May 16, 2023

Bezeq - The Israel Telecommunication Corporation. Ltd.

Quarterly Report for the Period Ended March 31, 2023

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2022

Directors Report on the State of the Company's Affairs for the Period Ended March 31, 2023

Condensed Interim Financial Statements as at March 31, 2023

Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period Ended March 31, 2023

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2022

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

Update to Chapter A (Description of Company Operations) [1] to the Periodic Report for 2022 (the “Periodic Report”) Bezeq - The Israel Telecommunication Corporation Ltd. (the “Company”)

1. General development of the Group's business

On April 23, 2023, the name of DBS Satellite Services (1998) Ltd. was changed to yes TV and Communications Services Ltd. (“yes").

Section 1.1.2 – Control in the Company

Regarding the approval of the amendment to the Communications Order (Telecommunications and Broadcasting) (Determination of an Essential Service Provided by Bezeq The Israel Telecommunications Corp. Ltd.), 2022, by the Government of Israel – on March 30, 2023, the Economic Committee of the Knesset approved the amendment and it will come into effect after the Prime Minister and the Minister of Communications sign the amendment and it is published in the Official Gazette.

Section 1.3 – Investments in the Company’s capital and transactions in its shares; section 1.1.1– General, and section 1.1.2 – Control in the Company

On April 3, 2023, B Communications reported that it had acquired 2,100,000 ordinary shares of the Company for a consideration of NIS 10 million at an average price per share of NIS 4.75. Subsequent to the acquisition, as at the publication date of the report, B Communications holds 26.88% (26.36% fully diluted) of the Company’s shares.

Section 1.4.2 – Dividend distribution

For information about the dividend distributed by the Company in May 2023, see Note 7 to the Financial Statements.

Distributable profits as at the reporting date: NIS 1.55 billion (retained earnings accumulated in the last two years after deduction of the distribution in the period).

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[1] The update is in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or developments that have occurred in the Company’s business in any matter that must be described in the Periodic Report. The update relates to the Company's Periodic Report for 2022 and refers to the section numbers in Chapter A (Description of Company Operations) in the Periodic Report.

Section 1.5.4 – Main results and operational data

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

Financial data (NIS millions)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	1,111	1,057	1,086	1,067	1,096
Operating profit	403	293	388	393	386
Depreciation and amortization	245	266	252	248	239
EBITDA (earnings before interest, taxes, depreciation, and amortization) (1)	648	559	640	641	625
Net profit	249	153	235	243	218
Cash flow from operating activities	608	628	427	541	634
Payments for investments in fixed assets and intangible assets and other investments	312	277	294	279	285
Proceeds from the sale of fixed assets and intangible assets	29	9	8	5	14
Lease payments	40	35	34	33	36
Free cash flow (2)	285	325	107	234	327
Performance data					
Number of active telephony subscriber lines at the end of the period (thousands)(3)	1,488	1,503	1,522	1,542	1,563
Average monthly revenue per line (NIS) (4)	41	40	41	41	47
Number of outgoing minutes (millions)	705	682	740	726	801
Number of incoming minutes (millions)	918	921	986	951	1,080
Telephony churn rate (6)	2.5%	2.5%	2.8%	2.6%	3.0%
Total number of internet lines at the end of the period (thousands) (7)	1,505	1,504	1,505	1,512	1,519
Of which, the number of subscribers connected to the fiber network at the end of the period (thousands) (9)	351	267	212	161	124
Of which, the number of internet lines at the end of the period – retail (thousands) (7)	1,031	1,032	1,024	1,022	1,024
Of which, the number of subscribers connected to the fiber network at the end of the period – retail (thousands)(7)	246	198	157	118	93
The number of internet lines at the end of the period – wholesale (thousands) (7)	474	472	481	490	495
Of which, the number of subscribers connected to the fiber network at the end of the period – wholesale (thousands) (7)	105	69	55	42	31
Average monthly revenue per Internet subscriber (NIS) – retail (8) (ARPU)	120	117	116	113	110
Deployment of fiber optic network at the end of the period (thousands of households available for connection) (9)	1,689	1,526	1,442	1,308	1,193
Average package speed per internet subscriber – retail (Mbps)(5)	250	220	192	164	151
Number of Be routers used by the Company's customers (thousands)	786	764	733	708	688
Number of Be Mesh and Be Spot range extenders for home Wi-Fi (thousands)	425	416	402	386	374

(1) EBITDA (earnings before interest, taxes, depreciation and amortization) is a financial measure that is not based on generally accepted accounting principles. The Company presents this as an additional index for assessing its business results since this is a generally accepted measure in the Company's area of operations that offsets aspects arising from the variance in the capital structure, various tax aspects and methods, and the amortization period for fixed assets and intangible assets. This measure is not a substitute for measures based on GAAP and it is not used as a sole measure for assessing the results of the Company's operations or cash flows. Additionally, the measure presented in this report may be calculated differently from corresponding measures in other companies. The

Company's EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from the impairment of fixed assets and intangible assets. To present fairly its financial activity, the Company presents continuing losses from the impairment of fixed assets and intangible assets in yes and Bezeq International under depreciation and amortization, and continuing losses from the impairment of broadcasting rights under general and operating expenses (in the statement of income). For further information, see Note 5 to the financial statements and section 7 of the chapter Description of Company Operations for 2022.

(2) Free cash flow is a financial measure that is not based on GAAP. Free cash flow is defined as cash from operating activities less cash for the purchase/sale of fixed assets and intangible assets, net, and from 2018, with the application of IFRS 16, lease payments are also deducted. The Company presents free cash flow as an additional measure for assessing its business results and cash flows, since the Company believes that free cash flow is an important indicator of liquidity that reflects cash resulting from operating activities after cash investments in infrastructure and other fixed assets and intangible assets. For further information, see section 7 of the chapter Description of Company Operations for 2022.

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

(4) Calculated according to average number of lines for the period. For further information, see also section 7 of the chapter Description of Company Operations for 2022.

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

(6) The number of telephony subscribers (gross) who left Bezeq Fixed-Line during the period divided by the average number of registered telephony subscribers in the period. For further information, see also section 7 of the chapter Description of Company Operations for 2022.

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

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

(9) As at the publication date of the report, deployment of the fiber optic network – 1,749 million households are available for connection, of which, 380 thousand subscribers are connected to the fiber network (of which, 263 thousand retail and 117 thousand wholesale).

Section 1.5.4.2 – Pelephone

Financial data (NIS millions)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue from services	445	441	467	446	437
Revenue from the sale of terminal equipment	171	151	141	153	163
Total revenue	616	592	608	599	600
Operating profit (loss)	51	17	60	52	64
Depreciation and amortization	133	135	139	136	122
EBITDA (earnings before interest, taxes, depreciation, and amortization) (1)	184	152	199	188	186
Net profit	44	13	50	46	56
Cash flow from operating activities	133	149	203	244	278
Payments for investments in fixed assets, intangible assets, and other investments, net	57	0	157	66	72
Lease payments	70	62	58	47	61
Free cash flow (1)	6	87	(12)	131	145
Performance data					
Number of postpaid subscribers at the end of the period (thousands) (2)	2,159	2,149	2,137	2,122	2,093
Number of prepaid subscribers at the end of the period (thousands) (2)	426	431	538	514	490
Number of subscribers at the end of the period (thousands) (2)	2,585	2,580	2,675	2,636	2,583
Of which, G5 subscribers (thousands) (2)	834	784	738	677	605
Average monthly revenue per user (ARPU) (NIS) (5) (3)	57	57	58	57	57
Average monthly revenue per user (ARPU) net of interconnect fees (NIS) (6)	43	43	45	43	42
Churn rate (4)	6.7%	6.1%	5.7%	5.5%	6.8%

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

(2) Subscriber figures include Pelephone subscribers (excluding subscribers from other operators hosted on the Pelephone network and excluding IOT subscribers), and do not include inactive subscribers connected to Pelephone's service for six months or more. An inactive subscriber is one who in the past six months has not received one call, has not made one call / sent one SMS, or has performed no browsing activity, or has not paid for Pelephone services. Prepaid subscribers are included in the number of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if the subscriber makes no outgoing use of the device for six months or more. It should be noted that a customer may have more than one subscriber number ("line"). Subscribers include subscribers who use various services (such as data for vehicle media systems), with an average revenue that is significantly lower than for other subscribers. It should be noted that Pelephone markets packages with an increased browsing volume adapted also for 5G requirements, and shortly before the publication date of the report, Pelephone has 860 thousand subscribers for such packages.

(3) Monthly ARPU (postpaid and prepaid). The index is calculated by dividing the average total monthly revenue from cellular services, from Pelephone subscribers and other telecom carriers, including revenue from cellular carriers who use Pelephone's network, repair services, and extended warranty in the period, by the average number of active subscribers in the same period. For further information see also section 7 of the chapter Description of Company Operations for 2022.

(4) The churn rate is calculated at the ratio of subscribers who disconnected from Pelephone's services and subscribers who became inactive in the period, to the average number of active subscribers in the period. For further information see also section 7 of the chapter Description of Company Operations for 2022.

(5) In Pelephone's assessment of the list of prepaid subscribers in the fourth quarter of 2022, it was found that 96 thousand subscribers were included in the list of subscribers even though they did not meet the definition of an active subscriber. Accordingly, the Company derecognized these subscriptions on a one-time basis. Derecognition of these subscribers resulted in an increase of NIS 2 in ARPU for the fourth quarter and the churn rate of subscribers in this quarter remained unchanged.

(6) Average monthly revenue per user (ARPU) net of interconnect revenue ("Interconnect Revenue") – As part of the reform to change the interconnect fees regime, which will be applied gradually from June 2023 until June 2025, Pelephone elected to present average monthly revenue per user (ARPU) net of the Interconnect Revenue component, in addition to full ARPU.

Section 1.5.4.3 – Bezeq International

Financial data (NIS millions)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	312	319	311	302	307
Operating profit (loss)	14	(60)	17	17	(4)
Depreciation and amortization	30	35	32	29	38
EBITDA (earnings (loss) before interest, taxes, depreciation, and amortization) (1)	44	(25)	49	46	34
Net profit (loss)	13	(58)	16	15	(5)
Cash flow from operating activities	19	56	5	37	112
Payments for investments in fixed and intangible assets and other investments, net (2)	10	17	23	27	26
Lease payments	10	9	9	9	9
Free cash flow (1)	(1)	30	(27)	1	77
Performance data					
Churn rate (3)	14.7%	15.0%	12.4%	12.9%	7.3%

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

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

(3) The number of internet subscribers who left Bezeq International in the period, divided by the average number of registered internet subscribers in the period. For further information see also section 7 of the chapter Description of Company Operations for 2022.

Section 1.5.4.4 – yes

Financial data (NIS millions)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	329	330	315	316	316
Operating profit (loss)	0	0	0	(2)	10
Depreciation, amortization, and continuing impairment losses	50	57	46	46	50
EBITDA (earnings before interest, taxes, depreciation and amortization) (1)	50	57	46	44	60
Net profit (loss)	5	1	0	2	10
Cash flow from operating activities	92	56	9	43	78
Payments for investments in fixed and intangible assets and other investments, net	30	44	39	49	46
Lease payments	6	7	6	6	6
Free cash flow (1)	56	5	(36)	(12)	26
Performance data					
Number of subscribers (at the end of the period, in thousands) (2)	580	579	575	567	564
Of which, IP subscribers (3)	348	329	307	280	253
Of which, STINGTV subscribers	108	104	101	94	89
Average monthly revenue per user (ARPU) (NIS) (4)	185	181	182	184	186
Churn rate (5)	3.5%	3.0%	3.2%	2.9%	3.7%

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

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

(3) The number of yes subscribers using yes+ and STINGTV streaming services. As at the publication date of the report, there are 356 thousand customers (of which, 110 thousand STINGTV subscribers), representing 61% of all yes subscribers, including subscribers using satellite services as well.

(4) Monthly ARPU is calculated by dividing total yes revenue (excluding revenue from the sale of content to external broadcasting entities, revenue from end equipment, and revenue from ISP) by the average number of customers in the period. For further information see also section 7 of the chapter Description of Company Operations for 2022.

(5) The number of yes subscribers who left yes in the period divided by the average number of registered yes subscribers in the period. For further information see also section 7 of the chapter Description of Company Operations for 2022.

Section 1.7.4 – Change in regulation – Amendment 76 to the Communications Law and section 2.16.4 – Wholesale market

Regarding the use of passive infrastructure in wholesale service – on March 29, 2023, the Ministry of Communications (following the hearing on November 22, 2022) resolved to allow all authorized suppliers to make use of the passive infrastructure, including the Company's physical infrastructure, not only in the incentive areas, subject to compliance with security provisions.

Section 1.7.7 – Regulatory aspects relevant to the entire Group or several Group companies

Section 1.7.7.5 regarding a financial sanction in the amount of NIS 6.9 million imposed on the Company – on April 2, 2023, a judgment on the Company’s appeal on the sanction approved the agreement of the parties that the amount of the financial sanction will be a reduced amount of NIS 3.4 million, and accordingly, the Consumer Protection Authority reimbursed the Company an amount of NIS 3.7 million (including linkage differences and interest).

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

Section 2.6.2 – The Internet segment

Regarding the rate of the Company's end-to-end ISP customers out of the Company's retail customers – as at March 31, 2023, the rate was 58%.

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

Regarding the Company's Be router and upgrading the capacity of the Company's internet network, in May 2023, the Company, together with Nokia International, performed a trial, which demonstrated a capacity to provide speed of up to 25 gigabytes using advanced technologies, and at the same time, announced a future road map for the development of multi-gig speeds and services of up to 10 gigabytes in 2024 and up to 25 gigabytes in 2027, advanced Wi-Fi standards, and upgrades to the Company's Be router. Regarding the number of Be routers used by the Company's customers and marketing information about range extenders see the update to section 1.5.4(A).

Section 2.9.5 – Officers and senior management in the Company

On April 20, 2023, the general meeting of the Company's shareholders approved, among other things, amendments to the Company's compensation policy, such that the compensation policy with the amendments will be valid for three years from the approval date. The amendments include application of the compensation policy for the chairman of the board of directors and the option of linking salaries to the CPI, grossing up expenses and related conditions, granting an adjustment period, and a signing bonus for officers. For further information about the revised compensation policy, see the immediate report (amended) of April 4, 2023 on the convening of a meeting, included in this report by way of reference.

Section 2.11 – Working capital

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

Section 2.13 – Financing

On April 7, 2023, the shelf prospectus published by the Company on April 7, 2020 expired. On May 9, 2023, the Company published a new shelf prospectus dated May 10, 2023. In this matter see also the Company's immediate report dated May 9, 2023 regarding the new shelf prospectus included in this report by way of reference.

Section 2.13.1 – Average and effective interest rates on loans

As at December 31, 2023, the Company is not financed by any short-term credit (less than one year). The following table shows the updated distribution of long-term loans (including current maturities):

Loan term	Source of finance	Principal amount (NIS millions)	Currency or linkage	Type of interest and change mechanism	Average interest rate	Effective interest rate	Nominal interest range in 2023
Long-term loans	Banks	705	Unlinked NIS	Fixed	3.43%	3.37%	3.20%-4.30%
	Banks	700	Unlinked NIS	Variable, based on the annual prime interest rate *	6.21%	6.33%	5.78%-6.28%
	Non-bank sources	3,679	Unlinked NIS	Fixed	3.05%	3.16%	2.79%-4.00%
	Non-bank sources	2,738	CPI-linked NIS	Fixed	1.44%	1.48%	0.58%-2.20%

* Prime interest – 6.00% (as at May 2023)

Section 2.13.4 – Credit received in the reporting period; and Section 2.13.5 – Company debentures

On March 26, 2023, the Company completed a public offering of Debentures (Series 13 and 14), by way of expansion of the series traded on the TASE, under the shelf offering report dated March 22, 2023, which was published under the shelf prospectus published on April 7, 2020 and extended by the Israel Securities Authority to April 7, 2023. As part of this public offering, NIS 230,040,000 par value Debentures (Series 13) were issued for a consideration of NIS 182 million and NIS 278,363,000 par value Debentures (Series 14) were issued for a consideration of NIS 238 million. For further information see the Company's shelf offering report dated March 22, 2023 and the Company's immediate report dated March 26, 2023 regarding the offering results, which are included in this report by way of reference.

Section 2.13.6 – Credit rating

On May 3, 2023, Maalot affirmed its ilAA- rating of the Company, Pelephone, and yes and raised the rating outlook from stable to positive, due to the improvement in the Company's financial ratios. In addition, on May 15, 2023, Midroog affirmed its Aa3.il rating for the Company's debentures and upgraded the rating outlook from stable to positive. For further information see the Company's immediate reports dated May 3, 2023 and May 15, 2023, included in this report by way of reference, and section 3 in the Directors Report.

Section 2.16.1 – Control of Company rates

Section 2.16.1.4 regarding a hearing on the format for assessing margin squeeze by owners of fixed-line communication infrastructure – on March 27, 2023, the ruling in the hearing was published, according to which the format for assessing margin squeeze in an advanced fixed-line network will be the format published in the recommendation for the hearing, with a number of changes set out in the ruling, and this format will constitute the calculation method in accordance with Section 17(D) of the Communications Law. The ruling in the hearing is not expected to have a significant effect on the Company's business.

Section 2.16.4 – Wholesale market

Regarding the use of passive infrastructure in wholesale service – see the update to section 1.7.4.

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

Section 3.7 – Property, plant and equipment

Section 3.7.2.2 regarding the permit agreement between Pelephone and the ILA for the use of ILA land for installing and operating telecommunication sites – further to the publication of the decision of the Israel Land Council to extend the umbrella agreement from December 31, 2019 to December 30, 2024, in January 2023, the parties signed an agreement.

Section 3.15 – Material agreements

Section 3.15.2 regarding the agreement between Pelephone and the Ministry of Finance Accountant General (the "Accountant General") – on May 2, 2023, an additional extension until May 16, 2023 was announced. Concurrently with the extension, the parties are discussing the option of a further extension to the agreement.

Section 3.16.1 – Pending legal proceedings

Subsection C regarding a motion for certification as a class action filed against Pelephone on the grounds that Pelephone, unilaterally and without consent, changed the terms of the agreement by allowing continued internet use once the internet usage limit was reached, instead of blocking it, notwithstanding Pelephone's announcement on the matter – on April 28, 2023, a judgment was handed down approving the settlement between the parties, referring mainly to compensation in the amount of NIS 18 million (partially in benefits).

4. Internet services, international communications, and ICT solutions – Bezeq International Ltd. (“Bezeq International”)

No update.

5. Multichannel TV – Yes Television and Communication Services Ltd. ("yes")

Section 5.5.1 – Competition

Section 5.5.1 regarding the competitors in the market – in April 2023, Keshet and RGE launched a joint venture to set up and operate a multichannel broadcasting platform, under the name freetv. At this stage, according to information available, yes believes that joining it is free of charge.

Section 5.12 – Financing

In May 2023, the Company approved a credit facility or capital investment in yes for a total amount of up to NIS 40 million, for 15 months, from April 1, 2023. This approval is instead of similar approval given in March 2023 (and not in addition to it).

Section 5.14 – Restrictions and control over yes

Section 5.14.1.3 regarding the obligation to invest in local productions – see the update to section 5.16.

Section 5.16 – Legal proceedings

In April 2023, a petition was filed with the High Court of Justice on behalf of a number of organizations of creators, performers, producers, screenwriters, and editors against the Council, the chairman of the council, yes, and Hot, petitioning the Court to order the Council and the chairman of the Council to respond and to explain why they will not order Hot and yes to include their revenue from additional services provided by them, which are not satellite or cable multichannel television services including telephony services, Internet access services and multi-channel television services, including telephony services, internet access services, and OTT multichannel television services, to calculate their obligations for annual investments in local productions under the Communications Law (see section 5.14.1.3 of the chapter Description of Company Operations for 2022).

Section 5.17 – Goals and strategy

Section 5.17.1 regarding the gradual migration of yes from satellite broadcasts to internet broadcasts (OTT) – see the update to section 1.5.4.4 (comment 3).

May 16, 2023

Date — Bezeq - The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:
Gil Sharon, Chairman of the Board of Directors
Ran Guron, CEO

Chapter B -

Board of Directors’ Report on the State of the Company’s Affairs for the Period Ended March 31, 2023

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, 2023.

The Board of Directors' Report contains a condensed review of its subject matter and was repared taking into account that the Board of Directors' Report as at December 31, 2022 is also available to the reader.

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

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

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

Breakdown of the Group's results:

	1-3.2023	**1-3.2022**	**Change**	
	NIS million		**NIS million**	**%**
Net profit	**311**	282	29	10.3
EBITDA (1)	**926**	908	18	2.0
Adjusted EBITDA (1)	**936**	958	(22)	(2.3)

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

The increase in net proft is mainly due to the decrease in expenses for the provision for lawsuits, and the decrease in financing expenses in the Domestic Fixed Line Communications segment.

For further information see section 1.2 below.

Non-GAAP financial measures

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

Breakdown of these measures:

Index	Calculation and objectives of the measure
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Defined as earnings before financing expenses/income, taxes, depreciation and amortization. The EBITDA is a generally accepted measure used in the Group's area of operations, which offsets effects arising from the variance in the capital structure, various taxation aspects, and the depreciation method and period for fixed and intangible assets. The Group's EBITDA is calculated as operating profit before depreciation, amortization and impairment (including ongoing losses from impairment of fixed and intangible assets, as described in Note 5 to the financial statements).
Adjusted EBITDA	Calculated as EBITDA net of other net operating expenses/income, non-recurring losses/gains from impairment/appreciation, and equity-based compensation. The index enables comparison of operating performance of various periods by adjusting the effects of irregular non-recurring expenses/income. It should be noted that the EBITDA measure should not be adjusted to measures similarly designated by other companies due to a possible difference in the way the measure is calculated.

Breakdown of the calculation of these indexes:

	1-3.2023	1-3.2022
	NIS million	
Operating income	468	460
Net of depreciation, amortization and impairment	458	448
EBITDA	**926**	908
Net of other operating expenses, net	7	46
Net of expenses for equity based compensation	3	4
Adjusted EBITDA	**936**	958

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

1.1 Financial position – Assets

	March 31, 2023	March 31, 2022	Change		Explanation
	NIS millions			%	
Cash and current investments	**2,411**	2,091	320	15.3	The increase is mainly due to an increase in current investments in the Domestic Fixed Line Communications segment. For further information see section 1.3 below.
Current and non-current trade and other receivables	**2,175**	2,424	(249)	(10.3)	The decrease is mainly due to bringing forward the credit card companies' crediting dates since the second quarter of 2022 in the Cellular Communications and Bezeq International Services segments, cancellation of insurance indemnification debt with respect to a provision for a legal claim in the Domestic Fixed Line Communications segment and repayment of a debt with respect to a government grant received in the Cellular Communications segment in 2022.
Inventories	**141**	108	33	30.6	The increase in inventory is mainly due to stocking up in the Cellular Communications segment in view of the timing of the launch of mobile telephone devices.
Broadcasting rights	**53**	62	(9)	(14.5)	
Right-of-use assets	**1,719**	1,816	(97)	(5.3)	
Fixed assets	**6,629**	6,400	229	3.6	The increase is mainly from the Domestic Fixed Line Communications segment, among other things, due to the progress made in the fiber network deployment project.
Intangible assets	**910**	931	(21)	(2.3)	
Deferred expenses and non-current investments	**245**	235	10	4.3	
Total assets	**14,283**	14,067	216	1.5	

1.1 Financial position (contd.) – Liabilities and equity

	March 31, 2023	March 31, 2022	Change		Explanation
	NIS millions			%	
Debt to financial institutions and debenture holders	**7,712**	7,723	(11)	(0.1)	Repayment of debentures and loans offset by the expansion of Debentures Series 13 and 14 in the current quarter and receipt of loans in 2022.
Liability for leases	**1,871**	1,943	(72)	(3.7)	
Trade and other payables	**1,846**	1,915	(69)	(3.6)	The decrease is mainly due to payments for 5G frequencies in 2022 in the Cellular Communications segment.
Employee benefits	**569**	642	(73)	(11.4)	The decrease is due to employee severance payments and an increase in the discounted interest of employee liabilities, offsetting an increase in provisions for early retirement and voluntary redundancy severance pay in 2022.
Provisions	**131**	233	(102)	(43.8)	The decrease is mainly due to a decrease in the provision for claims in the Domestic Fixed Line Communications segment, mainly due to the cancellation of a provision for a legal claim against the debt balance for insurance indemnification in this regard.
Other liabilities	**213**	191	22	11.5	
Total liabilities	**12,342**	12,647	(305)	(2.4)	
Total equity	**1,941**	1,420	521	36.7	Equity constitutes 13.6% of the total balance sheet compared to 10.1% of the total balance sheet as at March 31, 2022. The increase in equity is due to profits, offset by the distribution of dividends in 2022.
Total liabilities and equity	**14,283**	14,067	216	1.5	

1.2 Operating results

1.2.1 Highlights

	1-3.2023	1-3.2022	Change		Explanation
	NIS million			%	
Revenue	**2,308**	2,255	53	2.4	Revenue increased in all the Group’s key segments.
General and operating expenses	**884**	827	57	6.9	The increase is attributable to all the Group's key segments, other than the decrease in expenses in the Bezeq International Servicessegment.
Salaries	**491**	474	17	3.6	The increase is mainly attributable to the Domestic Fixed Line Communications segment.
Depreciation, amortization and impairment	**458**	448	10	2.2	The increase is attributable to the Domestic Fixed Line Communications and Cellular Communications segments, offset by a decrease in expenses in the Bezeq International Services segment.
Other operating expenses, net	**7**	46	(39)	(84.8)	The decrease is mainly from the Domestic Fixed Line Communications segment, due to a decrease in expenses relating to provisions for legal claims, see Note 10 to the financial statements.
Operating income	**468**	460	8	1.7	
Financing expenses, net	**65**	85	(20)	(23.5)	The decrease is mainly from the Domestic Fixed Line Communications segment, see Note 11 to the financial statements.
Income tax	**92**	93	(1)	(1.1)	
Profit for the period	**311**	282	29	10.3	

1.2.2 Operating segments

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

	1-3.2023		1-3.2022	
	NIS million	**% of total revenue**	**NIS million**	**% of total revenue**
Revenue by operating segment				
Domestic Fixed Line Communications	**1,111**	**48.1**	1,096	48.6
Cellular communications	**616**	**26.7**	600	26.6
Bezeq International Services	**312**	**13.5**	307	13.6
Multi-channel television	**329**	**14.3**	316	14.0
Others and adjustments	**(60)**	**(2.6)**	(64)	(2.8)
Total	**2,308**	**100**	2,255	100

	1-3.2023		1-3.2022	
	NIS million	**% of segment revenue**	**NIS million**	**% of segment revenue**
Operating profit (loss) by operating segment				
Domestic Fixed Line Communications	**403**	**36.3**	386	35.2
Cellular communications	**51**	**8.3**	64	10.7
Bezeq International Services	**14**	**4.5**	(4)	(1.3)
Multi-channel television (2)	**(5)**	**(1.5)**	(7)	(2.2)
Others and adjustments	**5**	**-**	21	-
Consolidated operating profit / % of the Group's revenue	**468**	**20.3**	460	20.4

(2) Results of the Multichannel Television segment are presented net of the total effect of impairment recognized from 2018. This is in accordance with the way the Group's COO assesses the performance of the segment and decides about the allocation of resources for the segment. In addition, see Note 14.3 for selected condensed information from the financial statements of Yes Television and Communications Ltd.

1.2.2. Operating segments

B. Domestic fixed line communications

	1-3.2023	1-3.2022	Change		Explanation
	NIS million			%	
Internet - infrastructure	**479**	434	45	10.4	The increase is due to an increase in the retail ARPU, which was mainly from services for fiber network subscribers, supplementary terminal equipment, and the provision of ISP services since April 2022, as well as an increase in the volume of wholesale market activities.
Fixed-line telephony	**182**	220	(38)	(17.3)	The decrease is due to lower average revenue per telephone line (ARPL), owing primarily to a reduction in telephony rates by the Ministry of Communications since April 2022, as well as a decrease in traffic volume. There was also a decrease in the number of lines.
Transmission – Communications and others	**363**	361	2	0.6	The increase in revenue is mainly due to data communications and transmission services for businesses, offset by a decrease in revenue from ISP transmission services resulting from subscribers switching to the Company due to the regulatory reform for unified Internet service
Cloud and digital services	**87**	81	6	7.4	The increase is mainly due to virtual exchange and cloud services
Total revenue	**1,111**	1,096	15	1.4	
General and operating expenses	**195**	178	17	9.6	The increase is mainly due to an increase in subcontracting expenses and costs of terminal equipment and materials for the optic fiber network deployment.
Salaries	**263**	246	17	6.9	The increase is due to salary increases, a one-time grant to permanent employees resulting from a salary agreement in principle in the public sector and hiring of new employees, which was offset mainly by resignation of employees.
Depreciation and amortization	**245**	239	6	2.5	
Other operating expenses, net	**5**	47	(42)	(89.4)	The decrease is mainly due to a decrease in provision expenses for lawsuits.
Operating income	**403**	386	17	4.4	
Financing expenses, net	**76**	94	(18)	(19.1)	The decrease in net financing expenses is mainly due to the early redemption costs of debentures that were recognized in the corresponding quarter and due to an increase in financing income from investments, offsetting a decrease in financing income relating to employee benefits, see Note 11 to the financial statements.
Income tax	**78**	74	4	5.4	
Segment profit	**249**	218	31	14.2	

1.2.2. Operating segments

C. Cellular communications

	1-3.2023	1-3.2022	Change		Explanation
	NIS million			%	
Services	**445**	437	8	1.8	The increase in revenue is mainly due to an increase in revenue from roaming services and further growth in the number of subscribers, including subscribers to 5G packages.
Sale of terminal equipment	**171**	163	8	4.9	The increase is mainly due to changes in the mix of devices sold.
Total revenue	**616**	600	16	2.7	
General and operating expenses	**351**	333	18	5.4	The increase is mainly due to an increase in selling costs for terminal equipment and an increase in roaming service costs, parallel to the increase in revenue. In addition, there was an increase in network costs and frequency fees due to, among other things, the increase in electricity rates and CPI in the period.
Salaries	**84**	82	2	2.4	
Depreciation and amortization	**133**	122	11	9	The increase is mainly due to the revision of the estimated costs of right-of-use assets in the corresponding quarter for past periods. This increase is partially offset by fully depreciated assets and a revision of the estimated dismantling and clearing sites assets.
Other operating income, net	**(3)**	(1)	(2)	200	
Operating income	**51**	64	(13)	(20.3)	
Financing income, net	**6**	9	(3)	(33.3)	The decrease in net financing income is mainly due to an increase in exchange rate differential expenses in view of the exchange rate appreciation in the period and an increase in financing expenses due to linkage differentials. This decrease was partially offset by an increase in interest income from deposits.
Income tax	**13**	17	(4)	(23.5)	
Segment profit	**44**	56	(12)	(21.4)	

1.2.2. Operating segments

D. Bezeq International Services

	1-3.2022	1-3.2021	Change		Explanation
	NIS millions			%	
Revenue	**312**	307	5	1.6	The increase is due to an increase in all the Company's business operations, mainly from cloud licensing revenue due to the consolidation of Cloud Edge's operations in the current quarter (in the corresponding period the consolidation became effective as of March 1, 2022) and revenue from equipment, licensing and service contracts. This increase was mainly offset by a decrease in revenue from ISP services in the private sector, which was mainly due to a decrease in the number of subscribers due to the regulatory reform for unified Internet service.
Operating and general expenses and impairment	**208**	216	(8)	(3.7)	The decrease was mainly due to a decrease in expenses for the use of Internet infrastructure in view of the decrease in the private sector activity in this segment. This decrease was partially offset by an increase in cloud licensing combined with an increase in revenue from this segment, mainly due to the consolidation of CloudEdge's full operations in the current quarter and an increase in expenses for sale of equipment, licensing and service contracts.
Salaries	**54**	56	(2)	(3.6)	The decrease is mainly due to the ongoing decrease in the Company's workforce.
Depreciation, amortization and impairment	**30**	38	(8)	(21.1)	The decrease is mainly due to impairment of assets that were recognized in the current quarter compared to the corresponding quarter last year (see Note 5.2 to the financial statements) and from a decrease in amortization expenses for intangible assets, mainly due to a decrease in subscriber acquisition asset amortization expenses.
Other operating expenses, net	**6**	1	5	500	The increase is mainly due to updating provision for lawsuits.
Operating profit (loss)	**14**	(4)	18	-	
Financing expenses, net	**1**	1	-	-	
Segment profit (loss)	**13**	(5)	18	-	

1.2.2. Operating segments

E. Multi-channel television (3)

	1-3.2023	1-3.2022	Change		Explanation
	NIS million			%	
Revenue	**329**	316	13	4.1	The increase was mainly due to an increase in revenue from integrated television and fiber packages as well as from new content packages, mainly from collaborations with international content providers.
General and operating expenses	**225**	208	17	8.2	The increase was due to an increase in content costs, mainly from collaborations with international content providers, as well as an increase in fiber operations costs.
Salaries	**50**	49	1	2.0	
Depreciation and amortization	**60**	66	(6)	(9.1)	The decrease is mainly due to assets that were fully depreciated and changes in the estimated life expectancy of assets.
Other Operating Income, Net	**(1)**	-	(1)	-	
Operating Loss	**(5)**	(7)	2	(28.6)	
Financing (income), net	**(5)**	(1)	(4)	400	The increase is mainly due to an increase in the value of forward transactions as a result of changes in the USD exchange rate.
Income taxes	**-**	1	(1)	(100)	
Segment (loss)	**-**	(7)	7	(100)	

(3) Results of the Multichannel Television segment are presented net of the total effect of impairment recognized as of the fourth quarter of 2018 (for further information, see Notes 5.1 and 13 to the financial statements). This is in accordance with the way the Group's COO assesses the performance of the segment and decides about the allocation of resources for the segment.

In addition, see Note 14.3 to the financial statements for selected condensed information from the financial statements of yes TV and Communication Services Ltd. and the table below.

Results of yes TV and Communication Services Ltd. – Comparison between accounting profit or loss and proforma profit or loss

	1-3.2023		1-3.2022	
	Accounting profit or loss	Proforma profit or loss	Accounting profit or loss	Proforma profit or loss
	NIS million			
Revenue	329	329	316	316
General and operating expenses	228	225	206	208
Salaries	52	50	50	49
Depreciation and amortization	50	60	50	66
Other operating (income)	(1)	(1)	-	-
Operating profit (loss)	-	(5)	10	(7)
Financing income, net	(5)	(5)	(1)	(1)
Income tax	-	-	1	1
Profit (loss)	5	-	10	(7)

1.3 Cash flow

	1-3.2023	1-3.2022	Change		Explanation
	NIS million			%	
Net cash flow from operating activities	853	1,096	(243)	(22.2)	The decrease in net cash from operating activities is from changes in working capital, mainly due to the deferral of collection from customers from the fourth quarter of 2021 to the first quarter of 2022 due to employee sanctions in the Cellular Communications segment and the Bezeq International Services segment.
Net cash used in investing activities	(805)	(327)	(478)	146.2	The increase in net cash flows used in investing activities was mainly due to an increase in net investments in bank deposits compared to net proceeds from redemption of deposits in banks in the corresponding quarter in the Domestic Fixed Line Communications segment.
Net cash from (used for) financing activities	276	(516)	792	-	The increase in net cash resulting from financing activities is due to the expansion of Debentures (Series 13 and 14) in the current quarter, compared to the partial early redemption of Debentures (Series 9) in the corresponding quarter.
Net increase in cash	324	253	71	28.1	

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

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 7,493 million

Supplier credit: NIS 952 million

Short-term customer credit: NIS 1,475 million Long-term customer credit: NIS 307 million

As at March 31, 2023, the Company has (based on the separate financial information) surplus working capital in the amount of NIS 663 million, compared with surplus working capital in the amount of NIS 278 million at March 31, 2022.

The Group's surplus working capital as at March 31, 2023, amounted to NIS 589 million, compared with surplus working capital of NIS 267 million at March 31, 2022.

The increase in surplus working capital of the Group and of the Company is due to a decrease in current liabilities and an increase in current assets, mainly in investment balances.

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

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

In the three months ended March 31, 2023, the CPI increase was reflected in the Group's financing expenses in an amount of NIS 26 million (NIS 21 million after hedging). Compared to the corresponding quarter, the Group's financing expenses with respect to linkage differentials decreased by NIS 8 million (NIS 6 million after hedging). It should be noted that the net impact of the interest rate increase in the market on the results of the Group's operations was not substantial in the reporting period.

Based on the volume of the Group's CPI linked debt as at March 31, 2023, every 1% increase in the CPI is expected to cause an increase in the Group's financing expenses of NIS 27 million, before weighting the effect of the hedging transactions. Furthermore, every 1% change in the Bank of Israel interest rate is expected to increase the Group's annual financing costs by NIS 7 million and accordingly, is not expected to have a material effect on the results of the Group's operations.

2. Disclosure concerning the Company's financial reporting

2.1 Disclosure concerning material valuations

Breakdown of information regarding a material valuation pursuant to Regulation 8B(I) of the Securities Regulations (Periodic and Immediate Reports), 1970. For further information, see Note 5 to the financial statements.

	yes TV and Communication Services Ltd. ("yes") (4) (5)
Subject of valuation	Review of impairment of yes assets as at March 31, 2023
Date of valuation	March 31, 2023; The valuation was signed on May 10, 2023
Value shortly prior to the valuation date had GAAP, including depreciation and amortization, not required re-evaluation based on the valuation	Carrying amount prior to impairment as at March 31, 2023, is negative NIS 76 million
Value based on the valuation	Total value of yes operations is negative NIS 159 million. Given the negative value of operations, the net value of yes assets and liabilities was set at the higher of their fair value or zero. Accordingly, the recoverable amount of yes, which is obtained by stating the balance sheet items at fair value, net of selling costs, in accordance with IAS 36 requirements, amounted to a negative amount of NIS 145 million. Based on the valuation, in the reporting quarter the Group recognized an impairment loss in the amount of NIS 69 million.
Valuator's identity and profile	The valuation was prepared by Prof. Hadas Gelander, Partner and Head of Valuations and Economic Modeling in the Economic Department at Ernst Young (Israel) Ltd. Prof. Gelander holds a Bachelor's Degree in Accounting from the College of Management – Academic Studies, Rishon Lezion; MBA from the Hebrew University of Jerusalem; PhD (with honors) from the Ben Gurion University, Beer Sheva; and is a Certified Public Accountant in Israel. In her position, Prof. Gelander oversees projects for leading companies in Israel and worldwide, in diverse sectors such as: technology, finance, pharmaceuticals, energy, infrastructures, real estate and industry. As part of her duties, she assists and advises companies in the preparation of valuations for business purposes (fair value valuations and opinions) and for accounting purposes (purchase price allocation, valuation of intangible assets, valuation of employee options, etc.), and has provided professional financial opinions as an expert court witness. The valuator is not dependent on the Company. The Company undertook to indemnify the valuator for any damages in excess of three times her fee, other than if she acted with malicious intent or gross negligence.
Valuation model	First stage - the value in use was revised using the discounted cash flow (DCF) method, compared to the valuation as at December 31, 2022. The valuation states that yes's management reported that the results of the current quarter have not changed materially, requiring revision of forecasts and therefore the value of use is based on the forecast received from the management of yes and was included in the valuation as at December 31, 2022. At the same time, adjustments were made in the foregoing value in use calculation due to a non-normative change in trade payables and due to earlier timing. Second stage - the net fair value of yes assets and liabilities, net of selling costs, as at March 31, 2023, was determined.

	yes TV and Communication Services Ltd. ("yes") (4) (5)
Assumptions used by the Valuator in the valuation	Discount rate - 10% (after tax); Permanent growth rate - 1% Scrap value percentage of total value set in the valuation - N/A In addition, assumptions were made concerning the fair value, net of selling costs, of yes assets.

(4) On April 23, 2023, the name of DBS Satellite Services (1998) Ltd. was changed to Yes TV and Communication Services Ltd.

(5) Notwithstanding the negative value of yes operations, the Company supports yes by approving credit facilities or by investment in yes's equity (see Note 4.1 to the financial statements). The Company's foregoing foregoing support of yes is, among other things, due to the current and expected contribution of yes operations to the Bezeq Group's overall operations.

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

2.3 Material events in the reporting period and subsequent to the date of the financial statements

For further information about material events in the reporting period and subsequent to the date of the financial statements, see Notes 15 to the financial statements.

3. Information about a debenture series

In March the Company raised capital by way of expansion of Debenture Series 13 and 14, in an amount of NIS 415 million.

On March 20, 2023 and March 22, 2023, Maalot announced a rating of ilAA- for the debentures issued by the Company under the expansion of Series 13 and 14 (see immediate reports, Ref. No.: 2023-01-024652 and 2023-01-025747). It should be noted that, in addition, on May 3, 2023, Maalot ratified the Company's rating of ilAA- and upgraded its rating outlook from stable to positive, in view of the improvement in the Company's financial ratios (see immediate report Ref. No.: 2023-01-040606).

In addition, on March 19, 2023 and March 22, 2023, Midroog announced a rating of Aa3.il with stable outlook for Debentures Series 13 and 14 issued by the Company under the expansion of Series 13 and 14 (see immediate reports Ref. Nos.: 2023-01-024223 and 2023-01-025771).

On May 15, 2023, Midroog ratified the Aa3.il rating for the Company's debentures and upgraded the rating outlook from stable to positive (see immediate report Ref. No.: 2023-01-044233).

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

4. Miscellaneous

For further information concerning the liabilities of the Company and the companies consolidated in its financial statements as at March 31, 2023, see the reporting form that will be posted by the Company on the MAGNA website on May 17, 2023.

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

Gil Sharon	Ran Guron
Chairman of the Board of Directors	CEO

Date of signature: May 16, 2023

Chapter C:

Condensed Consolidated Interim Financial Statements as of March 31, 2023 (Unaudited)

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

Contents

Somekh Chaikin
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Auditors' Review Report to the Shareholders of

Bezeq - The Israel Telecommunication Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of Bezeq -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – “Group”) comprising the condensed consolidated interim statement of financial position as of March 31, 2023 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with IAS 34 “Interim Financial Reporting” and are also responsible for the preparation of the financial information for this interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

Scope of Review

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

Conclusion

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

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

Explanatory Paragraph

Without qualifying our abovementioned conclusion, we draw attention to Note 1.3 of the financial information, which refers to that stated in Note 1.3 to the annual consolidated financial statements, regarding the Israel Securities Authority’s (ISA) and the Israel Police investigation of the suspicion

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of committing offenses under the Securities Law and Penal Code, with respect inter alia to transactions related to the former controlling shareholder, and notifying the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of the company's prosecution and holding a hearing on suspicion of bribery and reporting in order to mislead a reasonable investor, and as mentioned in that note, regarding the indictment filed against the former controlling shareholder for various offenses, including bribery and misleading information in an immediate report and regarding the filing of an indictment against the former controlling shareholder in the company and former senior executives in the Bezeq Group, which accuses the defendants of receiving anything fraudulently in aggravated circumstances, and reporting offenses under the Securities Law. In addition, subsequent to the investigation opening, a number of civil legal proceedings were initiated against the company, former officers of the company as well as companies from the group that previously controlled the company, including requests for approval of class actions. As stated in the above note, the Company is unable to assess the effects of the investigations, their findings and their results on the Company, and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

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

Somekh Chaikin

Certified Public Accountants (Isr.)

May 16, 2023

Condensed Consolidated Interim Statements of Financial Position

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
Assets	**NIS million**	**NIS million**	**NIS million**
Cash and cash equivalents	**1,065**	1,226	741
Investments	**1,346**	865	910
Trade receivables	**1,510**	1,593	1,440
Other receivables	**207**	400	288
Inventory	**141**	108	85
Total current assets	**4,269**	4,192	3,464
Trade and other receivables	**458**	431	460
Broadcasting rights	**53**	62	57
Right-of-use assets	**1,719**	1,816	1,746
Fixed assets	**6,629**	6,400	6,542
Intangible assets	**910**	931	912
Deferred expenses and non-current investments	**245**	235	231
Total non-current assets	**10,014**	9,875	9,948
Total assets	**14,283**	14,067	13,412

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

Condensed Consolidated Interim Statements of Financial Position (cont.)

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	**NIS million**	**NIS million**	**NIS million**
Debentures, loans and borrowings	**923**	949	921
Current maturities of lease liabilities	**443**	449	456
Trade and other payables	**1,846**	1,915	1,590
Employee benefits	**371**	424	399
Provisions	**97**	188	168
Total current liabilities	**3,680**	3,925	3,534
Loans and debentures	**6,789**	6,774	6,352
Lease liabilities	**1,428**	1,494	1,452
Employee benefits	**198**	218	201
Derivatives and other liabilities	**147**	147	151
Provisions	**34**	45	37
Deferred tax liabilities	**66**	44	61
Total non-current liabilities	**8,662**	8,722	8,254
Total liabilities	**12,342**	12,647	11,788
Equity attributable to shareholders of the Company			
Share capital	**3,879**	3,878	3,878
Share premium	**386**	384	384
Reserves	**398**	407	396
Equity deficit	**(2,723)**	(3,249)	(3,035)
Total equity attributable to shareholders of the Company	**1,940**	1,420	1,623
Non-controlling interests	**1**	-	1
Total equity	**1,941**	1,420	1,624

Total liabilities and equity	**14,283**	14,067	13,412

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

Date of approval of the financial statements: May 16, 2023

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
		2023	2022	2022
		(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million
Revenues	8	**2,308**	2,255	8,986
Operating expenses				
General operating expenses*	9	**884**	827	3,389
Salaries		**491**	474	1,872
Depreciation, amortization and impairment*		**458**	448	1,868
Other operating expenses, net	10	**7**	46	220
Total operating expenses		**1,840**	1,795	7,349
Operating profit		**468**	460	1,637
Financial expenses (income)				
Financial expenses		**98**	119	424
Financial income		**(33)**	(34)	(123)
Financial expenses, net	11	**65**	85	301
Profit before income tax		**403**	375	1,336
Income tax		**92**	93	336
Net profit for the period attributable to shareholders of the Company		**311**	282	1,000
Earnings per share (NIS)				
Basic and diluted earnings per share		**0.11**	0.10	0.36

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Net profit for the period	**311**	282	1,000
Additional items of other comprehensive income (loss), net of tax	**2**	12	(6)
Remeasurement of a defined benefit plan, net of tax	**1**	26	56
Total comprehensive income for the period attributable to shareholders of the Company	**314**	320	1,050

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	Equity deficit	Total	Noncontrolling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to shareholders of the Company								
Three months ended March 31, 2023 (unaudited)									
Balance at January 1, 2023	**3,878**	**384**	**390**	**38**	**(32)**	**(3,035)**	**1,623**	**1**	**1,624**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**311**	**311**	**-**	**311**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**-**	**2**	**1**	**3**	**-**	**3**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**2**	**312**	**314**	**-**	**314**
Transactions with shareholders recognized directly in equity									
Share-based payment	**-**	**-**	**-**	**3**	**-**	**-**	**3**	**-**	**3**
Exercise of options to shares	**1**	**2**	**-**	**(3)**	**-**	**-**	**-**	**-**	**-**
Balance at March 31, 2023	**3,879**	**386**	**390**	**38**	**(30)**	**(2,723)**	**1,940**	**1**	**1,941**
Three months ended March 31, 2022 (unaudited)									
Balance at January 1, 2022	3,878	384	390	27	(26)	(3,557)	1,096	-	1,096
Profit for the period	-	-	-	-	-	282	282	-	282
Other comprehensive income for the period, net of tax	-	-	-	-	12	26	38	-	38
Total comprehensive income for the period	-	-	-	-	12	308	320	-	320
Transactions with shareholders recognized directly in equity									
Share-based payment	-	-	-	4	-	-	4	-	4
Balance at March 31, 2022	3,878	384	390	31	(14)	(3,249)	1,420	-	1,420

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

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

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Capital reserve for employee options	Other reserves	Equity deficit	Total	Noncontrolling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to shareholders of the Company								
Year ended December 31, 2022 (audited)									
Balance at January 1, 2022	3,878	384	390	27	(26)	(3,557)	1,096	-	1,096
Profit for the year 2022	-	-	-	-	-	1,000	1,000	-	1,000
Other comprehensive income (loss) for the year, net of tax	-	-	-	-	(6)	56	50	-	50
Total comprehensive income (loss) for the year 2022	-	-	-	-	(6)	1,056	1,050	-	1,050
Transactions with shareholders recognized directly in equity									
Dividend to shareholders of the Company	-	-	-	-	-	(534)	(534)	-	(534)
Share-based payment	-	-	-	11	-	-	11	-	11
Business combination	-	-	-	-	-	-	-	1	1
Balance at December 31, 2022	3,878	384	390	38	(32)	(3,035)	1,623	1	1,624

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
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**311**	282	1,000
Adjustments:			
Depreciation, amortization and impairment loss	**458**	448	1,868
Capital loss (gain), net	**(1)**	2	(8)
Financial expenses, net	**69**	106	351
Share-based payment	**3**	4	11
Income tax expenses	**92**	93	336
Change in trade and other receivables	**(104)**	218	342
Change in inventory	**(56)**	(37)	(21)
Change in trade and other payables	**173**	89	(56)
Change in provisions	**4**	43	24
Change in employee benefits	**(31)**	(83)	(91)
Change in other liabilities	**-**	(2)	18
Income tax paid, net	**(65)**	(67)	(271)
Net cash provided by operating activities	**853**	1,096	3,503
Cash flow for investing activities			
Purchase of fixed assets	**(335)**	(335)	(1,353)
Investment in intangible assets and deferred expenses	**(81)**	(95)	(346)
Investment in bank deposits	**(640)**	(409)	(1,835)
Proceeds from repayment of bank deposits	**209**	499	1,895
Proceeds from the sale of fixed assets	**33**	15	40
Payment to Ministry of Communications for frequencies	**-**	-	(88)
Government grant received for frequencies	**-**	-	74
Miscellaneous	**9**	(2)	28
Net cash used in investing activities	**(805)**	(327)	(1,585)
Cash flow for financing activities			
Principal and interest payments for leases	**(125)**	(111)	(420)
Interest paid	**(14)**	(9)	(232)
Issue of debentures and receipt of loans	**415**	-	400
Repayment of debentures and loans	**-**	(370)	(1,320)
Dividend paid	**-**	-	(534)
Costs for early repayment of loans and debentures	**-**	(26)	(26)
Payment for expired hedging transactions	**-**	-	(18)
Net cash provided by (used in) financing activities	**276**	(516)	(2,150)
Increase (decrease) in cash and cash equivalents	**324**	253	(232)
Cash and cash equivalents at the beginning of the period	**741**	973	973
Cash and cash equivalents at the end of the period	**1,065**	1,226	741

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

1. General

1.1 Reporting entity

Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Company as of March 31, 2023 include those of the Company and its subsidiaries (jointly – the "Group"). The Group is a major provider of communications services in Israel (see also Note 13 – Segment Reporting).

1.2 Investigations by the Israel Securities Authority and the Israel Police

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

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

2. Basis of Preparation

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

2.2 The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and they should be reading the context of the annual financial statements of the Company and its subsidiaries as of December 31, 2022 and for the year then ended, and their accompanying notes (the "Annual Financial Statements"). The notes to the consolidated interim financial statements include only the material changes that have occurred from the date of the most recent Annual Financial Statements until the date of these consolidated interim financial statements.

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on May 16, 2023.

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.

4. Group Entities

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

4.1 yes Television and Communications Services Ltd. ("yes")

4.1.1 As of March 31, 2023, yes has an equity deficit of NIS 26 million and a working capital deficit of NIS 205 million. According to its own forecasts, yes expects to accumulate operating losses in the coming years and therefore will not be able to meet its obligations and to continue operating as a going concern without the Company's support.

On May 16, 2023, the Company's Board of Directors approved a credit facility or capital investment for yes in the amount of NIS 40 million for 15 months, as of April 1, 2023 until June 30, 2024, instead of a similar undertaking from March 2023. It should be noted that thus far in 2023, yes has not made any use of the credit facilities provided by the Company.

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

4.1.2 See Note 5.1 below for information about an impairment of assets recognized by yes in the financial statements as of March 31, 2023.

4.2 Bezeq International Ltd.

See Note 5.2 below for information about an impairment of assets recognized by Bezeq International in the financial statements as of March 31, 2023.

5. Impairment

5.1 Impairment of the Multichannel Television segment (yes)

Further to Note 10.5 to the Annual Financial Statements regarding impairment recognized in 2022, the valuation as of December 31, 2022 presented a value-in-use significantly lower than the carrying amount of yes. Based on an examination performed by an external appraiser on March 31, 2023, and based on the yes management's assessment, it has been found that in the three months since the previous valuation there have been no material changes in yes's economic performance in its operating market and in its regulatory, legal and financial environment, which could significantly impact yes's forecasts for the coming years. Nevertheless, adjustments have been made in the calculation of the value-in-use, due to a non-normative change in the trade payables coupled with the passing of time.

Thus, in light of the negative enterprise value, as determined in the valuation from December 31, 2022, yes reduced its assets as of March 31, 2023, to their net fair value.

Based on a valuation of the fair value of yes assets, carried out by an external appraiser on March 31, 2023, the carrying amount of the amortizable assets is NIS 69 million higher than their fair value less costs to sell. Therefore, the Group recognized in the three months ended March 31, 2023, an impairment loss of NIS 69 million.

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

	Enterprise value of yes (by the DCF method)	Net fair value of yes assets and liabilities	Net carrying amount of yes assets and liabilities, before impairment recognition	Impairment loss
	NIS million	NIS million	NIS million	NIS million
As of March 31, 2023 and for the three months ended on the same date (unaudited)	(159)	(145)	(76)	(69)
Total impairment recognized in the three months ended March 31, 2023				**(69)**
As of December 31, 2022 and for the year ended on the same date (audited)	(103)	(88)		(275)

Allocation of impairment loss to Group assets:

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Broadcasting rights*	**35**	32	149
Fixed assets**	**26**	20	76
Intangible assets**	**7**	10	45
Rights of use of leased assets**	**-**	2	2
Other receivables (prepaid expenses)*	**1**	1	3
Total impairment recognized	**69**	65	275

* 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 yes to measure the fair value (Level 3) of the assets less costs to sell, see Note 10.5 to the Annual Financial Statements.

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

Further to Note 10.6 to the Annual Financial Statements regarding impairment of the ISP, International Communications Services and ICT Solutions cash-generating unit in 2022 – the valuation as of December 31, 2022 presented a value-in-use that is significantly lower than the carrying amount of Bezeq International.

As of March 31, 2023, there have been no significant changes in Bezeq International's forecasts compared with those made by Bezeq International as of December 31, 2022. Accordingly, Bezeq International did not carry out an updated valuation as of this date, relying on the results of the valuation from December 31, 2022, according to which the enterprise value is a negative NIS 166 million. The updated value as of March 31, 2023, considering an update of the discount rate, is a negative NIS 162 million.

The enterprise value of Bezeq International is a negative NIS 162 million. The fair value of Bezeq International's assets less costs to sell as at March 31, 2023 is a negative NIS 5 million. Thus, in light of the negative enterprise value, as determined in the valuation on March 31, 2023, Bezeq International reduced its assets to their net fair value. Based on a valuation of the fair value of Bezeq International's assets, carried out by an external appraiser on March 31, 2023, the carrying amount of the amortizable assets is NIS 21 million higher than their fair value less costs to sell. Therefore, the Group has recognized in the three months ended March 31, 2023, an impairment loss of NIS 21 million.

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

	Enterprise value of Bezeq International (by the DCF method)	Net fair value of Bezeq International assets and liabilities	Net carrying amount of Bezeq International assets and liabilities, before impairment recognition	Impairment loss
	NIS million	NIS million	NIS million	NIS million
As of March 31, 2023 and for the three months ended on the same date (unaudited)	(162)	(5)	16	(21)
Total impairment recognized in the three months ended March 31, 2023				**(21)**
As of December 31, 2022 and for the year ended on the same date (audited)	(166)	(22)		(104)

Allocation of impairment loss to Group assets:

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Fixed assets and intangible assets**	**14**	24	71
Short-term and long-term prepaid expenses*	**6**	8	21
Long-term prepaid expenses for bandwidth capacity**	**1**	2	12
Total impairment recognized	**21**	34	104

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

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

6. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, *inter alia*, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions of NIS 93 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, 2023, for Legal Claims filed against Group companies on various matters, which are unlikely to be realized, amounts to NIS 1.9 billion. There is also additional exposure of NIS 2.5 billion for Legal Claims the chances of which cannot yet be assessed. In addition, motions have been filed against the Group companies, to certify class actions which do not specify the exact amount of the claim and for which the Group has additional exposure beyond the aforesaid.

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

For updates concerning changes after the reporting date, see Section 6.3 below.

6.2 Following are details of the Group's contingent liabilities and provisions as of March 31, 2023, classified into groups of claims with similar characteristics:

Claims group	Nature of the claims	Balance of provision	Additional exposure	Exposure for claims whose chances cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions (and claims by virtue thereof) on grounds of unlawful collection of payment and faulty service provided by the Group companies.	**93**	**1,807**	**712**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or investments.	**-**	**68**	**(1) 1,808**
Claims by employees and former employees of the Group's companies	Mainly individual legal claims filed by employees and former employees of the Group concerning various payments.	**-**	**-**	**2**
Miscellaneous	Other lawsuits, including claims in tort (excluding claims whose insurance coverage is not disputed), or claims related to real estate, infrastructure, suppliers, etc.	**-**	**27**	**4**
Total legal claims against the Company and subsidiaries(2)		**93**	**1,902**	**2,526**

(1) Includes two motions to certify class actions for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's controlling shareholder at the time, with respect to the transaction for the Company's acquisition of yes shares from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed, in view of the criminal proceeding that is being conducted following the investigation by the Securities Authority (described in Note 1.2) and at the request of the Attorney General, until July 20, 2023.

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

6.3 Subsequent to the date of the financial statements, a claim with exposure of NIS 80 million as well as two claims for which exposure cannot be estimated, were concluded.

7. Equity

7.1 Share capital

	March 31, 2023	March 31, 2022	December 31, 2022
	Number of shares	Number of shares	Number of shares
	(Unaudited)	(Unaudited)	(Audited)
Authorized share capital	**2,849,485,753**	2,849,485,753	2,849,485,753
Issued and paid-up share capital	**2,766,493,877**	2,765,540,626	2,765,566,594

7.2 Dividend distribution

7.2.1 See Note 20.2.1 to the Annual Financial Statements regarding the dividend distribution policy approved by the Company's Board of Directors on March 13, 2023.

7.2.2 On April 20, 2023, the General Meeting of shareholders of the Company approved (pursuant to the recommendation of the Company's Board of Directors from March 13, 2023) the distribution of a cash dividend to the Company's shareholders for a total of NIS 246 million (representing as of the effective date of the distribution NIS 0.0889220 per share). The dividend was paid on May 11, 2023.

8. Revenues

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Domestic fixed-line communications – Bezeq fixed-line			
Internet infrastructure	**466**	418	1,729
Fixed-line telephony	**177**	215	762
Transmission and data communication	**236**	220	897
Cloud and digital services	**87**	81	331
Other services	**75**	72	261
	1,041	1,006	3,980
Cellular communications – Pelephone			
Cellular services and terminal equipment	**436**	428	1,755
Sale of terminal equipment	**169**	161	604
	605	589	2,359
Multichannel television – yes	**329**	316	1,277
ISP, international communications services and ICT solutions – Bezeq International	**288**	293	1,183
Other	**45**	51	187
	2,308	2,255	8,986

9. General Operating Expenses

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Terminal equipment and materials	**221**	203	782
Interconnectivity and payments to domestic and international telecommunications operators	**202**	183	743
Content costs (including content impairment)	**141**	131	567
Marketing and general	**109**	130	532
Services and maintenance by subcontractors	**131**	111	454
Maintenance of buildings and sites	**64**	55	247
Vehicle maintenance	**16**	14	64
	884	827	3,389

10. Other Operating Expenses, Net

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Capital loss (gain) (mainly from the sale of real estate)	**(1)**	2	(8)
Provision for claims	**9**	43	55
Employee termination expenses for early retirement at the Company	**3**	2	78
Employee termination expenses for early retirement and efficiency agreement at Pelephone, Bezeq International and yes	**-**	-	102
Other income	**(4)**	(1)	(7)
	7	46	220

11. Financial Expenses, Net

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Interest expenses for financial liabilities	**57**	51	211
Financial expenses for lease liabilities	**12**	10	43
Linkage differences	**21**	26	117
Exchange rate differences	**-**	2	8
Costs for early repayment of loans and debentures	**-**	26	26
Other financial expenses	**4**	4	19
Financial expenses for employee benefits	**4**	-	-
Total financial expenses	**98**	119	424
Financial income from employee benefits	**-**	20	40
Income from credit in sales	**7**	6	20
Change in fair value of financial assets measured at fair value through profit or loss	**8**	6	23
Other financial income	**18**	2	40
Total financial income	**33**	34	123
Financial expenses, net	**65**	85	301

12. Financial Instruments

12.1 Financial instruments at fair value for disclosure purposes only

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

	March 31, 2023		March 31, 2022		December 31, 2022	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Loans from banks and financial institutions (unlinked)	**1,538**	**1,453**	1,620	1,634	1,530	1,462
Debentures issued to the public (CPI-linked)	**2,675**	**2,616**	2,961	3,188	2,402	2,373
Debentures issued to the public (unlinked)	**2,862**	**2,706**	2,873	2,887	2,657	2,541
	7,075	**6,775**	7,454	7,709	6,589	6,376

12.2 Fair value hierarchy

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

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1 – Investment in money funds	**202**	-	151
Level 2 – Forward contracts	**54**	9	42

13. Segment Reporting

13.1 Operating segments

	Three months ended March 31, 2023 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	Bezeq International services	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	**1,041**	**605**	**288**	**329**	**45**	**-**	**2,308**
Inter-segment revenues	**70**	**11**	**24**	**-**	**-**	**(105)**	**-**
Total revenues	**1,111**	**616**	**312**	**329**	**45**	**(105)**	**2,308**
Depreciation, amortization and impairment	**245**	**133**	**30**	**60**	**2**	**(12)**	**458**
Segment results – operating profit (loss)	**403**	**51**	**14**	**(5)**	**(1)**	**6**	**468**
Financial expenses	**98**	**10**	**4**	**2**	**-**	**(16)**	**98**
Financial income	**(22)**	**(16)**	**(3)**	**(7)**	**-**	**15**	**(33)**
Total financial expenses (income), net	**76**	**(6)**	**1**	**(5)**	**-**	**(1)**	**65**
Segment profit (loss) before income tax	**327**	**57**	**13**	**-**	**(1)**	**7**	**403**
Income tax expenses	**78**	**13**	**-**	**-**	**1**	**-**	**92**
Segment results – net profit (loss)	**249**	**44**	**13**	**-**	**(2)**	**7**	**311**

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

* Results of the Multichannel Television segment are presented net of the total effect of impairment recognized starting 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 14.3 for condensed selected information from yes's financial statements.

	Year ended December 31, 2022 (Audited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	Bezeq International services	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,980	2,359	1,183	1,277	187	-	8,986
Inter-segment revenues	326	40	56	-	6	(428)	-
Total revenues	4,306	2,399	1,239	1,277	193	(428)	8,986
Depreciation, amortization and impairment	1,005	532	134	274	4	(81)	1,868
Segment results – operating profit (loss)	1,460	193	(30)	(48)	6	56	1,637
Financial expenses	424	42	9	8	-	(59)	424
Financial income	(92)	(68)	(8)	(14)	-	59	(123)
Total financial expenses (income), net	332	(26)	1	(6)	-	-	301
Segment profit (loss) before income tax	1,128	219	(31)	(42)	6	56	1,336
Income tax expenses	279	54	1	1	1	-	336
Segment results – net profit (loss)	849	165	(32)	(43)	5	56	1,000

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

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

14.1 Pelephone Communications Ltd.

Selected data from the statement of financial position:

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**857**	896	865
Non-current assets	**2,966**	3,555	3,215
Total assets	**3,823**	4,451	4,080
Current liabilities	**754**	812	684
Long-term liabilities	**857**	884	879
Total liabilities	**1,611**	1,696	1,563
Equity	**2,212**	2,755	2,517
Total liabilities and equity	**3,823**	4,451	4,080

Selected data from the statement of income:

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	**445**	437	1,791
Revenues from sales of terminal equipment	**171**	163	608
Total revenues from services and sales	**616**	600	2,399
Operating expenses			
General operating expenses	**351**	333	1,327
Salaries	**84**	82	314
Depreciation and amortization	**133**	122	532
Total operating expenses	**568**	537	2,173
Other operating expenses (income), net	**(3)**	(1)	33
Operating profit	**51**	64	193
Financial expenses (income)			
Financial expenses	**10**	7	42
Financial income	**(16)**	(16)	(68)
Financial income, net	**(6)**	(9)	(26)
Profit before income tax	**57**	73	219
Income tax expenses	**13**	17	54
Profit for the period	**44**	56	165

14.2 Bezeq International Ltd.

Selected data from the statement of financial position:

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**409**	492	396
Non-current assets	**354**	321	364
Total assets	**763**	813	760
Current liabilities	**427**	440	431
Long-term liabilities	**132**	159	139
Total liabilities	**559**	599	570
Equity	**204**	214	190
Total liabilities and equity	**763**	813	760

Selected data from the statement of income:

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues	**312**	307	1,239
Operating expenses			
General operating expenses and impairment	**208**	216	827
Salaries	**54**	56	237
Depreciation, amortization and impairment	**30**	38	134
Other expenses, net	**6**	1	71
Total operating expenses	**298**	311	1,269
Operating profit (loss)	**14**	(4)	(30)
Financial expenses (income)			
Financial expenses	**4**	2	9
Financial income	**(3)**	(1)	(8)
Financial expenses, net	**1**	1	1
Profit (loss) before income tax	**13**	(5)	(31)
Income tax expenses	**-**	-	1
Profit (loss) for the period	**13**	(5)	(32)

14.3 yes Television and Communications Services Ltd. ("yes")

Selected data from the statement of financial position:

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**259**	220	196
Non-current assets	**246**	255	241
Total assets	**505**	475	437
Current liabilities	**464**	426	395
Long-term liabilities	**67**	87	74
Total liabilities	**531**	513	469
Equity deficit	**(26)**	(38)	(32)
Total liabilities and equity	**505**	475	437

Selected data from the statement of income:

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues	**329**	316	1,277
Operating expenses			
General operating expenses and impairment	**228**	206	867
Salaries	**52**	50	200
Depreciation, amortization and impairment	**50**	50	199
Other operating income, net	**(1)**	-	3
Total operating expenses	**329**	306	1,269
Operating profit	**-**	10	8
Financial expenses (income)			
Financial expenses	**2**	2	8
Financial income	**(7)**	(3)	(14)
Financial expenses (income), net	**(5)**	(1)	(6)
Profit before income tax	**5**	11	14
Income tax expenses	**-**	1	1
Profit for the period	**5**	10	13

15. Significant Events in the Reporting Period and after the Financial Statements Date

15.1 See Note 7.2.2 regarding the distribution of a cash dividend on May 13, 2023.

15.2 In March 2023, the Company raised financing by way of opening Debenture Series 13 and 14, in the amount of NIS 415 million.

15.3 On May 9, 2023, the Company issued a new shelf prospectus following receipt of a permit.

Condensed Separate Interim Financial Information as of March 31, 2023

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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KPMG

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

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970 of Bezeq - The Israel Telecommunication Corporation Ltd. (hereinafter - "the Company") as of March 31, 2023 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) and the Israel Police investigation of the suspicion of committing offenses under the Securities Law and Penal Code, with respect inter alia to transactions related to the former controlling shareholder, and notifying the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of the company's prosecution and holding a hearing on suspicion of bribery and reporting in order to mislead a reasonable investor, and as mentioned in that note, regarding the filing of an indictment against the former controlling shareholder for various offenses, including bribery and misleading information in an immediate report and regarding the filing of an indictment against the former controlling shareholder in the company and former senior executives in the Bezeq Group, which accuses the defendants of receiving anything fraudulently in aggravated circumstances, and reporting offenses under the Securities Law. In addition, subsequent to the investigation opening, a number of civil legal proceedings were initiated against the company, former officers of the company as well as companies from the group that previously controlled the company, including

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

May 16, 2023

Condensed Separate Interim Information on Financial Position

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**654**	837	286
Investments	**1,340**	864	905
Trade receivables	**742**	729	684
Other receivables	**91**	224	211
Total current assets	**2,827**	2,654	2,086
Trade and other receivables	**250**	218	253
Fixed assets	**5,705**	5,475	5,629
Intangible assets	**246**	248	243
Goodwill	**265**	265	265
Investment in investees	**2,518**	3,068	2,803
Right-of-use assets	**640**	667	645
Non-current and other investments	**175**	159	164
Total non-current assets	**9,799**	10,100	10,002
Total assets	**12,626**	12,754	12,088

Condensed Separate Interim Information on Financial Position (cont.)

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**922**	948	920
Trade and other payables	**807**	816	709
Employee benefits	**271**	357	277
Current maturities of lease liabilities	**111**	109	115
Provisions (Note 5)	**53**	146	127
Total current liabilities	**2,164**	2,376	2,148
Loans and debentures	**6,789**	6,774	6,352
Loans from subsidiaries	**905**	1,360	1,140
Employee benefits	**162**	178	161
Lease liabilities	**567**	589	570
Derivatives and other liabilities	**76**	57	77
Deferred tax liabilities	**23**	-	17
Total non-current liabilities	**8,522**	8,958	8,317
Total liabilities	**10,686**	11,334	10,465
Equity			
Share capital	**3,879**	3,878	3,878
Share premium	**386**	384	384
Reserves	**398**	407	396
Equity deficit	**(2,723)**	(3,249)	(3,035)
Total equity	**1,940**	1,420	1,623

Total liabilities and equity	**12,626**	12,754	12,088

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

Date of approval of the financial statements: May 16, 2023

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
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues (Note 2)	**1,111**	1,096	4,306
Operating expenses			
Salaries	**263**	246	970
Depreciation and amortization	**245**	239	1,005
General operating expenses (Note 3)	**195**	178	759
Other operating expenses, net (Note 4)	**5**	47	112
Total operating expenses	**708**	710	2,846
Operating profit	**403**	386	1,460
Financial expenses (income)			
Financial expenses	**98**	121	424
Financial income	**(22)**	(27)	(92)
Financial expenses, net	**76**	94	332
Profit after financial expenses, net	**327**	292	1,128
Share in profits of investees, net	**62**	64	151
Profit before income tax	**389**	356	1,279
Income tax	**78**	74	279
Profit for the period	**311**	282	1,000

Condensed Separate Interim Information on Comprehensive Income

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	**311**	282	1,000
Items of other comprehensive income for the period, net of tax	**3**	38	50
Total comprehensive income for the period	**314**	320	1,050

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
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit for the period	**311**	282	1,000
Adjustments:			
Depreciation and amortization	**245**	239	1,005
Share in profits of investees, net	**(62)**	(64)	(151)
Financial expenses, net	**70**	104	334
Capital gain, net	**-**	1	(11)
Share-based payment	**1**	2	3
Income tax expenses	**78**	74	279
Change in trade and other receivables	**(68)**	20	1
Change in trade and other payables	**58**	57	29
Change in provisions	**1**	43	24
Change in employee benefits	**(3)**	(67)	(135)
Miscellaneous	**1**	2	24
Net cash provided by (used in) operating activities due to transactions with subsidiaries	**24**	(2)	53
Income tax paid, net	**(48)**	(57)	(225)
Net cash provided by operating activities	**608**	634	2,230
Cash flows from investing activities			
Investment in intangible assets and other investments	**(44)**	(45)	(157)
Proceeds from the sale of fixed assets	**29**	14	36
Investment in bank deposits	**(640)**	(409)	(1,835)
Proceeds from repayment of bank deposits	**209**	499	1,895
Purchase of fixed assets	**(268)**	(240)	(978)
Dividend received	**115**	-	-
Miscellaneous	**3**	2	22
Net cash provided by investing activities with subsidiaries	**-**	-	10
Net cash used in investing activities	**(596)**	(179)	(1,007)
Cash flows from financing activities			
Interest paid	**(14)**	(9)	(230)
Payment of principal and interest for a lease	**(40)**	(36)	(138)
Issue of debentures and receipt of loans	**415**	-	400
Dividend paid	**-**	-	(534)
Repayment of debentures and loans	**-**	(370)	(1,320)
Costs for early repayment	**-**	(26)	(26)
Payment for expired hedging transactions	**-**	-	(18)
Net cash provided by financing activities due to transactions with subsidiaries	**(5)**	121	227
Net cash provided by (used in) financing activities	**356**	(320)	(1,639)
Net increase in cash and cash equivalents	**368**	135	(416)
Cash and cash equivalents at the beginning of the period	**286**	702	702
Cash and cash equivalents at the end of the period	**654**	837	286

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 2022.

1.2 Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38D (the "Regulation") of the Securities Regulations (Periodic and Immediate Reports),1970 and the Tenth Schedule to those regulations (the "Tenth Schedule"), concerning a corporation's condensed separate interim financial information (the "Statement").The Statement should be read together with the separate financial information as of and for the year ended December 31, 2022 and together with the condensed consolidated interim financial statements as of March 31, 2023 (the "Consolidated Statements").

2. Revenues

	Three months ended March 31		Year ended December 31
	2023	**2022**	**2022**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Internet infrastructure	**479**	434	1,789
Transmission and data communications	**286**	286	1,132
Fixed-line telephony	**182**	220	780
Cloud and digital services	**87**	81	331
Other services	**77**	75	274
	1,111	1,096	4,306

3. General Operating Expenses

	Three months ended March 31		Year ended December 31
	2023	**2022**	**2022**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**
Maintenance of buildings and sites	**28**	27	113
Marketing and general	**40**	46	189
Interconnectivity and payments to telecom operators	**26**	26	100
Services and maintenance by subcontractors	**58**	41	203
Vehicle maintenance	**9**	7	37
Terminal equipment and materials	**34**	31	117
	195	178	759

4. Other Operating Expenses (Income), Net

	Three months ended March 31		Year ended December 31
	2023	2022	2022
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Loss (gain) from the sale of fixed assets (mainly real estate)	**-**	1	(11)
Provision for employee termination benefits in early retirement	**3**	2	78
Other expenses (mainly provisions for claims)	**2**	44	45
	5	47	112

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 53 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, 2023:

Balance of provision	Additional exposure*	Exposure for claims whose chances cannot yet be assessed*
NIS million		
53	**643**	(1)**2,507**

* Nominal

(1) Includes two motions to certify class actions for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group and companies of the group of the Company's controlling shareholder at the time, with respect to the transaction for the Company's acquisition of yes shares from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed, in view of the criminal proceeding that is being conducted following the investigation by the Securities Authority, as described in Note 1.2 of the Consolidated Statements, and at the request of the Attorney General, until July 20, 2023.

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

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

6. Events in and Subsequent to the Reporting Period

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

6.2 In May 2023, the Company's Board of Directors approved an irrevocable undertaking by the Company to yes, to provide a credit facility or capital investment of NIS 40 million for 15 months, as of April 1, 2023 until June 30, 2024, instead of a similar undertaking from March 2023. See Note 4.1 to the Consolidated Statements.

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

6.4 In March 2023, Pelephone paid a cash dividend to the Company totaling NIS 115 million as well as a dividend of NIS 235 million against early repayment of loans given to the Company.

6.5 On May 10, 2023, Pelephone's Board of Directors approved payment of a dividend to the Company totaling NIS 350 million against early repayment of loans given to the Company.

6.6 See Note 7 to the Consolidated Statements regarding a dividend distribution by the Company after the financial statements date.

6.7 For information about additional material events subsequent to the financial statements period, see Note 15 to the Consolidated Statements.

Chapter E:

Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Period Ended March 31, 2023

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

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

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

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

For this matter, the members of Management are:

1. Ran Guron, CEO
2. Eyal Kamil, VP Operations and Logistics
3. Amir Nachlieli, Legal Counsel
4. Erez Hasdai, VP Economics and Regulation
5. Guy Hadass, VP Corporate Communications, Responsibility and Governance Relations
6. Tobi Fischbein, CFO Bezeq Group
7. Tali Poleg, VP Marketing
8. Moran Kita, VP Human Resources
9. Meni Baruch, VP Technologies and Network
10. Nurit Kantor, VP Private Customers Division
11. Nir David, VP Business Customers 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[1] and the most senior financial officer, or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Company, and were designed to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format laid down in law.

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

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

In the annual report on the effectiveness of internal control over financial reporting and disclosure, that was attached to the periodic report for the period ended December 31, 2022 (the "Last Annual Report on Internal Control"), the Board of Directors and Management conducted an evaluation of the

[1] Regarding the transfer of the CEO's authority in matters connected with investees of the Company to the Board of Directors – see Section 1.1.3 of the chapter "Description of Company Operations" in the Periodic Report for 2022.

Company's internal control. Based on this evaluation, the Company's Board of Directors and Management reached the conclusion that the internal control, as of December 31, 2022, is effective.

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

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

Concerning the investigations of the Israel Securities Authority and the Israel Police, as detailed in section 1.1.5 of the Description of Company Operations chapter in this report, the Company does not have complete information about the investigations, 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 a summons it received to a hearing in this matter, as detailed in Section 1.1.5.2 of the chapter "Description of Company Operations"). Accordingly, the Company is unable to assess the effects, if any, of the investigations, their findings and their outcome on the Company, on its financial statements and on the estimates used in the preparation of the financial statements.

2. Declaration of Executives:

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

I, Ran Guron, declare that:

1. I have reviewed the quarterly report of Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") for the first quarter of 2023 (the "Reports").
2. To the best of my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.
3. To the best of my knowledge, the financial statements and other financial information in the Reports reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.
4. I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:
   - A. All the significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;
   - B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure
5. I, alone or together with others in the Company:
   - A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;
   - B. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;
   - C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was brought to my attention that would change the conclusion of the Board of Directors and Management concerning the effectiveness of internal control over the Company's financial reporting and disclosure.

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

Date: May 16, 2023

Ran Guron, CEO

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

I, Tobi Fischbein, declare that:

1. I have reviewed the interim financial statements and other financial information included in the reports for the interim period of Bezeq - The Israel Telecommunication Corporation Ltd, (the "Company") for the first quarter of 2023 (the "Reports" or the "Reports for the Interim Period").
2. To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period do not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.
3. To the best of my knowledge, the financial statements and other financial information included in the Reports for the Interim Period reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports:
4. I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:
   A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as it relates to the interim financial statements and other financial information included in the Reports for the Interim Period, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;
   B. Any fraud, whether or not material, that involves the CEO, or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure.
5. I, alone or together with others in the Company:
   A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;
   B. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;
   C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was brought to my attention, in respect of the interim financial statements and any other financial information included in the Reports for the Interim Period, that would, in my opinion, change the conclusion of the Board of Directors and Management concerning the effectiveness of internal control over the Company's financial reporting and disclosure.

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

Date: May 16, 2023

Tobi Fischbein, CFO Bezeq Group