May 25, 2021

Bezeq - The Israel Telecommunication Corporation Ltd.

Quarterly Report for Period Ended March 31, 2021

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2020

Directors Report on the State of the Company's Affairs for the period ended March 31, 2021

Interim Financial Statements as of March 31, 2021

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended March 31, 2021

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2020

Update to Chapter A (Description of Company Operations)[1] of the Periodic Report for 2020 (the "Periodic Report") of Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company")

1. General development of the Group's business

Section 1.1 – Group activities and business development

Section 1.1.4 – Mergers, acquisitions and structural changes

On examination of plan for structural change in the Subsidiaries:

On April 25, 2021, Bezeq International and DBS submitted to the Ministry of Communications a request for approval of a structural change in their operations by way of a full statutory merger, in which, *inter alia*, the activities of Bezeq International that require a license will be integrated into DBS. Subject to the receipt of the required corporate and regulatory approvals, DBS and Bezeq International intend to implement the structural change as soon as possible. Earlier, on April 18, 2021, the Company submitted to the Israel Tax Authority a request for a pre-ruling on the implementation of a structural change in accordance with Sections 103 and 105 of the Income Tax Ordinance, in Bezeq International and DBS.

Additionally, on May 25, 2021, the Company's Board of Directors approved, further to the approval of the boards of directors of the Subsidiaries, a plan for a structural change in the Subsidiaries, including the full statutory merger of Bezeq International with and into DBS, following the spin-off of Bezeq International's integration activity into a separate company within the Group. The purposes of this move are, *inter alia*: to adapt the operations to the structure of the industry and to the changing regulatory environment, to focus on increasing revenues and on growth, to enhance operational synergies and to improve efficiency (the "**Structural Change Plan**"). Concurrently, the management of the Subsidiaries was authorized to conduct negotiations with the workers committees and the relevant representative organizations for the purpose of signing new collective agreements.

The completion of Bezeq International's merger with and into DBS, as above, is subject to various regulatory approvals which have not yet been received. Should additional approvals be required for activities deriving from the Structural Change Plan, they will be submitted for approval by the governing bodies of the Company and/or the Subsidiaries.

Section 1.1.5 – Investigation by the Securities Authority and the Israel Police

Subsection 1.1.5.2 on the consideration being given to prosecuting the Company and summoning it for a hearing in Case 4000 – A hearing has been scheduled for July 21, 2021.

[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 the year 2020 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 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenues (NIS million)	1,054	1,055	1,042	1,044	1,018
Operating profit (NIS million)	593	356	446	464	439
Depreciation and amortization (NIS million)	223	225	222	218	212
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	816	581	668	682	651
Net profit (NIS million)	400	216	300	229	295
Cash flow from operating activities (NIS million)	510	600	561	334	611
Payments for investments in fixed assets and intangible assets and other investments (NIS million)	312	237	272	201	200
Proceeds from the sale of fixed assets and intangible assets (NIS million)	182	119	1	19	7
Payments for leases	29	27	26	26	32
Free cash flow (NIS million)(2)	351	455	264	126	386
Number of active subscriber lines at the end of the period (thousand)(3)	1,630	1,639	1,653	1,675	1,693
Average monthly revenue per telephony line (NIS) (ARPL)(4)	49	50	51	51	48
Number of outgoing use minutes (million)	965	1,004	1,019	1,079	883
Number of incoming use minutes (million)	1,282	1,326	1,368	1,293	1,120
Total number of internet lines at the end of the period (thousand)(7)	1,540	1,556	1,565	1,571	1,566
Of which number of wholesale internet lines at the end of the period (thousand)(7)	539	557	570	580	584
Of which number of retail internet lines at the end of the period (thousand)(7)	1,001	999	995	991	982
Average monthly revenue per internet subscriber (NIS) – retail (ARPU)(8)	103	102	100	98	98
Average bundle speed per internet subscriber – retail (Mbps)(5)	77.7	74.2	71.6	70.4	69.1
Telephony churn rate(6)	2.8%	3.2%	3.4%	2.7%	3.2%

(1) EBITDA (Earnings Before Income Taxes, Depreciation and Amortization) is a financial metric which is not based on GAAP. 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 and intangible assets. This metric is not a substitute for metrics which are based on GAAP, and it 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 continuing losses from the impairment of fixed assets and intangible assets. As from January 1, 2019, in order to present fairly its financial activities, the Company presents continuing losses from the impairment of fixed assets and intangible assets in DBS under the item depreciation and amortization, and continuing losses from the impairment of broadcasting rights under the item general operating expenses (in the income statement). On this matter, see Note 11 to the financial statements and Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020, and also Note 5 to the financial statements for the period ended March 31, 2021.

(2) Free cash flow is a financial metric which 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, payments for leases also are 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 2020.

(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 lines for the period. On this matter, see also Section 7 of the chapter Description of Company Operations in the Periodic Report for 2020.

(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 2020.

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

(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 2020.

B. Pelephone

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue from services (NIS million)	392	396	396	394	405
Revenue from the sale of terminal equipment (NIS million)	178	137	149	141	168
Total revenues (NIS million)	570	533	545	535	573
Operating profit (loss) (NIS million)	(3)	(36)	(27)	(8)	(13)
Depreciation and amortization (NIS million)	142	151	147	151	150
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	139	115	120	143	137
Net profit (loss) (NIS million)	8	(12)	(12)	1	(2)
Cash flow from operating activities (NIS million)	72	241	143	149	164
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)	71	80	100	73	65
Payments for leases	60	48	67	48	67
Free cash flow (NIS million)(1)	(59)	113	(24)	28	32
Number of postpaid subscribers at the end of the period (thousand)(2)	2,030	2,004	1,976	1,948	1,928
Number of prepaid subscribers at the end of the period (thousand)(2)	462	438	420	417	428
Number of subscribers at the end of the period) (thousand)(2)	2,492	2,442	2,396	2,365	2,356
Average monthly revenue per subscriber (NIS) (ARPU)(3)	53	55	56	56	58
Churn rate(4)	5.8%	5.9%	7.0%	6.8%	7.2%

(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 list 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.

(3) Average monthly revenue per subscriber (postpaid and prepaid). The metric is calculated by dividing the average total monthly revenue from cellular services, from both Pelephone subscribers and other telecom operators, including revenue 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 2020.

(4) The 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 2020.

C. Bezeq International

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenues (NIS million)	312	325	315	314	317
Operating profit (loss) (NIS million)	(8)	(22)	(275)	27	29
Depreciation and amortization (NIS million)	49	26	42	38	43
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	41	4	(233)	65	72
Net profit (loss) (NIS million)	(8)	(13)	(305)	21	22
Cash flow from operating activities (NIS million)	61	75	47	48	60
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)(2)	30	21	28	33	34
Payments for leases	8	7	7	8	8
Free cash flow (NIS million)(1)	23	47	12	7	18
Churn rate(3)	7.9%	10.2%	7.2%	6.1%	6.7%

(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 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 2020.

D. DBS

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenues (NIS million)	315	317	313	319	338
Operating profit (loss) (NIS million)	(6)	(11)	18	23	9
Depreciation, amortization and continuing impairment (NIS million)	61	59	50	50	44
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million)(1)	55	48	68	73	53
Net profit (loss) (NIS million)	0	(24)	16	18	14
Cash flow from operating activities (NIS million)	62	14	69	39	41
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)	43	26	38	40	37
Payments for leases	6	6	6	7	7
Free cash flow (NIS million)(1)	13	(18)	25	(8)	(3)
Number of subscribers (at the end of the period, in thousands)(2)	559	557	556	557	556
Average monthly revenue per subscriber (ARPU) (NIS)(3)	187	186	187	190	195
Churn rate(4)	4.3%	4.9%	5.4%	4.8%	5.9%

(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) 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 adjusted. The number 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. As of the date of approval of the financial statements, the percentage of DBS subscribers using yes+ and Sting TV services transmitted over the internet (as detailed in Sections 5.2.2.1 and 5.2.2.2 of the chapter Description of Company Operations in the Periodic Report for 2020) is 29% of all DBS subscribers. This percentage includes also subscribers that use satellite services in parallel.

(3) Average monthly revenue per subscriber is calculated by dividing total DBS revenues (other than revenue from the sale of content to external broadcasting entities) 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 2020.

(4) 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 2020.

Section 1.7.2 – Marketing a joint service bundle with a subsidiary and between subsidiaries

On May 23, 2021, the Ministry of Communications notified the Company of the rejection of its request from April 4, 2021 to market a joint service bundle that would enable it, *inter alia*, to provide internet infrastructure services of the Company and content services of DBS through broadband fixed-line access. In the Ministry's opinion, in view of the comprehensive economic-competitive analysis recently carried out, as reflected in the recommendations of the interdepartmental team set up to consider adjustments to the structural separation obligations in the Bezeq and HOT Groups, the time is not ripe for approving a joint service bundle as requested by the Company.

Section 1.7.4 – Regulatory aspects relevant to the entire Group or several Group companies

Subsection 1.7.4.10 on changing the regulatory framework for the provision of telecommunications services – On May 19, 2021, the bill for changing the regulatory framework in the telecommunications sector was tabled again, and on May 24, 2021, the Knesset approved the first reading of the bill.

Section 1.7.6 – COVID-19 pandemic

As of the date of approval of the financial statements, the effects of the COVID-19 pandemic on the Group's operations in 2021 are thus far mainly reflected in a decrease in revenue from Pelephone's roaming services due to the impact of the pandemic on the aviation and international tourism sectors, with no significant negative effects in other operating segments. Following the launch of the drive to vaccinate Israel's population against the virus at the start of January 2021, an attenuation of the pandemic's effects has been apparent in Israel, along with first signs of a return to normal economic activity. On this matter, see also Note 1.2 to the financial statements for the period ended March 31, 2021.

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

Section 2.2.6 – Other services

Subsection 2.2.6.1 on a hearing to establish an updated procedure for handling licensees' complaints about other licensees – On March 25, 2021, the Ministry of Communications decided to update the procedure, establishing, *inter alia*, that the team dealing with complaints in the Ministry will be able to recommend to the competent official in the Ministry to issue a decision that the Ministry will not prevent the injured licensees from taking steps, such as discontinuing the provision of service, not connecting new subscribers, etc., all depending on the circumstances and severity of the case.

Section 2.6.3 – Internet infrastructure segment

According to media reports, during March-April 2021, HOT announced the launch of its new fiber network.

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

Subsection 2.6.6.5 on the Company's Be router – As of the report publication date, the number of Company customers using the Be router was 579,000 (58% of the Company's retail internet customers). The Company markets as well products such as Bspot and Be Mesh to extend the range of home Wi-Fi coverage, with 277,000 units of these products sold by the Company as of the report publication date.

Section 2.7.2 – Domestic fixed-line communications infrastructure and equipment

Subsection 2.7.2.3 on ultra-wide bandwidth fiber infrastructure – As of the report publication date, the Company's fiber network covers 480,000 households countrywide.

Section 2.9.6 – Officers and senior management in the Company

As of April 26, 2021, an additional external director is serving on the Company's Board of Directors, bringing the number of directors as of that date to nine. Additionally, as of April 15, 2021, a VP Finance and Group Chief Financial Officer is serving in the Company, bringing the number of members of the Company's management as of that date to eleven.

Regarding the equity compensation plan – On April 6, 2021, the Tel Aviv Stock Exchange gave its approval for the listing of 2,580,000 shares deriving from the exercise of options granted to executives (in addition to the earlier approval given for 58,735,000 shares).

On April 22, 2021, the General Meeting of the Company's shareholders approved an amendment to the Company's compensation policy, setting a cap of $250 million on the limit of liability under the officers liability insurance policy (instead of a limit of liability of $100-250 million), and including the option to renew the insurance by extending the existing policy or entering into a new policy at any time.

Section 2.10 – Equipment and suppliers

Regarding equipment used by the Company and dependence on suppliers – With the start of the provision of telecommunications services on fiber ultra-broadband infrastructure (at the end of the first quarter of 2021), the equipment used by the Company includes also MSAG and GPON equipment, with the Company dependent on the supplier Nokia Solutions and Networks Israel Ltd. also with respect to its high-speed network (GPON).

Section 2.11 – Working capital

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

Section 2.13.6 – Credit rating

On May 2, 2021, Midroog removed the Company's debentures from credit watch negative and affirmed its rating of Aa3.il with a stable outlook for the debentures. Additionally, on May 12, 2021, Maalot affirmed its ilAA-/Stable rating for the Company and its debentures. On this matter, see also the Company's Immediate Reports dated May 2, 2021 and May 12, 2021, included herein by reference as well as section 3 of the Directors' Report.

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

Section 2.16.2 – The Company’s Domestic Carrier License

Regarding a draft amendment to the Company's license establishing obligations with respect to the deployment of an advanced network – see update to Section 2.16.12.

Section 2.16.4 – Wholesale market

Subsection 2.16.4.2 on the judgment which accepted in part a motion to disclose documents under Section 198A of the Companies Law with respect to the financial sanction (footnote 33 to that section of the report) – In April 2021, the applicant approached the Company before filing a motion to certify a derivative action, demanding that it take legal action against the officers in the matter of the financial sanction. The Company rejected the demand to take legal action at that stage, explaining that the circumstances that led to the imposition of the financial sanction were still being examined by a claims committee that had been set up by the Company.

Subsection 2.16.4.4 on a supervision report and a financial sanction imposed on the Company with respect to its wholesale telephony service, and a petition filed by the Company against the decision to impose the financial sanction – On April 18, 2021, a court judgment was handed down dismissing the Company's petition. It should be noted that the sanction, in the amount of NIS 11.2 million, was already paid by the Company in January 2019, shortly after the date of the decision to impose it.

Section 2.16.8 – Economic competition laws

Subsection 2.16.8.3 on the amendment of the conditions for the merger between the Company and DBS – On April 12, 2021, the Competition Authority published a decision of the Competition Commissioner amending the merger conditions. According to the amendment, the Commissioner decided to allow the Company’s subsidiaries: Pelephone, Bezeq International and DBS (but not the Company) to sell communication bundles that include internet infrastructure, ISP and television services without any obligation to sell the television services at a separate price that will be uniform both for bundle buyers and for those who do not buy a bundle. In addition, the Commissioner decided to allow greater flexibility in purchasing foreign content, such that the condition requiring the Company and DBS to cancel exclusivity arrangements to which they are party with respect to television content that is not locally produced, and prohibiting them to be parties to such exclusivity arrangements, will not apply to the purchase of foreign content (other than sports).

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

Subsection 2.16.12.1 on an amendment to the Communications Law for regulation of the deployment of an "advanced network":

On April 13, 2021, the Director General of the Ministry of Communications sent the Company a letter concerning a draft amendment to the Company's license concerning the setting of deployment obligations for an advanced network. According to the letter, to enable the Company's license to be amended as soon as possible after the date of the Company's notification regarding the statistical areas in which it wishes to deploy an advanced network and provide service on it (which should be received by May 31, 2021), the Ministry was planning to publish already now a draft of the proposed amendment to the license for comments by stakeholders. The draft amendment would include several changes to the existing provisions of the Company's license in aspects where there is a distinction between its traditional network and its advanced network, also adding an appendix that would set out the Company's deployment obligations with respect to an advanced network, including provisions for its development, maintenance and operation; milestones for its deployment within the stipulated six years; any change in plans during the construction and development; and the provision of the licensee's services on the advanced network in the statistical areas in which the deployment was completed and also in any statistical area within the service area in which the deployment was not completed. On May 4, 2021, the Company submitted its comments on the proposed amendment, mainly regarding the milestones for deployment of the advanced network and the manner of calculation of its compliance with them.

On May 25, 2021, the Company's Board of Directors approved the Company's fiber deployment plan and its submission to the Ministry of Communications in accordance with Section 14B(a) of the Communications Law. Under the plan, the Company is expected to deploy and operate an ultra-fast fiber network covering 76% of Israel's population (estimated by the Company at 80% of households).

Section 2.18.1 – Pending legal proceedings

Subsection D on a motion filed to certify a class action against the Company for charging a payment for support and/or warranty services as part of using its internet infrastructure – On March 24, 2021, the motion was dismissed. In the judgment dismissing the motion the court held, *inter alia*, that the petitioner had not met the burden of showing, even *prima facie*, the existence of violations and/or torts on the part of the Company that would justify certifying a class action, considering especially that in the circumstances there is no homogeneous injured class.

Subsection F on a motion to certify a class action on grounds of unlawful charging for the Company's B144 service – On April 4, 2021, a judgment was handed down approving a settlement in the case. The settlement is at an immaterial cost to the Company of NIS 2 million, and it includes partial compensation to the plaintiffs in the class for the collection of service termination fees.

Subsection K(2) on a consolidated motion to produce documents prior to a derivative action pursuant to the Competition Commissioner's ruling of September 4, 2019 that the Company had abused its position – On April 4, 2021, the petitioners accepted the court's suggestion to stay the proceedings until after the claims committee set up by the Company completes its work and the Company's Board of Directors makes a decision further to the committee's recommendations.

Subsection M on a motion to certify a class action against the Company on the grounds that when customers ordered an ordinary telephone line, the Company added them to other services as well, without any request or knowledge on their part – On May 18, 2021, the court issued a judgment striking out the certification motion at the petitioner's request, after the petitioner had been deemed unsuitable to represent the class, thus ending the proceeding.

Subsection N on a motion to certify a class action against the Company on the grounds that the Company misled customers regarding its B144 service – On May 8, 2021, the court issued a decision rejecting the petitioner's motion to amend the certification motion by replacing the class representative (primarily because the petitioner had been deemed unsuitable to represent the class), thus ending the proceeding.

In April 2021, a claim was filed with the Central District Court together with a motion to certify it as a class action, by a customer of the Company's internet infrastructure service, alleging that the Company caused monetary and non-monetary damages to the class members, who paid an increased amount for a higher range of speeds than they were actually able to use following a modem upgrade meant to enable them to browse within that range, and in respect of harassment, inconvenience, mental distress and infringement of autonomy. According to the motion, the class of plaintiffs should include anyone who used the Company's internet infrastructure in the seven years prior to the filing of the certification motion and up to the date of its certification as a class action, and who paid for a certain range of speeds, notwithstanding which the infrastructure in their home is capable of providing only a lower range of speeds. The motion states that the amount of the class action is incapable of estimation, but that it "involves damages in the millions of shekels that fall within the jurisdiction of this Honorable Court."

3. Cellular telephony – Pelephone Communications Ltd. ("Pelephone")

Section 3.7.1 – Infrastructure

Subsection 3.7.1.1.C on the future closure of networks operating on old technologies – On May 4, 2021, the Ministry published a secondary hearting on this issue, in which it presented the possibility of postponing the closure of the second generation network to December 31, 2027.

Section 3.14.4 – Economic Competition Law

Regarding an amendment from April 2021 to the Competition Commissioner's conditions for the merger between the Company and DBS, see update to Section 2.16.8.

Section 3.16.1 – Pending legal proceedings

Subsection C on a motion to certify a class action against Pelephone for charging for content services that were provided by an external company – On May 3, 2021, a judgment was handed down approving a settlement between Pelephone and the petitioners in the proceeding, which includes the grant of benefits to the relevant customers and to NPOs for a value of NIS 2.5 million.

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

Section 4.11 – Regulatory restrictions on Bezeq International's operations

Regarding an amendment from April 2021 to the Competition Commissioner's conditions for the merger between the Company and DBS, see update to Section 2.16.8.

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

Section 5.13 – Financing

In May 2021, the Company approved the provision of a credit facility or capital investment to DBS for a total of up to NIS 150 million, for 15 months as of April 1, 2021. This approval replaces a similar approval given in March 2021 (and is not in addition thereto).

Section 5.15.3 – Offering service bundles

Regarding an amendment from April 2021 to the Competition Commissioner's conditions for the merger between the Company and DBS, see update to Section 2.16.8.

Section 5.18 – Goals and business strategy

Section 5.18.1 on DBS's gradual migration from satellite broadcasts to OTT broadcasts – See update to footnote 2 in Section 1.5.4.D.

May 25, 2021	
Date	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, 2021

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, 2021.

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, 2020 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 a restatement, see Note 1.4 to the financial statements.

For informaton on the effectiveness of internal control, see Chapter E – Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended March 31, 2021.

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**
4. **Multi-Channel Television**

The Group's results were as follows:

	1-3/2021	1-3/2020	Increase (decrease)	
	NIS million			%
Profit	**408**	327	81	24.8
EBITDA*	**1,062**	910	152	16.7
Adjusted EBITDA*	**918**	907	11	1.2

* Regarding non-GAAP financial measures, see below.

The increase in profit was primarily due to an increase in operating profit, resulting mainly from a capital gain on the sale of a property in the Domestic Fixed-Line Communications segment. For further information, see Section 1.2.1 below.

* Non-GAAP Financial Measures

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)	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 employee option 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:

	1-3/2021	1-3/2020
	NIS million	NIS million
Operating profit	**586**	459
Net of depreciation, amortization and impairment	**476**	451
EBITDA	**1,062**	910
Net of other operating (income), net	**(152)**	(3)
Net of employee option expenses	**8**	-
Adjusted EBITDA	**918**	907

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

	March 31, 2021	March 31, 2020	Increase (decrease)		Explanation
	NIS million			%	
Cash and current investments	**1,787**	2,041	(254)	(12.4)	The decrease was due to a decrease in current investments in the Domestic Fixed-Line Communications segment, offset by an increase in cash in the Group. For more information, see Section 1.3 below.
Current and non-current trade and other receivables	**2,369**	2,507	(138)	(5.5)	The decrease was mainly due to a decrease in other receivables resulting from the sale of a property in the Domestic Fixed-Line Communications segment.
Inventory	**87**	109	(22)	(20.2)	
Held-for-sale assets	**2**	45	(43)	(95.6)	
Broadcasting rights	**62**	65	(3)	(4.6)	
Right-of-use assets	**1,735**	1,394	341	24.5	The increase was mainly attributable to the Domestic Fixed-Line Communications segment and the Cellular Communications segment, due to new lease agreements following the move to new offices.
Fixed assets	**6,182**	6,072	110	1.8	The increase was attributable to the Domestic Fixed-Line Communications segment, offset by a decrease mainly in the ISP, International Communications and NEP Services segment and in the Multi-Channel Television segment, owing to recognition of asset impairment losses. See Note 5 to the financial statements.
Intangible assets	**937**	916	21	2.3	The increase was mainly due to recording of the cost of 5G frequencies in the Cellular Communications segment, offset by recognition of asset impairment losses in the ISP, International Communications and NEP Services segment (see Note 5.2 to the financial statements).
Deferred tax assets	**57**	61	(4)	(6.6)	
Deferred costs and non-current investments	**330**	364	(34)	(9.3)	The decrease was mainly due to recognition of impairment losses on long-term prepaid expenses for bandwidth capacity in the ISP, International Communications and NEP Services segment (see Note 5.2 to the financial statements), offset by an increase in the Domestic Fixed-Line Communications segment due to an investment in a long-term shekel deposit.
Total assets	**13,548**	13,574	(26)	(0.2)	

1.1 Financial Position (Cont.)

	March 31, 2021	March 31, 2020	Increase (decrease)		Explanation
	NIS million			%	
Debt to financial institutions and debenture holders	**8,396**	9,537	(1,141)	(12.0)	The decrease in debt was due to loan repayments (including early repayments) and debenture repayments, offset by the issuance and expansion of debenture Series 11 and 12 in the Domestic Fixed-Line Communications segment during 2020.
Lease liabilities	**1,840**	1,464	376	25.7	The increase was mainly attributable to the Domestic Fixed-Line Communications segment and the Cellular Communications segment, due to new lease agreements following the move to new offices
Trade and other payables	**1,793**	1,885	(92)	(4.9)	
Employee benefits	**779**	901	(122)	(13.5)	The decrease was due to payments for employee retirement and streamlining plans across the Group, offset by NIS 65 million in expenses for employee termination due to early retirement at the Company, recorded in the fourth quarter of 2020.
Other liabilities	**452**	384	68	17.7	The increase was mainly attributable to a long-term liability in the Cellular Communications segment in respect of an award in a frequencies tender.
Total liabilities	**13,260**	14,171	(911)	(6.4)	
Total equity (equity deficit)	**288**	(597)	885	-	Equity comprises 2.1% of the balance sheet total, as compared to an equity deficit comprising 4.4% of the balance sheet total on March 31, 2020.

1.2. Results of operations

1.2.1. Highlights

	1-3/2021	1-3/2020	Increase (decrease)		Explanation
	NIS million			%	
Revenues	**2,221**	2,187	34	1.6	The increase was attributable to the Domestic Fixed-Line Communications segment and the "Others" segment. The increase was partially offset mainly by a decrease in revenue from the Multi-Channel Television segment.
General operating expenses	**831**	801	30	3.7	The increase was mainly attributable to the ISP, International Communications and NEP Services segment, offset by a decrease in expenses of DBS, including a lower impairment loss on broadcasting rights. See Note 5.1 to the financial statements.
Salaries	**480**	479	1	0.2	The increase in salary expenses in the "Others" segment and in the Domestic Fixed-Line Communications segment was offset by a decrease in expenses of the Group's other main segments due to a reduction in the workforce.
Depreciation, amortization and impairment	**476**	451	25	5.5	The increase was mainly due to a higher impairment loss on fixed assets and intangible assets in DBS. See Note 5.1 to the financial statements.
Other operating (income), net	**(152)**	(3)	(149)	-	The increase was attributable to the Domestic Fixed-Line Communications segment due to a capital gain on the sale of a property as well as adjustment of the provision for legal claims. See Note 10 to the financial statements.
Operating profit	**586**	459	127	27.7	
Financial expenses, net	**51**	34	17	50.0	The increase was attributable to the Domestic Fixed-Line Communications segment. See Note 11 to the financial statements.
Income tax	**127**	98	29	29.6	
Profit for the period	**408**	327	81	24.8	

1.2.2. Operating segments

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

	1-3/2021		1-3/2020	
	NIS million	% of total revenues	NIS million	% of total revenues
Revenues by operating segment				
Domestic Fixed-Line Communications	**1,054**	**47.5**	1,018	46.5
Cellular Communications	**570**	**25.7**	573	26.2
ISP, International Communications and NEP Services	**312**	**14**	317	14.5
Multi-Channel Television	**315**	**14.2**	338	15.5
Others and adjustments	**(30)**	**(1.4)**	(59)	(2.7)
Total	**2,221**	**100**	2,187	100

	1-3/2021		1-3/2020	
	NIS million	% of segment revenues	NIS million	% of segment revenues
Operating profit (loss) by operating segment				
Domestic Fixed-Line Communications	**593**	**56.3**	439	43.1
Cellular Communications	**(3)**	**(0.5)**	(13)	(2.3)
ISP, International Communications and NEP services	**(8)**	**(2.6)**	29	9.1
Multi-Channel Television *	**(18)**	**(5.7)**	(11)	(3.3)
Others and adjustments	**22**	**-**	15	-
Consolidated operating profit/ % of Group revenues	**586**	**26.4**	459	21.0

* **Results of the Multi-Channel Television segment are presented net of the total effect of impairment recognized as from 2018. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 15.3 for condensed selected information from DBS's financial statements.**

1.2.2. Operating segments

B. Domestic Fixed-Line Communications

	1-3/2021	1-3/2020	Increase (decrease)		Explanation
	NIS million			%	
Internet - infrastructure	**398**	395	3	0.8	The increase stemmed primarily from higher average monthly revenue per retail internet subscriber (ARPU), mainly attributable to supplementary terminal equipment, and from a rise in the number of retail internet lines. The increase was offset by a reduction in wholesale internet service rates and a decrease in the number of wholesale internet lines.
Fixed-line telephony	**242**	248	(6)	(2.4)	The decrease was attributable to a decrease in the number of lines, partially offset by higher average monthly revenue per telephony line (ARPL) owing, among other things, to an increase in call revenues amid the COVID-19 pandemic.
Transmission and data communications and others	**332**	303	29	9.6	The increase stemmed, among other things, from growth in revenues from transmission services for ISPs and businesses, and from sales of cellular terminal equipment.
Digital and cloud services	**82**	72	10	13.9	The increase was primarily attributable to IP Centrex services.
Total revenues	**1,054**	1,018	36	3.5	
General operating expenses	**155**	142	13	9.2	The increase was mainly due to subcontractor service expenses.
Salaries	**233**	229	4	1.7	The increase in salary expenses was due to recognition of expenses for share-based payments in the current quarter (see Note 12 to the financial statements), as well as salary increases, offset by the retirement of employees and an increase in salaries attributable to investment.
Depreciation and amortization	**223**	212	11	5.2	
Other operating income, net	**(150)**	(4)	(146)	-	The increase stemmed from a capital gain of NIS 125 million on the sale of a property as well as adjustment of the provision for legal claims.
Operating profit	**593**	439	154	35.1	
Financial expenses, net	**68**	49	19	38.8	The increase in net financial expenses was mainly attributable to financial expenses on employee benefits in the current quarter, compared with financial income on employee benefits recognized in the corresponding quarter, offset by lower interest expenses due to repayment (including early repayment) of loans during 2020. See Note 11 to the financial statements.
Income tax	**125**	95	30	31.6	
Segment profit	**400**	295	105	35.6	

1.2.2 Operating segments

C. Cellular Communications

	1-3/2021	1-3/2020	Increase (decrease)		Explanation
	NIS million			%	
Services	**392**	405	(13)	(3.2)	The decrease was primarily due to the COVID-19 pandemic that led to lower revenues from roaming services, partially offset by higher revenues from incoming air time. In addition, there is continued migration of existing customers to cheaper bundles offering greater data volumes at current market prices. This decrease was offset by growth in the post-paid customer base, including subscribes to 5G bundles.
Sales of end equipment	**178**	168	10	6.0	The increase was mainly attributable to higher retail sales due to the launch of the new iPhone model. The increase was partially offset by reduced wholesale sales.
Total revenues	**570**	573	(3)	(0.5)	
General operating expenses	**352**	345	7	2.0	The increase was mainly due to an increase in the cost of sales of terminal equipment in parallel with revenues and the recording of cloud computing system integration costs. The increase in costs was offset by the continued reduction and streamlining of operating expenses.
Salaries	**79**	90	(11)	(12.2)	The decrease was mainly attributable to a continued reduction in the workforce as part of a streamlining plan.
Depreciation and amortization	**142**	150	(8)	(5.3)	
Other operating expenses, net	**-**	1	(1)	(100)	
Operating (loss)	**(3)**	(13)	10	76.9	
Financial income, net	**10**	10	-	-	
Income tax	**(1)**	(1)	-	-	
Segment profit (loss)	**8**	(2)	10	500	

1.2.2 Operating segments

D. ISP, International Communications and NEP Services

	1-3/2021	1-3/2020	Increase (decrease)		Explanation
	NIS million			%	
Revenues	**312**	317	(5)	(1.6)	The decrease was mainly due to lower ISP revenues as well as lower revenues from international calls. The decrease was offset by revenues from services to businesses and the sale of equipment and licenses to businesses.
General operating expenses and impairment	**211**	181	30	16.6	The increase was due to higher expenses on licensing and equipment sales to businesses in line with an increase in revenues, along with an increase in local capacity expenses due to a one-time credit in the corresponding quarter following an update in internet rates in the wholesale market, as well as an increase in other operating expenses.
Salaries	**60**	64	(4)	(6.3)	The decrease was mainly due to continued downsizing of the Company's workforce as part of the streamlining plan.
Depreciation, amortization and impairment	**49**	43	6	13.9	The increase stemmed mainly from impairment based on an assessment of the realizable value of the depreciable assets as of March 31, 2021. See Note 5.2 to the financial statements.
Operating (loss) profit	**(8)**	29	(37)	-	
Finance expenses, net	**-**	1	(1)	(100)	
Income tax	**-**	6	(6)	(100)	
Segment (loss) profit	**(8)**	22	(30)	-	

1.2.2. Operating segments

E. Multi-Channel Television*

	1-3/2021	1-3/2020	Increase (decrease)		Explanation
	NIS million			%	
Revenues	**315**	338	(23)	(6.8)	The decrease was primarily due to a decline in ARPU, as a result of a continuing trend of subscriber migration from premium to discount services, as well as a decrease in revenues from the sale of content to external entities.
General operating expenses	**213**	222	(9)	(4.1)	The decrease was due to continued streamlining of operating expenses, mainly marketing and content costs.
Salaries	**47**	51	(4)	(7.8)	The decrease was attributable to a reduction in the workforce.
Depreciation and amortization	**75**	76	(1)	(1.3)	
Other operating income, net	**(2)**	-	(2)	-	
Operating (loss)	**(18)**	(11)	(7)	63.6	
Financial (income), net	**(7)**	(5)	(2)	40.0	The increase was mainly due to a change in fair value of financial assets.
Income tax	**1**	-	1	-	
Segment (loss)	**(12)**	(6)	(6)	100	

*** Results of the Multi-Channel Television segment are presented net of the total effect of impairment recognized as from the fourth quarter of 2018 (for more information, see Notes 5.1 and 14 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 15.3 for condensed selected information from DBS's financial statements.**

1.3. Cash Flow

	1-3/2021	1-3/2020	Change		Explanation
	NIS million			%	
Net cash provided by operating activities	**700**	879	(179)	(20.4)	The decrease in net cash from operating activities stemmed primarily from the Domestic Fixed-Line Communications segment, as a result of higher net income tax paid, as well as from the Cellular Communications segment, due to changes in the working capital.
Net cash used in investing activities	**(309)**	(234)	(75)	32.1	The increase in net cash used in investing activities stemmed from an increase in the acquisition of fixed assets and a decrease in proceeds from the repayment of bank deposits, offset by an increase in proceeds from the sale of fixed assets in the Domestic Fixed-Line Communications segment.
Net cash used in financing activities	**(107)**	(118)	11	(9.3)	The decrease in net cash used in financing activities stemmed from lower principal and interest payments on leases.
Net increase in cash	**284**	527	(243)	(46.1)	

Average volume in the reporting quarter:

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 8,398 million

Supplier credit: NIS 943 million

Short-term credit to customers: NIS 1,635 million

Long-term credit to customers: NIS 255 million

The Company (according to the separate financial statements) has surplus working capital as of March 31, 2021 amounting to NIS 228 million, compared with surplus working capital of NIS 262 million as of March 31, 2020.

The Group's surplus working capital as of March 31, 2021 amounted to NIS 224 million, compared with surplus working capital of NIS 212 million as of March 31, 2020.

The decrease in the Company's surplus working capital was offset mainly by an increase in DBS's working capital.

1.4 The COVID-19 pandemic and its impact

Further to Note 1.4 to the Annual Financial Statements regarding the outbreak of COVID-19, it is noted that following the launch of the drive to vaccinate Israel's population against the virus at the start of January 2021, a decrease in the pandemic's impact has been apparent in Israel, along with first signs of a return to normal economic activity.

As of the date of approval of the financial statements, the effects of the COVID-19 pandemic on the Group's operations in 2021 are thus far mainly reflected in a decline in revenue from Pelephone's roaming services due to the impact of the pandemic on the aviation and international tourism sectors, with no significant negative effects in other operating segments.

At the same time, 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, a decrease in revenues from the business sector across all the Group companies and a decrease in sales of cellular terminal equipment. 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 operatons 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 material valuation

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

	DBS(*)
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, 2021; the valuation was signed on May 20, 2021.
Value prior to the valuation had GAAP, including depreciation and amortization, not required a change in value in accordance with the valuation	Negative amount of NIS 61 million.
Value set in the valuation	Negative amount of 143 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. Hadas 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. Hadas 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	Net realizable value (NAV).
Assumptions used in the valuation	Assumptions concerning the NRV of DBS's assets.

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

(*) Despite the negative value of DBS's operations, the Company supports DBS by approving credit facilities or investing in DBS's equity (see Note 4 to the financial statements). The Company's support of DBS as aforesaid is due, among other things, to the Multi-Channel 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 independents auditors have drawn attention to the matter in their opinion on the financial statements.

2.3. Subsequent material events

For information on **subsequent material events** – see Note 16 to the financial statements.

3. Information on debenture series

On May 2, 2021, Midroog Ltd. removed the Company's debentures from credit watch negative and affirmed its rating of Aa3.il with a stable outlook for the debentures (see Immediate Report).

On May 12, 2021, S&P Global Ratings Maalot affirmed its ilAA-/Stable rating for the Company and its 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, 2021, see the Company's reporting form on the MAGNA system, dated May 26, 2021.

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 25, 2021

Chapter C:

Condensed Consolidated Interim Financial Statements as of March 31, 2021 (Unaudited)

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

Contents

Somekh Chaikin
8 Hartum Street, Har Hotzvim
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Auditors' Review Report to the Shareholders of

Bezeq - The Israel Telecommunication Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of Bezeq -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – "**Group**") comprising the condensed consolidated interim statement of financial position as of March 31, 2021 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) 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 its invitation to a hearing on suspicion of bribery and reporting in order to mislead a reasonable investor, and as mentioned in that note, regarding the indictment filed against the former controlling shareholder for various offenses, including bribery and misleading information in an immediate report and regarding the filing of an indictment against the former controlling shareholder in the company and former senior executives in the Bezeq Group, which accuses the defendants of receiving anything fraudulently in aggravated circumstances, 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

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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 25, 2021

Condensed Consolidated Interim Statements of Financial Position

	March 31, 2021	March 31, 2020	December 31, 2020
	(Unaudited)	(Unaudited)	(Audited)
Assets	NIS million	NIS million	NIS million
Cash and cash equivalents	**1,124**	927	840
Investments	**663**	1,114	724
Trade receivables	**1,648**	1,674	1,621
Other receivables	**209**	357	178
Inventory	**87**	109	73
Assets held for sale	**2**	45	10
Total current assets	**3,733**	4,226	3,446
Trade and other receivables	**512**	476	514
Broadcasting rights	**62**	65	67
Right-of-use assets	**1,735**	1,394	1,804
Fixed assets	**6,182**	6,072	6,131
Intangible assets	**937**	916	929
Deferred expenses and non-current investments	**330**	364	242
Deferred tax assets	**57**	61	108
Total non-current assets	**9,815**	9,348	9,795
Total assets	**13,548**	13,574	13,241

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

Condensed Consolidated Interim Statements of Financial Position (Cont.)

	March 31, 2021	March 31, 2020	December 31, 2020
	(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	NIS million	NIS million	NIS million
Debentures, loans and borrowings	**785**	1,002	786
Current maturities of lease liabilities	**402**	415	415
Trade and other payables	**1,793**	1,885	1,759
Employee benefits	**442**	587	482
Provisions	**87**	125	117
Total current liabilities	**3,509**	4,014	3,559
Loans and debentures	**7,611**	8,535	7,614
Lease liabilities	**1,438**	1,049	1,492
Employee benefits	**337**	314	335
Derivatives and other liabilities	**282**	163	307
Provisions	**49**	50	52
Deferred tax liabilities	**34**	46	32
Total non-current liabilities	**9,751**	10,157	9,832
Total liabilities	**13,260**	14,171	13,391
Total equity (equity deficit)	**288**	(597)	(150)
Total liabilities and equity	**13,548**	13,574	13,241

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

Date of approval of the financial statements: May 25, 2021

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

Condensed Consolidated Interim Statements of Income

	Note	Three months ended March 31		Year ended December 31
		2021	2020	2020
		(Unaudited)	(Unaudited)	(Audited)
	Note	NIS million	NIS million	NIS million
Revenues	8	**2,221**	2,187	8,723
Operating expenses				
General operating expenses*	9	**831**	801	3,173
Salaries		**480**	479	1,891
Depreciation, amortization and impairment*		**476**	451	1,837
Other operating expenses (income), net	10	**(152)**	(3)	74
Impairment loss		**-**	-	293
Total operating expenses		**1,635**	1,728	7,268
Operating profit		**586**	459	1,455
Financial expenses (income)				
Financial expenses		**77**	84	416
Financial income		**(26)**	(50)	(45)
Financial expenses, net	11	**51**	34	371
Profit before income tax		**535**	425	1,084
Income tax		**127**	98	288
Net profit for the period attributable to shareholders of the Company		**408**	327	796
Earnings per share (NIS)				
Diluted basic earnings per share		**0.15**	0.12	0.29

* 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
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	**408**	327	796
Additional items of other comprehensive income (loss), net of tax	**22**	(11)	(5)
Remeasurement of a defined benefit plan, net of tax	**-**	19	(9)
Total comprehensive income for the period attributable to shareholders of the Company	**430**	335	782

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, 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 payments (Note 12)	**-**	**-**	**-**	**8**	**-**	**-**	**8**
Balance at March 31, 2021	**3,878**	**384**	**390**	**8**	**(41)**	**(4,331)**	**288**

	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
Three months ended March 31, 2020 (unaudited)							
Balance at January 1, 2020	3,878	384	390	-	(58)	(5,526)	(932)
Profit for the period	-	-	-	-	-	327	327
Other comprehensive income (loss) for the period, net of tax	-	-	-	-	(11)	19	8
Total comprehensive income for the period	-	-	-	-	(11)	346	335
Balance at March 31, 2020	3,878	384	390	-	(69)	(5,180)	(597)

	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
Year ended December 31, 2020 (audited)							
Balance at January 1, 2020	3,878	384	390	-	(58)	(5,526)	(932)
Profit for 2020	-	-	-	-	-	796	796
Other comprehensive loss for the year, net of tax	-	-	-	-	(5)	(9)	(14)
Total comprehensive income for 2020	-	-	-	-	(5)	787	782
Balance at December 31, 2020	3,878	384	390	-	(63)	(4,739)	(150)

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
	2021	2020	2020
	(Unaudited)	(Audited)	(Unaudited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**408**	327	796
Adjustments:			
Depreciation, amortization and impairment loss	**476**	451	1,837
Impairment loss of assets	**-**	-	293
Capital gain, net	**(125)**	(9)	(40)
Financial expenses, net	**56**	70	403
Share-based compensation	**8**	-	-
Income tax expenses	**127**	98	288
Change in trade and other receivables	**(59)**	(44)	57
Change in inventory	**(18)**	(17)	13
Change in trade and other payables	**26**	98	17
Change in provisions	**(29)**	-	(8)
Change in employee benefits	**(37)**	(88)	(192)
Change in other liabilities	**2**	(7)	(1)
Net income tax paid	**(135)**	-	(243)
Net cash provided by operating activities	**700**	879	3,220
Cash flow for investing activities			
Purchase of fixed assets	**(356)**	(244)	(1,133)
Investment in intangible assets and deferred expenses	**(102)**	(94)	(366)
Investment in bank deposits and securities	**(511)**	(510)	(1,335)
Proceeds from repayment of bank deposits and sale of securities	**474**	600	1,786
Proceeds from the sale of fixed assets	**183**	8	148
Sale of Walla, net	**-**	-	44
Miscellaneous	**3**	6	17
Net cash used in investing activities	**(309)**	(234)	(839)
Cash flow for financing activities			
Principal and interest payments for leases	**(102)**	(113)	(391)
Interest paid	**(5)**	(5)	(314)
Issue of debentures and receipt of loans	**-**	-	718
Repayment of debentures and loans	**-**	-	(1,828)
Costs for early repayment of loans and debentures	**-**	-	(65)
Payment for expired hedging transactions	**-**	-	(57)
Miscellaneous	**-**	-	(4)
Net cash used in financing activities	**(107)**	(118)	(1,941)
Increase in cash and cash equivalents	**284**	527	440
Cash and cash equivalents at the beginning of the period	**840**	400	400
Cash and cash equivalents at the end of the period	**1,124**	927	840

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, 2021 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 14 – Segment Reporting).

1.2 The COVID-19 pandemic and its impacts

Further to Note 1.4 to the Annual Financial Statements regarding the outbreak of COVID-19, it is noted that following the launch of the drive to vaccinate Israel's population against the virus at the start of January 2021, an attenuation of the pandemic's effects has been apparent in Israel, along with first signs of a return to normal economic activity.

As of the date of approval of the financial statements, the effects of the COVID-19 pandemic on the Group's operations in 2021 are thus far mainly reflected in a decline in revenue from Pelephone's roaming services due to the impact of the pandemic on the aviation and international tourism sectors, with no significant negative effects in other operating segments.

At the same time, 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 (although in January 2021 the Company received the core investigation material in connection with Case 4000, further to an invitation it received to a hearing in this matter). Accordingly, the Company is unable to assess the effects, if any, of the investigations, their findings and their results on the Company, on its financial statements and on the estimates used in the preparation of the financial statements. Once the constraints on carrying out reviews and controls in connection with the issues that arose in the investigations are lifted, the review of all matters related to those issues will be completed as required.

1.4 Restatement

During the preparation of the quarterly report as of September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming, *inter alia*, from failure to charge to the statement of income previous years' costs for advance payments to suppliers, and from inadequate recognition of prepaid expenses.

In light of the above findings, the Company published on December 21, 2020 restated financial statements *inter alia* for the first and second quarters of 2020 (including the comparative figures presented in them), in order to reflect retrospectively the effect of the corrections to the discrepancies. The comparative figures included in these financial statements are after restatement.

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, 2020 and for the year then ended, and their accompanying notes (the "Annual Financial Statements”). The notes to the condensed 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 25, 2021.

2.4 Use of estimates and judgments

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

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

3. Reporting Principles and Accounting Policy

3.1 The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual Financial Statements.

3.2 Accounting policy applied following new events

The following accounting policy is applied by the Group with respect to the share-based compensation described in Note 12:

The fair value at the grant date of options for Company shares granted to employees is recognized as a salary expense with a corresponding increase in equity over the period during which the employee becomes entitled to the options. The Group elected to recognize the increase in equity under a capital reserve for employee options.

For share-based payment awards that are conditional upon meeting market-performance conditions, the fair value of the equity instruments granted is estimated taking into account such conditions, and therefore the Group recognizes an expense in respect of these awards whether or not the conditions have been met.

The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

3.3 New standards and interpretations not yet adopted

3.3.1 Amendment to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current"

The amendment replaces certain requirements for classifying liabilities as current or non-current. The amendment will be effective for reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendment will be applied retrospectively, including the restatement of comparative figures. The Group is assessing the effects of the application of the amendment on its financial statements.

3.3.2 Amendment to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" regarding onerous contracts

The amendment specifies that when assessing the cost of fulfilling a contract, indirect costs should also be considered along with incremental costs (see Note 3.12.3 to the Annual Financial Statements).

The initial date of application of the amendment has been set for January 1, 2022, and it will be implemented by adjusting the balance of retained earnings for the cumulative effect as at that date. The amendment may affect the identification and measurement of onerous contracts in the Group, which may also be reflected in the creation of material provisions which the Company is unable to assess at this stage. The Company is studying the amendment and making preparations for its timely application.

4. Group Entities

A detailed description of the Group entities appears in Note 13 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 Examination of plan for structural change in the Subsidiaries

Further to note 13.1.2 to the Annual Financial Statements, on May 25, 2021, the Company's Board of Directors approved, further to the approval of the boards of directors of the Subsidiaries, a plan for a structural change in the Subsidiaries, including the full statutory merger of Bezeq International with and into DBS, following the spin-off of Bezeq International's integration activity into a separate company within the Group. The purposes of this move are, *inter alia*: to adapt the operations to the structure of the industry and to the changing regulatory environment, to focus on increasing revenues and on growth, to enhance operational synergies and to improve efficiency (the "Structural Change Plan"). Concurrently, the management of the Subsidiaries was authorized to conduct negotiations with the workers committees and the relevant representative organizations for the purpose of signing new collective agreements.

The completion of Bezeq International's merger with and into DBS, as above, is subject to various regulatory approvals which have not yet been received. Should additional approvals be required for activities deriving from the Structural Change Plan, they will be submitted for approval by the governing bodies of the Company and/or the Subsidiaries.

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

4.2.1 As of March 31, 2021, DBS has an equity deficit of NIS 80 million and a working capital deficit of NIS 243 million. According to forecasts of DBS, it expects to continue to accumulate operating losses in the coming years and therefore it will be unable to meet its obligations and to continue operating as a going concern without the Company's support.

In May 2021, the Company's Board of Directors approved an irrevocable undertaking by the Company to DBS to provide a credit facility or capital investment in the amount of NIS 150 million for 15 months, as of April 1, 2021 until June 30, 2022, instead of a similar undertaking from March 2021. It should be noted that thus far in 2021, 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 the working capital deficit and the Company's credit facility and capital investments, will be adequate to meet 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, 2021.

4.3 Bezeq International Ltd.

4.3.1 See Note 13.3.2 to the Annual Financial Statements for information about a hearing to examine the separation of broadband infrastructure services from Internet access (ISP) services published by the Ministry of Communications on October 4, 2020, and about a secondary hearing published on February 24, 2021.

4.3.2 See Note 5.2 below for information about an impairment of assets recognized by Bezeq International in the financial statements as of March 31, 2021.

5. Impairment

5.1 Impairment of multi-channel television segment (DBS)

Further to Note 11.5 to the Annual Financial Statements regarding impairment recognized in 2019 and 2020 for the multi-channel television cash-generating unit – in light of an examination of DBS's performance in the first quarter of 2021 and changes in its projected business results, and considering the small difference measured on December 31, 2020 between the value of operations of DBS and the carrying amount of its net operating assets, DBS revised its forecasts for 2021 and subsequent years and assessed the recoverable amount as of March 31, 2021.

The valuation was prepared by an external appraiser. Based on the valuation, the value of operations of DBS is a negative NIS 283 million, compared with a negative carrying amount of NIS 61 million.

In view of the negative value of operations, the value of DBS's non-current assets as of March 31, 2021 was determined as the higher of their fair value less costs to sell and zero, the same as at the end of 2020. Accordingly, the Group recognized an impairment loss of NIS 82 million, which was attributed mainly to fixed assets, broadcasting rights and intangible assets, as set out below, and included in depreciation, amortization and impairment expenses and in general operating expenses in the statement of income.

Attribution of impairment loss to Group assets:

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Broadcasting rights*	**37**	49	170
Fixed assets**	**28**	18	112
Intangible assets**	**14**	11	29
Prepaid expenses*	**3**	-	13
Total impairment recognized	**82**	78	324

* 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 disposal costs, see Note 11.5 to the Annual Financial Statements.

5.2 Impairment in the ISP, international communications and NEP services segment (Bezeq International)

Further to Note 11.6 to the Annual Financial Statements regarding impairment of the ISP, international communications and NEP services cash-generating unit in 2020 – the valuation as of December 31, 2020 presented a significantly lower value-in-use than the book value of Bezeq International. According to an examination performed by an external appraiser as of March 31, 2021, as well as an assessment by the Bezeq International management, no changes were found in the projected financial results of Bezeq International, there were no material changes in market expectations, and no regulatory changes were made that may have a material effect on the results. Accordingly, in view of the negative value of operations as determined in the valuation as of December 31, 2020, Bezeq International amortized its assets as of March 31, 2021 to their net disposal value.

Based on an assessment of the fair value of Bezeq International's assets performed by an external appraiser as of March 31, 2021, the carrying amount of the depreciable assets is NIS 29 million higher than their fair value less disposal costs. Accordingly, in the three-month period ended March 31, 2021, the Group recognized an impairment loss of NIS 29 million.

Attribution of impairment loss to Group assets:

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Fixed assets and intangible assets	****23**	-	154
Long-term prepaid expenses for bandwidth capacity	****5**	-	129
Other prepaid expenses	***1**	-	21
Rights of use of leased assets	**-**	-	3
Total impairment recognized	**29**	-	***307

* The expense was presented under general operating expenses.

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

*** Presented under impairment loss in the Statement of Income for 2020.

For information about the method used by Bezeq International to measure the fair value (Level 3) of the assets less disposal costs, see Note 11.6 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 84 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, 2020 for Legal Claims filed against Group companies on various matters, which are unlikely to be realized, amounts to NIS 4.5 billion. There is also additional exposure of NIS 2.7 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 subsequent to the reporting date, see section 6.3 below.

6.2 Following are details of the Group's contingent liabilities as of March 31, 2021, classified into groups with similar characteristics:

Claims group	Nature of the claims	Balance of provisions	Additional exposure	Exposure for claims the chances of which cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions on grounds of unlawful collection of payment and faulty service provided by the Group companies.	**82**	**3,776**	**815**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or investments.	**-**	**687**	***1,873**
Claims of employees and former employees of Group companies	Mainly individual lawsuits filed by employees and former employees of the Group, regarding various payments.	**-**	**10**	**-**
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.	**2**	**6**	**7**
Miscellaneous	Other lawsuits, including claims in tort (excluding claims for which the existence of insurance coverage is not disputed), real estate claims, infrastructure claims, etc.	**-**	**22**	**-**
Total legal claims against the Company and subsidiaries		**84**	**4,501**	**2,695**

* 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 former controlling shareholder, with respect to the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a consolidated motion is expected to be filed instead of these two motions. The proceeding has been stayed due to the investigation described in Note 1.3 and at the request of the Attorney General, until September 6, 2021.

6.3 After the date of the financial statements, a motion to certify a class action was filed against the Company, without specifying an exact amount, and a claim was filed as well for a sum of NIS 20 million. As of the date of approval of the financial statements, the chances of the claims could not yet be assessed. Additionally, after the date of the financial statements, claims with exposure of approximately NIS 1 billion (included in the amount of the additional exposure presented in the above table), as well as a claim for an unspecified amount, concluded.

7. Equity

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	Number of shares	Number of shares	Number of shares
	NIS million	NIS million	NIS million
Authorized share capital*	**2,849,485,753**	2,825,000,000	2,825,000,000
Issued and paid-up share capital	**2,765,485,753**	2,765,485,753	2,765,485,753

Further to Note 32.1 of the Annual Financial Statements regarding the approval of the General Meeting of the Company's shareholders for increasing the Company's authorized capital, to enable the grant of equity-based awards under the equity-based compensation plan – in the first quarter of 2021, the Company's authorized capital was increased by 24,485,753 ordinary shares of NIS 1 par value each.

8. Revenues

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Domestic fixed-line communications (Bezeq Fixed-Line)			
Internet – infrastructure	**381**	382	1,537
Fixed-line telephony	**236**	242	981
Transmission and data communications	**208**	181	785
Cloud and digital services	**82**	72	288
Other services	**62**	57	222
	969	934	3,813
Cellular telephony – Pelephone			
Cellular services and terminal equipment	**383**	396	1,550
Sale of terminal equipment	**177**	158	577
	560	554	2,127
Multi-channel television – DBS	**315**	338	1,286
ISP, international communications and NEP services - Bezeq International	**299**	301	1,217
Other	**78**	60	280
	2,221	2,187	8,723

9. General Operating Expenses

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Terminal equipment and materials	**221**	188	747
Interconnectivity and payments to domestic and international telecommunications operators	**182**	185	776
Content costs (including content impairment)	**144**	164	589
Marketing and general	**124**	117	462
Services and maintenance by subcontractors	**86**	68	303
Maintenance of buildings and sites	**60**	65	246
Vehicle maintenance	**14**	14	50
	831	801	3,173

10. Other Operating Expenses (Income), Net

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Capital gains (mainly disposal of real estate, see Note 32.2 to the Annual Financial Statements)	**(125)**	(9)	(18)
Provision (cancellation) for legal claims	**(30)**	1	11
Costs of employee termination benefits under the Company's early retirement program	**2**	5	64
Gain from the sale of an investee	**-**	-	(22)
Amounts received under a settlement agreement	**-**	-	(9)
Provision for collective agreement signing bonus	**-**	-	40
Costs of employee termination benefits under early retirement program and streamlining agreement at Pelephone, Bezeq International and DBS.	**-**	-	9
Other expenses (income)	**1**	-	(1)
	(152)	**(3)**	**74**

11. Financing Expenses, Net

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	**59**	73	273
Financial expenses for lease liabilities	**9**	7	30
Linkage and exchange rate differences	**4**	2	22
Financial expenses for employee benefits	**3**	-	8
Other financial expenses	**2**	2	7
Costs for early repayment of loans and debentures	**-**	-	65
Change in fair value of financial assets at fair value through profit or loss	**-**	-	11
Total financial expenses	**77**	84	416
Income for credit in sales	**8**	8	30
Change in fair value of financial assets at fair value through profit or loss	**7**	7	-
Other financial income	**11**	6	15
Financial income for employee benefits	**-**	29	-
Total financial income	**26**	50	45
Financial expenses, net	**51**	34	371

12. Share-Based Compensation

12.1 Further to Note 32.1 to the Annual Financial Statements regarding an equity-based compensation plan – in the first quarter of 2021, 59,305,000 options were allotted to officers, executives and senior employees of the Company and the Subsidiaries, including the allotment of 12,000,000 options to the Chairman of the Board of Directors of the Company, as well as the allotment of 9,000,000 options to the CEO of the Company and 9,000,000 options to the CEO of Pelephone, DBS and Bezeq International.

12.2 The options were allotted to each offeree in three grants, each for a third of the total number of options allotted to the offeree. Each grant has a different exercise price and vests in four annual tranches. The exercise of any option is subject to the exercise price condition being met after the option vesting date (the average of the closing prices of the Company's share on the stock exchange during at least 30 consecutive trading days immediately prior to the test date is equal to or higher than the price set as a condition for exercising the option).

Exercise prices and share target prices for exercising the option:

	Exercise price	Share target price
Grant 1	NIS 3.72	NIS 5
Grant 2	NIS 4.46	NIS 5.75
Grant 3	NIS 5.35	NIS 7

12.1 The fair value of the options granted, which was estimated by an external appraiser using the Monte Carlo method, is NIS 45 million, based on the vesting period and terms of exercise of the options as set the above. Out of this amount, the fair value at the date of grant of the options to the Chairman of the Board of Directors is NIS 9.3 million. The fair value at the date of grant of the options to the Company's CEO and to the CEO of Pelephone, DBS and Bezeq International is NIS 6.9 million each.

Below are the main parameters used in the valuation:

Share price	NIS 3.43
Projected volatility	29.82%
Risk-free interest rate	0.54%
Dividend yield	A zero dividend yield was assumed
Projected early exercise factor	2.2-2.8
Time to expiry	6.9 years
Abandonment rates after vesting	0%

12.2 In the first quarter of 2021, the Group recognized salary expenses on share-based payments amounting to NIS 8 million.

13. Financial Instruments

Fair value

A. Financial instruments at fair value for disclosure purposes only

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

	March 31, 2021		March 31, 2020		December 31, 2020	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Loans from banks and institutions (unlinked)	**2,131**	**2,250**	3,425	3,426	2,118	2,252
Debentures issued to the public (CPI-linked)	**3,218**	**3,472**	2,510	2,491	3,199	3,394
Debentures issued to the public (unlinked)	**3,059**	**3,262**	2,221	2,244	3,036	3,253
Debentures issued to financial institutions (CPI-linked)	**-**	**-**	768	770	-	-
Debentures issued to financial institutions (unlinked)	**-**	**-**	611	605	-	-
	8,408	**8,984**	9,535	9,536	8,353	8,899

B. Fair value hierarchy

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

	March 31, 2021	March 31, 2020	December 31, 2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1: investment in marketable securities at fair value through profit or loss (investment in monetary funds)	**-**	312	-
Level 2: forward contracts	**(79)**	(143)	(117)

14. Segment Reporting

14.1 Operating segments

	Three months ended March 31, 2021 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidate d
	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, amortization and impairment	**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) before income tax	**525**	**7**	**(8)**	**(11)**	**10**	**12**	**535**
Income tax (expenses) income	**125**	**(1)**	**-**	**1**	**2**	**-**	**127**
Segment results - net profit (loss)	**400**	**8**	**(8)**	**(12)**	**8**	**12**	**408**

	Three months ended March 31, 2020 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidate d
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	935	554	301	338	59	-	2,187
Inter-segment revenues	83	19	16	-	1	(119)	-
Total revenues	1,018	573	317	338	60	(119)	2,187
Depreciation, amortization and impairment	212	150	43	76	3	(33)	451
Segment results - operating profit (loss)	439	(13)	29	(11)	3	12	459
Financial expenses	85	6	2	3	-	(12)	84
Financial income	(36)	(16)	(1)	(8)	-	11	(50)
Total financial expenses (income), net	49	(10)	1	(5)	-	(1)	34
Segment profit (loss) before income tax	390	(3)	28	(6)	3	13	425
Income tax expenses (income)	95	(1)	6	-	-	(2)	98
Segment results - net profit (loss)	295	(2)	22	(6)	3	15	327

* Results of the multi-channel television segment are presented net of the total effect of impairment recognized as from 2018. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 15.3 for condensed selected information from DBS's financial statements.

	Year ended December 31, 2020 (Audited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	ISP and international communi-cations	Multi-channel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,813	2,127	1,217	1,286	280	-	8,723
Inter-segment revenues	346	59	54	1	6	(466)	-
Total revenues	4,159	2,186	1,271	1,287	286	(466)	8,723
Depreciation, amortization and impairment	877	599	149	310	14	(112)	1,837
Segment results - operating profit (loss)	1,705	(84)	(241)	(42)	44	73	1,455
Financial expenses	419	18	5	15	1	(42)	416
Financial income	(16)	(66)	(3)	(2)	-	42	(45)
Total financial expenses (income), net	403	(48)	2	13	1	-	371
Segment profit (loss) before income tax	1,302	(36)	(243)	(55)	43	73	1,084
Income tax expenses (income)	262	(11)	32	2	4	(1)	288
Segment results - net profit (loss)	1,040	(25)	(275)	(57)	39	74	796

* Results of the multi-channel television segment are presented net of the total effect of impairment recognized as from 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 15.3 for condensed selected information from the financial statements of DBS.

14.2 Reportable segment profit or loss reconciliation

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Operating profit for reportable segments	**564**	444	1,338
Financial expenses, net	**(51)**	(34)	(371)
Adjustments for the multi-channel television segment	**12**	20	81
Profit (loss) for operations classified in other categories and other adjustments	**10**	(5)	36
Consolidated profit before income tax	**535**	425	1,084

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

15.1 Pelephone Communications Ltd.

Selected data from the statement of financial position

	March 31, 2021	March 31, 2020	December 31, 2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**866**	888	899
Non-current assets	**3,478**	3,293	3,472
Total assets	**4,344**	4,181	4,371
Current liabilities	**703**	728	720
Long-term liabilities	**1,003**	801	1,022
Total liabilities	**1,706**	1,529	1,742
Equity	**2,638**	2,652	2,629
Total liabilities and equity	**4,344**	4,181	4,371

Selected data from the statement of income

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenue from services	**392**	405	1,591
Revenue from sales of terminal equipment	**178**	168	595
Total revenue from services and sales	**570**	573	2,186
Operating expenses			
General operating expenses	**352**	345	1,329
Salaries	**79**	90	324
Depreciation and amortization	**142**	150	599
Total operating expenses	**573**	585	2,252
Other operating expenses, net	**-**	1	18
Operating loss	**(3)**	(13)	(84)
Financial expenses (income)			
Financial expenses	**6**	6	18
Financial income	**(16)**	(16)	(66)
Financial income, net	**(10)**	(10)	(48)
Profit (loss) before income tax	**7**	(3)	(36)
Income tax income	**(1)**	(1)	(11)
Profit (loss) for the period	**8**	(2)	(25)

15.2 Bezeq International Ltd.

Selected data from the statement of financial position

	March 31, 2021	March 31, 2020	December 31, 2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**429**	458	443
Non-current assets	**310**	604	342
Total assets	**739**	1,062	785
Current liabilities	**407**	456	432
Long-term liabilities	**135**	104	148
Total liabilities	**542**	560	580
Equity	**197**	502	205
Total liabilities and equity	**739**	1,062	785

Selected data from the statement of income

	Three months ended March 31		Year ended December 31,
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues	**312**	317	1,271
Operating expenses			
General operating expenses and impairment	**211**	181	802
Salaries	**60**	64	248
Depreciation, amortization and impairment	**49**	43	149
Other expenses, net	**-**	-	313
Total operating expenses	**320**	288	1,512
Operating profit (loss)	**(8)**	29	(241)
Financial expenses (income)			
Financial expenses	**2**	2	5
Financial income	**(2)**	(1)	(3)
Financial expenses, net	**-**	1	2
Profit (loss) before income tax	**(8)**	28	(243)
Income tax expenses	**-**	6	32
Profit (loss) for the period	**(8)**	22	(275)

15.3 DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	March 31, 2021	March 31, 2020	December 31, 2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**188**	211	176
Non-current assets	**231**	269	248
Total assets	**419**	480	424
Current liabilities	**431**	489	436
Long-term liabilities	**68**	82	69
Total liabilities	**499**	571	505
Equity deficit	**(80)**	(91)	(81)
Total liabilities and equity	**419**	480	424

Selected data from the statement of income

	Three months ended March 31		Year ended December 31,
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues	**315**	338	1,287
Operating expenses			
General operating expenses and impairment	**212**	231	857
Salaries	**50**	54	203
Depreciation, amortization and impairment	**61**	44	203
Other operating expenses, net	**(2)**	-	(15)
Total operating expenses	**321**	329	1,248
Operating profit (loss)	**(6)**	9	39
Financial expenses (income)			
Financial expenses	**1**	3	15
Financial income	**(8)**	(8)	(2)
Financial expenses (income), net	**(7)**	(5)	13
Profit before income tax	**1**	14	26
Income tax expenses	**1**	-	2
Profit for the period	**-**	14	24

16. Subsequent Material Events

16.1 For information about the Board of Directors' resolution of May 25, 2021 regarding a plan for a structural change in the Subsidiaries, see Note 4.1.

16.2 Further to Note 10.4 to the Annual Financial Statements regarding the deployment of a fiber optic network by the Company, on May 25, 2021, the Company's Board of Directors approved the Company's fiber deployment plan and its submission to the Ministry of Communications in accordance with Section 14B(a) of the Communications Law. Under the plan, the Company is expected to deploy an ultra-fast fiber network covering 76% of the country's population (estimated by the Company at 80% of households).

Condensed Separate Interim Financial Information as of March 31, 2021

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

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

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970 of Bezeq - The Israel Telecommunication Corporation Ltd. (hereinafter - "the Company") as of March 31, 2021 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 of the financial information, which refers to Note 1.3 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities Law and Penal Code, 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 its invitation to a hearing on suspicion of bribery and reporting in order to mislead a reasonable investor, and as mentioned in that note, regarding the indictments 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

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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 25, 2021

Condensed Separate Interim Information on Financial Position

	March 31, 2021 (Unaudited) NIS million	March 31, 2020 (Unaudited) NIS million	December 31, 2020 (Audited) NIS million
Assets			
Cash and cash equivalents	**801**	644	431
Investments	**662**	1,095	724
Trade receivables	**785**	691	773
Other receivables	**95**	238	76
Loans provided to investees	**-**	16	-
Assets held for sale	**2**	45	10
Total current assets	**2,345**	2,729	2,014
Trade and other receivables	**217**	207	214
Fixed assets	**5,238**	5,001	5,154
Intangible assets	**243**	232	237
Goodwill	**265**	265	265
Investment in investees	**2,888**	3,210	2,878
Right-of-use assets	**608**	266	628
Non-current and other investments	**218**	95	111
Deferred taxes	**62**	36	113
Total non-current assets	**9,739**	9,312	9,600

Total assets	**12,084**	12,041	11,614

Condensed Separate Interim Information on Financial Position (cont.)

	March 31, 2021	March 31, 2020	December 31, 2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**785**	995	786
Trade and other payables	**841**	833	768
Employee benefits	**360**	463	384
Current maturities of lease liabilities	**80**	90	79
Provisions (Note 5)	**51**	86	79
Total current liabilities	**2,117**	2,467	2,096
Loans and debentures	**7,611**	8,535	7,614
Loan from subsidiaries	**1,120**	1,020	1,065
Employee benefits	**306**	269	303
Lease liabilities	**546**	187	566
Derivatives and other liabilities	**96**	160	120
Total non-current liabilities	**9,679**	10,171	9,668
Total liabilities	**11,796**	12,638	11,764
Equity			
Share capital	**3,878**	3,878	3,878
Share premium	**384**	384	384
Reserves	**357**	321	327
Accumulated deficit	**(4,331)**	(5,180)	(4,739)
Total equity (equity deficit)	**288**	(597)	(150)
Total liabilities and equity	**12,084**	12,041	11,614

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

Date of approval of the financial statements: May 25, 2021

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
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues (Note 2)	**1,054**	1,018	4,159
Operating expenses			
Salaries	**233**	229	919
Depreciation and amortization	**223**	212	877
General operating expenses (Note 3)	**155**	142	590
Other operating (income) expenses, net (Note 4)	**(150)**	(4)	68
Total operating expenses	**461**	579	2,454
Operating profit	**593**	439	1,705
Financial expenses (income)			
Financial expenses	**80**	85	419
Financial income	**(12)**	(36)	(16)
Financing expenses, net	**68**	49	403
Profit after financial expenses, net	**525**	390	1,302
Share in profits (losses) of investees, net	**8**	32	(244)
Profit before income tax	**533**	422	1,058
Income tax	**125**	95	262
Profit for the period	**408**	327	796

Condensed Separate Interim Information on Comprehensive Income

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	**408**	327	796
Items of other comprehensive income (loss) for the period, net of tax	**22**	8	(14)
Total comprehensive income for the period	**430**	335	782

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
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**408**	327	796
Adjustments:			
Depreciation and amortization	**223**	212	877
Share in (profits) losses of investees, net	**(8)**	(32)	244
Financial expenses, net	**58**	70	368
Capital gain, net	**(125)**	(9)	(35)
Share-based compensation	**5**	-	-
Income tax expenses	**125**	95	262
Change in trade and other receivables	**(30)**	(51)	(94)
Change in trade and other payables	**36**	72	69
Change in provisions	**(28)**	-	(8)
Change in employee benefits	**(22)**	(66)	(136)
Miscellaneous	**(1)**	(1)	(18)
Net cash provided by operating activities due to transactions with subsidiaries	**10**	13	24
Net income tax paid	**(141)**	(19)	(243)
Net cash provided by operating activities	**510**	611	2,106
Cash flows from investing activities			
Investment in intangible assets and other investments	**(39)**	(33)	(139)
Proceeds from the sale of fixed assets	**182**	7	146
Investment in bank deposits and securities	**(511)**	(510)	(1,335)
Proceeds from repayment of bank deposits and sale of securities	**474**	600	1,785
Purchase of fixed assets	**(273)**	(167)	(771)
Miscellaneous	**6**	6	17
Net proceeds from the sale of Walla	**-**	-	55
Net cash provided by investing activities due to transactions with investees	**-**	33	70
Net cash used in investing activities	**(161)**	(64)	(172)
Cash flows from financing activities			
Interest paid	**(5)**	(5)	(346)
Payment of principal and interest for a lease	**(29)**	(32)	(111)
Issue of debentures and receipt of loans	**-**	-	718
Repayment of debentures and loans	**-**	-	(1,821)
Costs for early repayment of loans and debentures	**-**	-	(65)
Payment for expired hedging transactions	**-**	-	(57)
Net cash provided by financing activities due to transactions with subsidiaries	**55**	-	45
Net cash provided by (used in) financing activities	**21**	(37)	(1,637)
Net increase in cash and cash equivalents	**370**	510	297
Cash and cash equivalents at the beginning of the period	**431**	134	134
Cash and cash equivalents at the end of the period	**801**	644	431

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 2020.

1.2 Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970 (the "Regulations") and the Tenth Schedule to the 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, 2020 and in conjunction with the condensed consolidated interim financial statements as of March 31, 2021 (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, 2020, except as stated in Note 3.2 to the Consolidated Statements.

For new standards and interpretations not yet adopted, see Note 3.3 to the Consolidated Statements.

1.3 Restatement

At the beginning of November 2020, during the preparation of the quarterly report as of September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming, *inter alia*, from failure to charge to the Statement of Income previous years' costs for advance payments to suppliers, and from inadequate recognition of prepaid expenses.

In light of the above findings, the Company published on December 21, 2020 restated financial statements *inter alia* for the first and second quarters of 2020 (including the comparative figures presented in them), in order to reflect retrospectively the effect of the corrections to the discrepancies.

The comparative figures included in this condensed separate financial information are after restatement.

2. Revenues

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Internet - infrastructure	**398**	395	1,622
Fixed-line telephony	**242**	248	1,008
Transmission and data communications	**268**	244	1,011
Cloud and digital services	**82**	72	288
Other services	**64**	59	230
	1,054	1,018	4,159

3. General Operating Expenses

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**27**	30	113
Marketing and general	**40**	39	159
Interconnectivity and payments to telecommunications operators	**28**	25	115
Services and maintenance by subcontractors	**28**	21	94
Vehicle maintenance	**9**	7	29
Terminal equipment and materials	**23**	20	80
	155	142	590

4. Other Operating Expenses (Income), Net

	Three months ended March 31		Year ended December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Gain from the sale of fixed assets (mainly real estate)	**(125)**	(9)	(13)
Provision for employee termination benefits under early retirement program	**2**	5	64
Provision for collective agreement signing bonus	**-**	-	40
Gain from the sale of an investee	**-**	-	(22)
Other income (mainly provisions for claims)	**(27)**	-	(1)
	(150)	(4)	68

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 51 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, 2021:

Balance of provision	Additional exposure*	Exposure for claims the chances of which cannot yet be assessed*
NIS million		
51	2,230	2,624(1)

* Nominal

(1) The exposure 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 former controlling shareholder, with respect to the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a consolidated motion is expected to be filed instead of these two motions. The proceeding has been stayed due to the investigation described in Note 1.3 to the Consolidated Statements and at the request of the Attorney General, until September 6, 2021.

5.2 After the date of the financial statements, a motion to certify a class action was filed against the Company, without specifying an exact amount, and a claim was filed as well for a sum of NIS 20 million. As of the date of approval of the financial statements, the chances of the claims could not yet be assessed. Additionally, a claim with exposure of NIS 909 million, as well as a claim for an unspecified amount, concluded.

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

6. Events in and Subsequent to the Reporting Period

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

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

6.3 In May 2021, the Company's Board of Directors approved an irrevocable undertaking by the Company to DBS to provide a credit facility or capital investment in the amount of NIS 150 million for 15 months, as of April 1, 2021 until June 30, 2022, instead of a similar undertaking from March 2021. See Note 4.2 to the Consolidated Statements.

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

6.5 For an update on share-based compensation, see Note 12 to the Consolidated Statements.

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

6.7 For information on the deployment of a fiber optic network by the Company, see Note 16.2 to the Consolidated Statements.

Chapter E:
Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended March 31, 2021

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

Quarterly report on the effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 38C(a) of the 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
3. Eyal Kamil, VP Operations and Logistics Division
4. Itzik Ben Eliezer, VP Technologies and Network Division
5. Amir Nachlieli, Legal Counsel
6. Erez Hasdai, VP Economics and Regulation Division
7. Guy Hadass, VP Corporate Communications
8. Tobi Fischbein, CFO Bezeq Group[1]
9. Moran Kita, VP Human Resources 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 that the Company is required to disclose as aforesaid, is accumulated and forwarded to the Management of the Company, including to the CEO and the most senior financial officer or to whoever fulfills those functions in practice, in order to enable decisions to be made at the appropriate time in relation to the disclosure requirements.

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

In the annual report on the effectiveness of internal control over financial reporting and disclosure that was attached to the Periodic Report for the period ended December 31, 2020 (the "Last Annual Report on Internal Control"), the Board of Directors and Management carried out an assessment of the internal controls in the Company. Based on this assessment, the Board of Directors and Management of the Company reached the conclusion that the internal controls, as of December 31, 2020, are ineffective, due to material weaknesses identified in the entity-level controls and in the process of preparation and closing of the financial statements, which resulted in inadequate recognition of expenses, as set out below.

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[1] Began serving in this position on April 15, 2021.

[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 2020.

Up until the reporting date[3],the Board of Directors and Management were informed of an event or matter that could change the assessment of the effectiveness of the internal control as reported in the Last Annual Report on Internal Control, as set out below.

As at the reporting date[4], based on the assessment 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 Management and Board of Directors as aforesaid, the internal control is effective.

The material weaknesses in the internal control disclosed in the Last Annual Report on Internal Control were corrected by the reporting date. Following are details of those material weaknesses, including the date on which they were first reported and their impact on the financial reporting and disclosure:

During the preparation of the quarterly report as of September 30, 2020, and as part of the controls performed over the process of preparing and closing the financial statements, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming, *inter alia*, from failure to charge to the Statement of Income previous years' costs for advance payments to suppliers, and from inadequate recognition of prepaid expenses.

The management of Bezeq International began an immediate examination of the matter, *inter alia* through its internal auditor.

In November 2020, the Board of Directors of the Company was informed of the preliminary interim findings of Bezeq International's internal auditor, who worked in conjunction with the Security Division of Bezeq International and with the support of an independent external expert. The interim findings indicated, *inter alia*, the existence over many years of professional errors (erroneous accounting and recording as well as deficiencies in the way of operating the controls), as well as faulty conduct, perhaps even knowingly, by employees of Bezeq International.

The total impact of the corrections to the discrepancies found in Bezeq International in the framework of the inspections as at June 30, 2020, was a decrease in the Group's equity as detailed below:

1. A decrease in the Group's equity as at January 1, 2018, totaling NIS 114 million in respect of past balances from the years 2002-2017, with the bulk of this amount (some NIS 80 million) originating in the years 2002-2003.
2, A decrease in the Group's profits (net of tax) in a cumulative amount of NIS 72 million for the period from January 1, 2018 until June 30, 2020.
3. In light of the examination's findings, Bezeq International revised its forecasts for the coming years and performed an updated valuation as of December 31, 2019, following which a further impairment loss of NIS 94 million (NIS 72 million net of tax) was recognized, as a result of the revision of the value of operations and book value of Bezeq International as at December 31, 2019.

In light of the above findings, the Company published on December 21, 2020 restated financial statements for the year 2019 and for the first and second quarters of 2020 (including the comparative figures presented in them), in order to reflect retrospectively the impact of the corrections to the discrepancies.

On November 23, 2020, the Company's Board of Directors appointed an independent external investigator (the "External Investigator") to conduct an in-depth investigation of the matter, including the circumstances leading to the creation of the discrepancies and the processes and controls that should have prevented their occurrence.

On February 4, 2021, the External Investigator presented to the Company's Board of Directors an investigation report with his findings (the "Investigation Report"). The following are the main findings and conclusions as set out in the Investigation Report:

1. Debit supplier balances which were created as a result of payments by standing order that were not recorded as expenses in the years 2001-2003, but accumulated as a debit amount in an account in the general ledger. The majority of the debit supplier balances found were vis-à-vis the parent company, Bezeq, as a related party.

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[3] In accordance with Regulation 38C(b)(4) of the Securities Regulations (Periodic and Immediate Reports), 1970 – as of the date of publication of the Report.

[4] In accordance with Regulation 38C(b)(4) of the Securities Regulations (Periodic and Immediate Reports), 1970 – as of the date of publication of the Report.

Instead, expenses were recorded during the relevant accounting period based on a cumulative, estimated and partial calculation that did not necessarily match the payments actually made, in an expenses payable account that also served in sorts as a general accounting ledger.

In the investigation it was found that in all the examined years, the trade payables item was presented and analyzed by Bezeq International's finance department on a net basis, making it difficult for the company's internal controls to identify the aforesaid debit supplier balances.

Additionally, it was found that some of the employees in Bezeq International's finance department were aware of the existence of the unexplained debit balances but did not act to clarify their source or deal with them in real time. Moreover, these employees did not inform either Bezeq International's management or its independent auditor about the issue.

2. Failure to recognize expenses versus revenues under service agreements with customers in the years 2018-2019: Deficient recording of expenses due to errors in distinguishing between the components of the agreements and in the manner of recording the expenses.

3. Incorrect presentation of data to the independent auditor: Over several years, the composition of the trade payables item was presented to the independent auditor on a net basis, without any breakdown into the balances created in the general ledger accounts which together comprised the net trade payables item, thereby bluring from the independent auditor the unexplained debit balances. Additionally, over several years, rows (reflecting invoices) were deliberately omitted from one of the supplier accounting ledgers, so that the ledgers should ostensibly balance out with the net trade payables item that was presented.

   In the investigation it was found that some of the employees of Bezeq International's finance department were aware of and took part in the incorrect presentation of the data to the independent auditor.

Disclosure of the material discrepancies between the assets and liabilities recorded in the books of Bezeq International and the actual assets and liabilities was first made by the Company in an immediate report dated November 9, 2020. The Company continued providing updates on the matter in additional immediate reports that were published in November and December 2020 and in February 2021

The Company's Board of Directors authorized its Audit Committee to continue deliberating on the Investigation Report's findings and recommendations, as well as to monitor implementation of the recommendations, consider the implications on audit and control issues, and examine the need to draw further conclusions and take additional steps. Accordingly, at the Audit Committee's request, the External Investigator presented to the committee the findings of a supplementary review he conducted, following which the Company's Board of Directors accepted the Audit Committee's recommendations, which mainly included the implementation of periodic controls and analytical assessments which must be performed by Bezeq International as part of the financial statements closure process (in addition to the existing controls in it); the adoption of a professional standard for control personnel of the Company and each of its significant subsidiaries, and for their professions, as well as the assignment of supervision and control powers to staff of the Company's accounting department over the work of the finance and accounting personnel in each of the subsidiaries with respect to its financial statements; the adoption of certain examinations to increase the effectiveness of entity-level controls in the Company and each of its significant subsidiaries; as well as recommendations for reviewing and improving the contracts of the Company and Bezeq International with external service providers.

It should be noted that the Investigation Report and the samples performed by the External Investigator do not indicate any suspicion of embezzlement during the examined period, particularly with respect to the event that occurred between 2001 and 2003[5], while with respect to the event that occurred between 2017 and 2019, the External Investigator stated that there was no concrete suspicion of embezzlement. For this reason it was decided not to broaden the investigation into suspicions of embezzlement beyond the actions that were taken and the findings and conclusions which the External Investigator derived from them.

[5] It is noted that according to the Investigation Report, due to the large number of accounting records, the absence of documentation or incompleteness of supporting documents, and the failure to provide complete explanations regarding some of the accounting records made by employees of the finance department in those years, one cannot rule out unequivocally the suspicion of embezzlement in the years 2001-2003.

Details of the actions taken to correct the material weaknesses:

During the period until the reporting date, the management and Board of Directors of Bezeq International and the Company's Board of Directors carried out various actions, checks and compensatory procedures, investing substantial efforts and resources, as detailed below, to correct the material weaknesses and strengthen the Company's internal controls. The deficiencies correction plan was adopted by the Company's Board of Directors and the Board of Directors of Bezeq International includes also the recommendations of the External Investigator. Implementation of the corrective actions took several months, and for some actions the companies retained the services of various professional consultants.

The Board of Directors of Bezeq International, the Company's Board of Directors and the Audit Committee of the Company's Board of Directors received frequent reports on the correction plan taken and the status of progress made in the plan. In parallel, the Company reported in its periodic reports the different actions taken by it to correct the weaknesses and the status of completion of each action.

It is clarified that as of the report publication date, the examination of all the controls in Bezeq International has been completed.

Main elements of the deficiencies correction plan and the corrective actions taken up to the report publication date:

1. Entity-level controls

- Bezeq International's Board of Directors decided to act within the law to terminate the employment of several employees in its finance department who were involved in the events under investigation (who are not company officers). Up to the reporting date, all the employees had received a notice of termination, with the employment of one actually terminated and the employment of the others expected to terminate in the coming period.

- New employees were recruited to replace the above employees, and as of the reporting date they had begun their employment at Bezeq International.

- During the preparation of Bezeq International's financial statements for 2020 and for the first quarter of 2021, all the controls carried out by employees and managers at Bezeq International who were found to be involved in the events under investigation were mapped out and examined by employees and managers of other subsidiaries in the Bezeq Group, who are not involved in the events under investigation, as well as by independent professionals with the relevant expertise, including various external professional consultants.

- Bezeq International's management carried out changes in the organizational structure of the finance department.

- Bezeq International conducted a special instruction seminar on the subject of its code of ethics for employees who participate in the preparation of the financial statements, in particular the employees of the finance department. Bezeq International will continue to conduct such instructions seminars periodically.

- Bezeq International prepared a professional training program for employees of the finance department.

- Bezeq International acted to improve its anonymous reporting mechanism.

2. Processes

- The work processes at Bezeq International in which deficiencies were identified were mapped out.

- Bezeq International revised the work processes in which deficiencies were identified, strengthened and expanded existing controls and created new controls. Among other things, the following subjects were examined and dealt with in the financial statements preparing and closure process: expenses payable, deferred costs, advance payments to suppliers, related-party adjustments, analytical assessments and analysis of significant financial ratios, reconciliation of the general ledger and subsidiary ledgers.

- Bezeq International developed new system reports and made developments in existing reports to support the revised work processes.

- General ledger accounts were cancelled at Bezeq International and specialized accounts were opened instead. In addition, Bezeq International cleansed the accounts index and the accounting ledgers.
- Bezeq International revised the main work methods of the company's accounting system in which deficiencies were found.

Bezeq International will continue to strengthen its internal controls, *inter alia*, by improving the automation of the work processes in which deficiencies were found and taking actions in accordance with the recommendations of the External Investigator. Improvement of the automation of work processes will be done in the framework of a multi-annual plan that will be partly accompanied by external professional consultants. These actions do not in any way change the assessment that, as of the reporting date, the internal control is effective.

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Concerning the investigations of the Israel Securities Authority and the Israel Police as detailed in section 1.1.5 of the Description of Company Operations chapter in Periodic Report for 2020, the Company does not have complete information about the investigations, their content, or the material and evidence in the possession of the law enforcement authorities on this matter (although in January 2021 the Company received the core investigation material in connection with Case 4000, further to an invitation it received to a hearing in this matter). Accordingly, the Company is unable to assess the effects, if any, of the investigations, their findings and their outcome on the Company, on its financial statements and on the estimates used in the preparation of the financial statements. Once the constraints on carrying out reviews and controls related to issues that arose in the investigations are lifted, the review of all matters related to those issues will be completed as required.

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 2021 (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 the 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 knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;
   - B. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;
   - C. Presented in this report any event or matter that occurred in the period between the last reporting date (quarterly or periodic, as applicable) and this reporting date that would change the conclusions 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 25, 2021

Dudu Mizrahi, CEO

B. **Declaration of 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 2021 (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 the internal control over financial reporting and disclosure:
   A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as 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 knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;
   B. Established controls and procedures or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;
   C. Any event or matter that occurred in the period between the last reporting date (quarterly or periodic, as applicable) and this reporting date that would change my conclusions concerning the effectiveness of internal control over financial reporting and disclosure, with respect to the financial statements and other financial information included in the Reports, was reported to the Board of Directors and Management and is included in this report.

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

Date: March 25, 2021

Tobi Fischbein, CFO Bezeq Group