time, with respect to the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed, in view

of the criminal proceeding that is being conducted following the investigation by the Securities Authority (described in Note 1.3) and at the request of the Attorney General, until July 20, 2022.

6.3 Subsequent to the date of the financial statements, a claim was concluded without a specified amount.

7. Equity

7.1 Share capital

	March 31, 2022 Number of shares (Unaudited)	March 31, 2021 Number of shares (Unaudited)	December 31, 2021 Number of shares (Audited)
Authorized share capital	**2,849,485,753**	2,849,485,753	2,849,485,753
Issued and paid-up share capital	**2,765,540,626**	2,765,485,753	2,765,485,753

7.2 Dividend distribution

7.2.1 See Note 20.2.1 to the Annual Financial Statements regarding the dividend distribution policy approved by the Company's Board of Directors on March 22, 2022.

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

8. Revenues

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Domestic fixed-line communications – Bezeq fixed-line			
Internet infrastructure	**418**	381	1,562
Fixed-line telephony	**215**	236	891
Transmission and data communication	**220**	208	844
Cloud and digital services	**81**	82	318
Other services	**72**	62	230
	1,006	969	3,845
Cellular communications – Pelephone			
Cellular services and terminal equipment	**428**	383	1,606
Sale of terminal equipment	**161**	177	643
	589	560	2,249
Multichannel television – DBS	**316**	315	1,270
ISP, international communications and NEP services, and ICT services – Bezeq International	**293**	299	1,186
Other	**51**	78	271
Total revenues	**2,255**	2,221	8,821

9. General Operating Expenses

	Three months ended March 31		Year ended December 31
	2022	**2021**	**2021**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Terminal equipment and materials	**203**	221	803
Interconnectivity and payments to domestic and international telecommunications operators	**183**	182	717
Content costs (including content impairment)	**131**	144	553
Marketing and general	**130**	124	538
Services and maintenance by subcontractors	**111**	86	348
Maintenance of buildings and sites	**55**	60	238
Vehicle maintenance	**14**	14	60
Total general operating expenses	**827**	831	3,257

10. Other Operating Expenses (Income), Net

	Three months ended March 31		Year ended December 31
	2022	**2021**	**2021**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Capital loss (gain) (mainly from the sale of real estate)	**2**	(125)	(175)
Provision (reversal of provision) for claims	**43**	(30)	(23)
Employee termination expenses for early retirement at the Company	**2**	2	95
Employee termination expenses for early retirement and efficiency agreement at Pelephone, Bezeq International and DBS	**-**	-	37
Amounts received under a settlement agreement	**-**	-	(5)
Other expenses (income)	**(1)**	1	(6)
Total other operating expenses (income), net	**46**	(152)	(77)

11. Financial Expenses, Net

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	**51**	59	230
Financial expenses for lease liabilities	**10**	9	40
Linkage and exchange rate differences	**28**	4	49
Costs for early repayment of loans and debentures	**26**	-	15
Other financial expenses	**4**	2	8
Financial expenses for employee benefits	**-**	3	7
Total financial expenses	**119**	77	349
Financial income from employee benefits	***20**	-	-
Income from credit in sales	**6**	8	28
Change in fair value of financial assets at fair value through profit or loss	**6**	7	-
Other financial income	**2**	11	16
Total financial income	**34**	26	44
Financial expenses, net	**85**	51	305

* Including financial income of NIS 23 million that was recognized due to an update of the discount rate used to calculate employee benefit obligations, as of March 31, 2022.

12. Financial Instruments

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

	March 31, 2022		March 31, 2021		December 31, 2021	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Loans from banks and financial institutions (unlinked)	**1,620**	**1,634**	2,131	2,250	1,612	1,713
Debentures issued to the public (CPI-linked)	**2,961**	**3,188**	3,218	3,472	2,913	3,249
Debentures issued to the public (unlinked)	**2,873**	**2,887**	3,059	3,262	3,222	3,415
	7,454	**7,709**	8,408	8,984	7,747	8,377

12.2 Fair value hierarchy

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

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 2 – Forward contracts	**9**	(79)	(19)
Level 3 – Contingent consideration and a commitment for non-controlling interests in a business combination.	**6**	-	-

13. Segment Reporting

13.1 Operating segments

	Three months ended March 31, 2022 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	Bezeq International services	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	**1,006**	**589**	**293**	**316**	**51**	**-**	**2,255**
Inter-segment revenues	**90**	**11**	**14**	**-**	**-**	**(115)**	**-**
Total revenues	**1,096**	**600**	**307**	**316**	**51**	**(115)**	**2,255**
Depreciation and amortization	**239**	**122**	**38**	**66**	**1**	**(18)**	**448**
Segment results – operating profit (loss)	**386**	**64**	**(4)**	**(7)**	**4**	**17**	**460**
Financial expenses	**121**	**7**	**2**	**2**	**-**	**(13)**	**119**
Financial income	**(27)**	**(16)**	**(1)**	**(3)**	**-**	**13**	**(34)**
Total financial expenses (income), net	**94**	**(9)**	**1**	**(1)**	**-**	**-**	**85**
Segment profit (loss) after financial expenses, net	**292**	**73**	**(5)**	**(6)**	**4**	**17**	**375**
Income tax	**74**	**17**	**-**	**1**	**1**	**-**	**93**
Segment results – net profit (loss)	**218**	**56**	**(5)**	**(7)**	**3**	**17**	**282**

	Three months ended March 31, 2021 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	Bezeq International services	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	969	560	299	315	78	-	2,221
Inter-segment revenues	85	10	13	-	1	(109)	-
Total revenues	1,054	570	312	315	79	(109)	2,221
Depreciation and amortization	223	142	49	75	1	(14)	476
Segment results – operating profit (loss)	593	(3)	(8)	(18)	10	12	586
Financial expenses	80	6	2	1	-	(12)	77
Financial income	(12)	(16)	(2)	(8)	-	12	(26)
Total financial expenses (income), net	68	(10)	-	(7)	-	-	51
Segment profit (loss) after financial expenses, net	525	7	(8)	(11)	10	12	535
Income tax	125	(1)	-	1	2	-	127
Segment results – net profit (loss)	400	8	(8)	(12)	8	12	408

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

13.1 Operating segments (cont.)

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

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

13.2 Reportable segment profit or loss reconciliation

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Operating profit for reportable segments	**439**	564	1,771
Financial expenses, net	**(85)**	(51)	(305)
Adjustments for the Multichannel Television segment	**17**	12	72
Profit (loss) for operations classified under the category of "Other" and other adjustments	**4**	10	27
Consolidated profit before income tax	**375**	535	1,565

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

14.1 Pelephone Communications Ltd.

Selected data from the statement of financial position

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**896**	866	1,121
Non-current assets	**3,555**	3,478	3,331
Total assets	**4,451**	4,344	4,452
Current liabilities	**812**	703	837
Long-term liabilities	**884**	1,003	916
Total liabilities	**1,696**	1,706	1,753
Equity	**2,755**	2,638	2,699
Total liabilities and equity	**4,451**	4,344	4,452

Selected data from the statement of income

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**437**	392	1,642
Revenues from sales of terminal equipment	**163**	178	647
Total revenues from services and sales	**600**	570	2,289
Operating expenses			
General operating expenses	**333**	352	1,346
Salaries	**82**	79	315
Depreciation and amortization	**122**	142	577
Total operating expenses	**537**	573	2,238
Other operating expenses (income), net	**(1)**	-	9
Operating profit (loss)	**64**	(3)	42
Financial expenses (income)			
Financial expenses	**7**	6	23
Financial income	**(16)**	(16)	(65)
Financial income, net	**(9)**	(10)	(42)
Profit (loss) before income tax	**73**	7	84
Income tax expenses (income)	**17**	(1)	20
Profit for the period	**56**	8	64

14.2 Bezeq International Ltd.

Selected data from the statement of financial position

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**492**	429	472
Non-current assets	**321**	310	311
Total assets	**813**	739	783
Current liabilities	**440**	407	409
Long-term liabilities	**159**	135	157
Total liabilities	**599**	542	566
Equity	**214**	197	217
Total liabilities and equity	**813**	739	783

Selected data from the statement of income

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues	**307**	312	1,237
Operating expenses			
General operating expenses and impairment	**216**	211	799
Salaries	**56**	60	237
Depreciation, amortization and impairment	**38**	49	173
Other expenses, net	**1**	-	6
Total operating expenses	**311**	320	1,215
Operating profit (loss)	**(4)**	(8)	22
Financial expenses (income)			
Financial expenses	**2**	2	5
Financial income	**(1)**	(2)	(3)
Financial expenses, net	**1**	-	2
Profit (loss) before income tax	**(5)**	(8)	20
Income tax expenses	**-**	-	12
Profit (loss) for the period	**(5)**	(8)	8

14.3 DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**220**	188	196
Non-current assets	**255**	231	230
Total assets	**475**	419	426
Current liabilities	**426**	431	394
Long-term liabilities	**87**	68	80
Total liabilities	**513**	499	474
Equity deficit	**(38)**	(80)	(48)
Total liabilities and equity	**475**	419	426

Selected data from the statement of income

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues	**316**	315	1,270
Operating expenses			
General operating expenses and impairment	**206**	212	835
Salaries	**50**	50	188
Depreciation, amortization and impairment	**50**	61	203
Other operating income, net	**-**	(2)	12
Total operating expenses	**306**	321	1,238
Operating profit (loss)	**10**	(6)	32
Financial expenses (income)			
Financial expenses	**2**	1	4
Financial income	**(3)**	(8)	(3)
Financial expenses (income), net	**(1)**	(7)	1
Profit before income tax	**11**	1	31
Income tax expenses	**1**	1	1
Profit for the period	**10**	-	30

15. Material Subsequent Events

See Note 7.2.2 regarding distribution of a cash dividend on May 16, 2022.

Condensed Separate Interim Financial Information as of March 31, 2022

Contents	Page

Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 531 2000

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, 2022 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.

Scope of Review

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

Conclusion

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

Explanatory Paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 6.1 of the financial information, which refers to Note 1.3 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) and the Israel Police investigation of the suspicion of committing offenses under the Securities Law and Penal Code, with respect inter alia to transactions related to the former controlling shareholder, and notifying the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of the company's prosecution and holding a hearing on suspicion of bribery and reporting in order to mislead a reasonable investor, and as mentioned in that note, regarding the filing of an indictment against the former controlling shareholder for various offenses, including bribery and misleading information in an immediate report and regarding the filing of an indictment against the former controlling shareholder in the company and former senior executives in the Bezeq Group, which accuses the defendants of receiving anything fraudulently in aggravated circumstances, fraud and breach of trust in the corporation, and reporting offenses under the Securities Law. In addition, subsequent to the investigation opening, a number of civil legal proceedings were initiated against the company, former officers of the company as well as companies from the group that

Somekh Chaikin
8 Hartum Street, Har Hotzvim
PO Box 212
Jerusalem 9100102, Israel
+972 2 531 2000

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

May 23, 2022

Condensed Separate Interim Information on Financial Position

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**837**	801	702
Investments	**864**	662	954
Trade receivables	**729**	785	776
Other receivables	**224**	95	122
Assets held for sale	**-**	2	-
Total current assets	**2,654**	2,345	2,554
Trade and other receivables	**218**	217	222
Fixed assets	**5,475**	5,238	5,400
Intangible assets	**248**	243	243
Goodwill	**265**	265	265
Investment in investees	**3,068**	2,888	3,001
Right-of-use assets	**667**	608	656
Non-current and other investments	**159**	218	139
Deferred tax assets	**-**	62	31
Total non-current assets	**10,100**	9,739	9,957
Total assets	12,754	12,084	12,511

Condensed Separate Interim Information on Financial Position (cont.)

	March 31, 2022	March 31, 2021	December 31, 2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**948**	785	980
Trade and other payables	**816**	841	725
Employee benefits	**357**	360	425
Current maturities of lease liabilities	**109**	80	105
Loans from subsidiaries	**-**	-	130
Provisions (Note 5)	**146**	51	28
Total current liabilities	**2,376**	2,117	2,393
Loans and debentures	**6,774**	7,611	7,082
Loans from subsidiaries	**1,360**	1,120	1,100
Employee benefits	**178**	306	204
Lease liabilities	**589**	546	583
Derivatives and other liabilities	**57**	96	53
Total non-current liabilities	**8,958**	9,679	9,022
Total liabilities	**11,334**	11,796	11,415
Equity			
Share capital	**3,878**	3,878	3,878
Share premium	**384**	384	384
Reserves	**407**	357	391
Accumulated deficit	**(3,249)**	(4,331)	(3,557)
Total equity	**1,420**	288	1,096
Total liabilities and equity	12,754	12,084	12,511

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

Date of approval of the financial statements: May 23, 2022

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

Condensed Separate Interim Information on Income

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues (Note 2)	**1,096**	1,054	4,182
Operating expenses			
Salaries	**246**	233	934
Depreciation and amortization	**239**	223	938
General operating expenses (Note 3)	**178**	155	667
Other operating expenses (income), net (Note 4)	**47**	(150)	(105)
Total operating expenses	**710**	461	2,434
Operating profit	**386**	593	1,748
Financial expenses (income)			
Financial expenses	**121**	80	357
Financial income	**(27)**	(12)	(15)
Financial expenses, net	**94**	68	342
Profit after financial expenses, net	**292**	525	1,406
Share in profits of investees, net	**64**	8	120
Profit before income tax	**356**	533	1,526
Income tax	**74**	125	343
Profit for the period	**282**	408	1,183

Condensed Separate Interim Information on Comprehensive Income

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	**282**	408	1,183
Items of other comprehensive income for the period, net of tax	**38**	22	36
Total comprehensive income for the period	**320**	430	1,219

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

Condensed Separate Interim Information on Cash Flows

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**282**	408	1,183
Adjustments:			
Depreciation and amortization	**239**	223	938
Share in profits of investees, net	**(64)**	(8)	(120)
Financial expenses, net	**104**	58	301
Capital gain, net	**1**	(125)	(173)
Share-based payment	**2**	5	15
Income tax expenses	**74**	125	343
Change in trade and other receivables	**20**	(30)	(24)
Change in trade and other payables	**57**	36	(3)
Change in provisions	**43**	(28)	(50)
Change in employee benefits	**(67)**	(22)	(63)
Miscellaneous	**2**	(1)	-
Net cash provided by operating activities due to transactions with subsidiaries	**(2)**	10	45
Net income tax paid	**(57)**	(141)	(368)
Net cash provided by operating activities	**634**	510	2,024
Cash flows from investing activities			
Investment in intangible assets and other investments	**(45)**	(39)	(148)
Proceeds from the sale of fixed assets	**14**	182	273
Investment in bank deposits and securities	**(409)**	(511)	(1,031)
Proceeds from repayment of bank deposits and the sale of securities	**499**	474	800
Purchase of fixed assets	**(240)**	(273)	(1,007)
Miscellaneous	**2**	6	9
Net cash provided by investing activities with subsidiaries	**-**	-	10
Net cash used in investing activities	**(179)**	(161)	(1,094)
Cash flows from financing activities			
Interest paid	**(9)**	(5)	*(255)
Payment of principal and interest for a lease	**(36)**	(29)	(116)
Issue of debentures and receipt of loans	**-**	-	695
Repayment of debentures and loans	**(370)**	-	(1,067)
Costs for early repayment of loans and debentures	**(26)**	-	(15)
Payment for expired hedging transactions	**-**	-	(30)
Net cash provided by financing activities due to transactions with subsidiaries	**121**	55	*129
Net cash provided by (used in) financing activities	**(320)**	21	(659)
Net increase in cash and cash equivalents	**135**	370	271
Cash and cash equivalents at the beginning of the period	**702**	431	431
Cash and cash equivalents at the end of the period	**837**	801	702

* Reclassified

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

Notes to the Condensed Separate Interim Financial Information

1. Manner of Preparing Financial Information

1.1 Definitions

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

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

1.2 Principles used for preparing financial information

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

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

2. Revenues

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Internet infrastructure	**434**	398	1,624
Fixed-line telephony	**220**	242	913
Transmission and data communications	**286**	268	1,087
Cloud and digital services	**81**	82	318
Other services	**75**	64	240
Total revenues	**1,096**	1,054	4,182

3. General Operating Expenses

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**27**	27	111
Marketing and general	**46**	40	187
Interconnectivity and payments to telecommunications operators	**26**	28	104
Services and maintenance by subcontractors	**41**	28	134
Vehicle maintenance	**7**	9	35
Terminal equipment and materials	**31**	23	96
Total general operating expenses	**178**	155	667

4. Other Operating Expenses (Income), Net

	Three months ended March 31		Year ended December 31
	2022	2021	2021
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Capital loss (gain) from the sale of fixed assets (mainly real estate)	**1**	(125)	(173)
Provision for employee termination expenses for early retirement	**2**	2	95
Other expenses (income) (mainly provisions for claims)	**44**	(27)	(27)
Total other operating expenses (income), net	**47**	(150)	(105)

5. Contingent Liabilities

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

In the opinion of the Company's management, based, *inter alia*, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions in the amount of NIS 146 million, where provisions are required to cover the exposure arising from such Legal Claims.

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

Breakdown of the Company’s contingent liabilities as of March 31, 2022:

Balance of provision	Additional exposure*	Exposure for claims whose chances cannot yet be assessed*
NIS million		
(1)146	**1,322**	**(2)2,471**

* Nominal

(1) An indemnification asset of NIS 75 million was recognized against a provision of NIS 75 million, in view of the existence of insurance coverage. The asset was presented under the item "Other receivables" in the statement of financial position as of March 31, 2022, pursuant to the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets."

(2) The exposure includes:

The amount includes two motions to certify class actions for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's controlling shareholder at the time, with respect to the transaction for the Company’s acquisition of DBS shares from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed, in view of the criminal proceeding that is being conducted following the investigation by the Securities Authority, as described in Note 1.3 of the Consolidated Statements, and at the request of the Attorney General, until July 20, 2022.

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

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

6. Events in and Subsequent to the Reporting Period

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

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

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

6.4 In April 2022, the Company's Board of Directors approved the grant of an irrevocable undertaking to DBS for the provision of a credit facility or capital investment of NIS 40 million for 15 months, as of April 1, 2022 until June 30, 2023, instead of a similar undertaking from November 2021. See Note 4.2 to the Consolidated Statements.

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

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

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

Chapter E:
Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period Ended March 31, 2022

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

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

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

For this matter, the members of Management are:

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

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

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

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

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

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

In the annual report on the effectiveness of internal control over financial reporting and disclosure that was attached to the periodic report for the period ended December 31, 2021 (the "Last Annual Report on Internal Control"), the Board of Directors and Management evaluated internal control in the Company. Based on that evaluation, the Board of Directors and Management of the Company concluded that said internal control, as of December 31, 2021, is effective.

[1] Tenure ended on March 1, 2022.

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

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

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

****

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

2. Declaration of Executives:

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

I, Dudu Mizrahi, declare that:

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

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

Date: May 23, 2022

Dudu Mizrahi, CEO

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

I, Tobi Fischbein, declare that:

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

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

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

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

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

Date: May 23, 2022

Tobi Fischbein, CFO Bezeq Group