

May 29, 2019

“Bezeq” - The Israel Telecommunication Corp. Ltd. Quarterly report for period ended March 31, 2019

Update to Chapter A (Description of Company Operations) of the Periodic Report for 2018

Directors' Report on the State of the Company's Affairs for the period ended March 31, 2019

Interim Financial Statements as at March 31, 2019

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended March 31, 2019



Update to Chapter A (Description of Company Operations) of the Periodic Report for 2018



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

**Update to Chapter A (Description of Company Operations) ¹
to the Periodic Report for 2018 ("Periodic Report")
of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company")**

1. General development of the Group's business

Section 1.1 - Group activities and business development

Section 1.1.2 - Control of the Company

On proposals to purchase shares of Internet Gold and B Communications - based on the reports of these companies, in April and May 2019, two proposals were received from Searchlight Group and Zeevi Group for the purchase of shares of B Communications. Subsequently, according to notice received from B Communications, the bond holders of Internet Gold and B Communications approved in principle and in an indicative manner the updated offer of Searchlight Group for the purchase of shares of Internet Gold and B Communications and for an additional investment in B Communications, as part of the acquisition of control of B Communications by Searchlight Group. To the best of the Company's knowledge, this proposal has yet to develop into a binding transaction and it is subject to statutory approvals. On this matter, see also Immediate Reports filed by the Company on April 8, 2019, April 10, 2019, April 17, 2019, April 19, 2019, May 2, 2019, May 14, 2019, and May 20, 2019, included here by way of reference.

¹ The update is further to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the periodic report. The update relates to the Company's periodic report for the year 2018 and refers to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

Section 1.5.4 - Main results and operational data

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

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenues (NIS million)	1,043	1,026	1,043	1,064	1,063
Operating profit (NIS million)	531	(87)	451	387	473
Depreciation and amortization (NIS million)	207	217	218	211	204
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million) ⁽¹⁾	738	130	669	598	677
Net profit (NIS million)	321	(155)	257	202	263
Cash flow from current activities (NIS million)	471	600	583	507	516
Payments for investments in property, plant & equipment, intangible assets and other investments (NIS million)	210	225	233	313*	205
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	39**	270**	8	(58)	7
Payments for leases	34	9	28	29	33
Free cash flow (NIS million) ⁽²⁾	266	636**	330	107*	285
Number of active subscriber lines at the end of the period (in thousands) ⁽³⁾	1,792	1,818	1,843	1,865	1,889
Average monthly revenue per line (NIS) (ARPL) ⁽⁴⁾	50	51	51	52	53
Number of outgoing use minutes (million)	926	989	960	1,010	1,055
Number of incoming use minutes (million)	1,090	1,160	1,125	1,151	1,191
Total number of internet lines at the end of the period (thousands) ⁽⁷⁾	1,635	1,656	1,663	1,662	1,653
The number of which provided as wholesale internet lines at the end of the period (thousands) ⁽⁷⁾	624	626	617	600	574
Average monthly revenue per Internet subscriber (NIS) - retail	96	96	93	93	92
Average bundle speed per Internet subscriber - retail (Mbps) ⁽⁵⁾	61.5	59.1	57.4	55.4	53.5
Telephony churn rate ⁽⁶⁾	3.0%	3.1%	2.7%	2.8%	3.0%

- (1) EBITDA (Earnings before income taxes, depreciation and amortization) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as an additional index for assessing its business results since this index is generally accepted in the Company's area of operations which counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. This index is not a substitute for indices which are based on GAAP and it is not used as a sole index for estimating the results of the Company's activities or cash flows. Additionally, the index presented in this report is unlikely to be calculated in the same way as corresponding indices in other companies. The Company's EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from the impairment of property, plant and equipment and intangible assets. Commencing January 1, 2019, in order to reasonably present economic activity, the Company presents ongoing losses from the impairment of property, plant and equipment and intangible assets in DBS and Walla under the item depreciation and amortization, and ongoing losses from the impairment of broadcasting rights under the item operational and general expenses (in the Income Statement). On this matter, see Notes 3.1 and 5 to the Company's consolidated financial statements for the period ended March 31, 2019.
- (2) Free cash flow is a financial index which is not based on GAAP. Free cash flow is defined as cash from current activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net, and from 2018, with the application of IFRS 16, payments for leases are also deducted. The Company presents free cash flow as an additional index for assessing its business results and cash flows because the Company believes that free cash flow is an important indication of liquidity that reflects cash resulting from ongoing operations after cash investments in infrastructure and other fixed and intangible assets.
- (3) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (not including a subscriber who neglected to pay his debt to the Company on time in (roughly) the first three months of the collection process).
- (4) Excluding revenues from transmission services and data communication, internet services, services to communications operators and contractor and other works. Calculated according to average lines for the period.
- (5) For bundles with a range of speeds, the maximum speed per bundle is taken into account.
- (6) The number of telephony subscribers (gross) who left Bezeq Fixed Line during the period divided by the average number of registered telephony subscribers in the period.
- (7) Number of active Internet lines including retail and wholesale lines. Retail - Internet lines provided directly by the Company. Wholesale - Internet lines provided through a wholesale service to other communications providers.
- (*) In Q2 2018 - including permit fee payments in the amount of NIS 112 million (75% of the requirement) for the sale of the Sakia property. Land appreciation tax in the amount of NIS 80 million paid for the sale of the Sakia property was reclassified from payments for investments to reducing the proceeds from the sale of property, plant and equipment in Q2 2018. In Q1 2019, a refund of land appreciation tax was received in the amount of NIS 5 million.
- (**) Including consideration from the Sakia sale in the amount of NIS 5 million in Q1 2019 and NIS 155 million in Q4 2018.

B. Pelephone

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue from services (NIS million)	417	437	449	438	431
Revenue from the sale of terminal equipment (NIS million)	161	181	155	164	188
Total revenue (NIS million)	578	618	604	602	619
Operating profit (loss) (NIS million)	(10)	(4)	(2)	2	2
Depreciation and amortization (NIS million)	157	177	161	159	158
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million) ⁽¹⁾	147	173	159	161	160
Net profit (NIS million)	2	2	6	7	9
Cash flow from current activities (NIS million)	195	156	194	181	239
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	63	78	69	90	69
Payments for leases	69	70	64	50	75
Free cash flow (NIS million) (1)	63	8	61	41	95
Number of postpaid subscribers at the end of the period (thousand) ^{(2) (5)}	1,842	1,831	1,817	1,800	1,760
Number of prepaid subscribers at the end of the period (thousand) ^{(2) (5)}	382	374	368	801	786
Number of subscribers at the end of the period) ⁽²⁾	2,224	2,205	2,185	2,601	2,546
Average monthly revenue per subscriber (NIS) (ARPU) ⁽³⁾	63	66	68	57	57
Churn rate ⁽⁴⁾	8.6%	9.0%	9.1%	7.3%	8.0%

- (1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table.
- (2) Subscriber data includes Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network and excluding IOT subscribers from Q3 2018), and does not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call, has not made one call / sent one SMS, or has performed no surfing activity on his phone or has not paid for Pelephone services. Prepaid subscribers are included in the list of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if he makes no outgoing use of his device for six months or more. Notably, a customer may have more than one subscriber number ("line"). On the change in the definition of subscribers from Q3 2018, see comment (5) below.
- (3) Average monthly revenue per subscriber (postpaid and prepaid). The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period. On the effect of the change in the definition of a subscriber from Q3 2018 on the ARPU index, see comment (5) below.
- (4) The churn rate is calculated at the ratio of subscribers who disconnected from the company's services and subscribers who became inactive during the period, to the average number of active subscribers during the period. On the effect of the change in the definition of a subscriber from Q3 2018 on the churn rate, see comment (5) below.
- (5) From Q3 2018, Pelephone updated the definition of an active subscriber so that its subscriber listing will no longer include IOT subscribers, and it added a separate comment for prepaid subscribers so that a prepaid subscriber will be included in the list of active subscribers from the date on which the subscriber loaded his device, and it will be removed from the list of active subscribers if no outgoing calls were made for six months or more. As a result of this change, at the beginning of Q3 2018, 426,000 prepaid subscribers and about two thousand IOT subscribers were written off Pelephone's subscriber listings. This led to an increase of NIS 11 in the ARPU index and an increase of 1.5% in the churn rate in Q3 2018.

C. Bezeq International

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenues (NIS million)	341	370	333	336	352
Operating profit (NIS million)	34	21	31	30	34
Depreciation and amortization (NIS million)	46	60	46	45	43
EBITDA (Earnings before income taxes, depreciation and amortization) (NIS million) ⁽¹⁾	80	81	77	75	77
Net profit (NIS million)	25	13	20	20	24
Cash flow from current activities (NIS million)	56	106	73	54	67
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million) ⁽²⁾	33	25	26	44	31
Payments for leases	8	9	9	9	9
Free cash flow (NIS million) ⁽¹⁾	15	72	38	1	27
Churn rate ⁽³⁾	6.6%	7.7%	5.8%	6.0%	6.0%

- (1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.
- (2) The item also includes long-term investments in assets.
- (3) The number of Internet subscribers who left Bezeq International during the period, divided by the average number of registered Internet subscribers in the period.

D. DBS

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenues (NIS million)	343	356	367	375	375
Operating profit (loss) (NIS million)	(45)	(1,139)*	1	(17)	(1)
Depreciation, amortization and ongoing impairment (NIS million)	55	84	81	79	79
EBITDA (Earnings before income taxes, depreciation, amortization and ongoing impairment) (NIS million) ⁽¹⁾	10	(1,055)*	82	62	78
Net profit (loss) (NIS million)	(50)	(1,137)*	(2)	(10)	1
Cash flow from current activities (NIS million)	53	46	34	60	86
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	64	81	79	75	62
Payments for leases	8	6	9	8	8
Free cash flow (NIS million) ⁽¹⁾	(19)	(41)	(54)	(23)	16
Number of subscribers (at the end of the period, in thousands) ⁽²⁾	568	574	584	582	580
Average monthly revenue per subscriber (ARPU) (NIS) ⁽³⁾	200	206	210	215	214
Churn rate ⁽⁴⁾	5.6%	5.6%	5.1%	4.7%	6.1%

- (1) On the definition of EBITDA (earnings before income taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table.
- (2) Subscriber - a single household or small business customer. In the case of a business customer that has more than a certain number of decoders (such as a hotel, kibbutz, or gym), the number of subscribers is standardized. The number of 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. In Q4 2018, the standardization formula was updated as a result of which the number of subscribers fell by 7,000. This is partially due to the fact that the average revenue per small business customer in the special offers (at least 100 customers per offer) increased in the past year as a result of customers moving over to packages that are richer in content at a higher price.
- (3) Monthly ARPU is calculated by dividing total DBS revenues (from content and equipment, premium channels, advanced products, and other services) by the average number of customers in the period.
- (4) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period.
- (*) See Note 5.1 to the Company's financial statements for the period ended March 31, 2019 concerning impairment of assets.

Section 1.6 - Group Outlook

Further to the Immediate Report published by the Company on May 6, 2019, concerning the sale of the Sakia property, which is included here by way of reference, and to the information in the update to Section 2.7.4, and the expectation of recording a capital gain (the scope of which is still being assessed by the Company) in the Company's financial statements for Q2 2019, it is hereby stipulated that this capital gain (of a scope to be recorded) was not included in the Company's forecast for net profit and EBITDA.

On the Group's forecast in connection with EBITDA, attention is drawn to the revised definition of EBITDA as specified in comment (1) to the table in the update to Section 1.5.4(A). As noted there, as of January 1, 2019, and to enable the proper presentation of economic activity, the Company presents ongoing losses from the impairment of property, plant and equipment and intangible assets in DBS and Walla under Depreciation and Amortization, and ongoing losses from the impairment of broadcasting rights under Operating and General Expenses (in the Income Statement). On this matter, it is stipulated that ongoing losses from the impairment of assets will be classified under the same items in which expenses in respect of these assets were recorded in the past. The Company believes that in view of the forecast for continuing negative cash flows and negative value of activity in DBS and Walla, and in light of the fact that impairment is expected to continue in the future, this classification is more consistent with the method of presentation based on the nature of the expense and it is also more suited to understanding the Company's business. It is further stipulated that expenses in respect of an impairment loss resulting from a one-time adjustment of the forecast for coming years, will be reclassified as Other Operating Expenses in the income statement. On this matter, see also Notes 3.1 and 5 to the Company's financial statements for the period ended March 31, 2019. There is no change in the actual forecast in relation to EBITDA.

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

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

Section 1.7.2.1 – Structural separation - on a petition filed by the Company in the HCJ against the Ministry of Communications for the immediate cancellation of the structural separation in Bezeq Group - the State should have submitted its response to the petition (after receiving a postponement) by May 30, 2019. However on May 28, 2019, the Company received for response a draft application from the State for an additional postponement of the submittal of its response until July 30, 2019. The Company gave notice of its objection to this request. On this matter, see also Note 6 to the Company's financial statements for the period ended March 31, 2019.

Section 1.7.2.2 - Marketing joint service bundles with a subsidiary - on the marketing of joint service bundles of Internet infrastructure together with ISP - on April 16, 2019, the Company submitted its comments whereby the solution is to market a reverse bundle which meets the customer's basic requirements for assurance and continuity of service, which is not limited in time and allows the customer to disconnect at any time. On this matter, it is noted that on May 26, 2019, the Company received a preliminary supervisory report on the reverse bundle, for the Company's response. According to the information in the report, its findings show that the Company ostensibly deviated from the provisions of Section 9A of its license ("Joint Service Bundle") and the regulations prescribed on this subject. The Company is studying the report and will submit its response accordingly.

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

Section 1.7.4.6 - Enforcement and financial sanctions - on April 17, 2019, a new request for information under the Consumer Protection Law was sent to the Company, stating that the Consumer Protection and Fair Trade Authority is conducting an investigation against the Company on suspicion of violation of the Consumer Protection Law, including a suspected breach on the subject of misleading consumers when a transaction is performed and the non-cancellation of transactions according to the law.

Section 1.8 - Bezeq Group's business strategy

In Q1 2019, the Board of Directors continued to review, implement and update the Group's business strategy. This, in part, in view of the ongoing decline in revenues in the domestic fixed-line sector, including a continuing decline in revenues from fixed-line telephony services and Internet services in the retail, and lower revenues in the quarter from wholesale Internet services (see update to Section 1.5.4), and the assessment that if the Company fails to implement additional streamlining and strategic

measures, the decline in revenues from this segment of operation and in profitability is likely to continue in the coming years. The Company is working to formulate a plan to cope with this continuing trend.

The estimates detailed above are forward-looking information which might be affected by various factors, including future changes in the Israeli market in general and in the communications market in particular, strategic and other measures that the Company and its subsidiaries might introduce, regulatory changes, changes in the Company's competitive status, etc. Furthermore, the foregoing could be affected by the materialization of any of the risk factors listed in Sections 2.20, 3.19, 4.14 and 5.19 in Chapter A of the Periodic Report for 2018.

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

Section 2.6.3 - Internet infrastructure

According to publications in the media, on May 13, 2019, HOT announced that it is starting to market a 500 Mbps high-speed Internet service.

Section 2.7.2 – Infrastructure and domestic fixed-line communications equipment

Following are several clarifications concerning deployment of the Company's optical fibers - the main advantage of optical fiber over copper is the possibility of transmitting higher speeds. There are also operating advantages which are insignificant compared with this advantage. The reason for the Company's decision to freeze the fiber deployment is that although the fiber deployment is now extensive, at the moment there is no economic justification for the Company to launch the service over these fibers in view of the major investments entailed in completing the deployment and operating the service on the one hand, and absence of the certainty necessary to pursue a business plan that is economically sustainable on the other. At the present time, the deployment of fibers by the Company's competitors is intensifying competition in the areas of deployment with a negative impact for the Company. Nevertheless, the Company believes that due to its operational advantages, and principally the access to skilled, professional manpower, in the medium and long term its technological superiority will be preserved. The Company believes that at this point in time, placing the deployment on hold does not affect the Company's compliance with the regulations, which are currently under review by the Minister of Communications (see below the update to the call for public comments). The Company believes that from such time as a decision is made to launch services based on the fiber network, it will be possible to reach significant cover² of more than 50% of households in Israel within a period of 4-5 years.

The estimates detailed above are forward-looking information based on the Company's assumptions and expectations, the materialization of which is uncertain. The information might be affected by various factors, including the Company's future capabilities, changes in technology, regulatory decisions, etc. or the materialization of any of the risk factors detailed in Sections 2.20, 3.19, 4.14 and 5.19 of the Periodic Report for 2018.

On a call for public comments by the Ministry of Communications concerning the policy for the deployment of ultra-wide bandwidth infrastructure in Israel - on April 8, 2019, the Company submitted its comments on the secondary call for public comments, in which it stated that this issue cannot be based on the application of a universal obligation that is not economically viable. The Company set out principles for a dynamic regulatory mechanism the application of which will facilitate and encourage large-scale deployment of ultra-high-speed Internet infrastructures on the basis of business considerations and economic feasibility, rather than coercion.

Section 2.7.4 – Real estate

Sakia property - On May 5, 2019, the transaction was completed and checks were received in the amount of NIS 377 million (including VAT), constituting the full outstanding proceeds of the sale of the property. The checks for the outstanding amount were deposited in trust until the rights lien documents were submitted to the Registrar of Companies (after they were submitted the checks were released), with one check in the sum of NIS 150 million earmarked for immediate payment of the full betterment levy, without this derogating from and/or prejudicing the steps taken and/or to be taken by the Company to cancel or reduce this levy. Subsequently, the Company is expected to record a capital gain in its financial statements for Q2 2019. As mentioned in the Company's previous reports, the capital gain to

² The percentage of households that are able to receive ultra-high-speed Internet service based on advanced technologies within a reasonable period given that suitable infrastructure is available in close proximity to them.

be recorded assuming that the Company will be required to pay the full demands is NIS 250 million, as against NIS 450 million if all the Company's arguments in its objections are accepted. The Company is still assessing the capital gain to be recorded in its financial statements in Q2 2019. On this matter, see also Note 16 to the Company's financial statements for the period ended March 31, 2019.

Section 2.9.5 - Officers and senior management in the Company

In the matter of compensation for attendance and annual compensation payable to directors serving in the Company and its subsidiaries (hereinafter together - "Directors Compensation") - pursuant to changes in the figures for the equity of the Company and some of its subsidiaries, as they appear in their 2018 audited balance sheet, changes were made in the Directors Compensation, in accordance with the Companies (Rules for the Compensation and Expenses of External Directors) Regulations, 2000, and a resolution passed by a general meeting of the Company's shareholders on September 17, 2018.

On May 3, 2019, the Chairman of the Board, Mr. Shlomo Rodav, informed the Company of his request and of a request from the Israel Lighterage & Supply Co. Ltd. ("Mr. Rodav" and "Lighterage", respectively), a private company in which Mr. Rodav holds 50% of the means of control and through which Mr. Rodav provides the Company with services as Chairman of the Board, in accordance with the management agreement between Lighterage and the Company, to reduce the management fees to which Lighterage is entitled under the aforesaid agreement by 20% for the whole of 2019 (in other words - retroactively from the payment in respect of January 2019). For additional information about the management agreement, see an Immediate Report of the Company dated August 12, 2018, included here by way of reference, and Section 7D in Chapter D (Additional Information about the Company) in the Company's Periodic Report for 2018. Furthermore, on May 29, 2019, the director Mr. Ami Barlev, announced that he will forgo his entitlement to any compensation payable to him for serving as a director in the Company, effective from June 1, 2019 until further notice.

On the convening of a special general meeting of the Company's shareholders to re-approve the compensation policy for the Company's senior officers - on May 23, 2019 the general meeting re-approved the compensation policy in accordance with Section 267A of the Companies Law, including updating the policy for three years, commencing January 1, 2019, as specified in the Company's Supplementary Immediate Report dated May 15, 2019 on convening the meeting, included here by way of reference.

Section 2.9.6 - Labor disputes

On notice of a strike or stoppage received by the Company on January 23, 2019 - the parties are negotiating, and subsequent to a joint motion filed in the labor court, the hearing that was scheduled for April 2019 was postponed to June 2019.

Section 2.11 - Working capital

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

Section 2.13.6 - Credit rating

On April 8, 2019, Midroog Ltd. ("Midroog") affirmed an Aa2.il rating for the Company's debentures (Series 6, 7, 9, and 10) and it changed the rating outlook from stable to negative; on May 7, 2019, S&P Global Rating Maalot Ltd. ("Maalot") affirmed the Company's iIAA rating with a negative rating outlook. On these and on the aforementioned rating reports, see Immediate Reports of the Company dated April 8, 2019 (Midroog) and May 7, 2019 (Maalot).

Section 2.13.7 - the Company's assessment for raising financing in 2019 and possible sources

On a resolution passed by the Company's Board of Directors on March 27, 2019 concerning the filing of an application for permission to publish a supplementary prospectus based on its financial statements at December 31, 2018 - in view of the fact that discussions with the ISA in the context of the draft prospectus have not been completed, the application for permission is for the publication of a supplementary prospectus based on the Company's financial statements at March 31, 2019.

On the convening of a general meeting for which the agenda includes approval for increasing the Company's registered capital as a preliminary step towards raising potential capital through a rights issue - on April 8, 2019, the Company's Board of Directors resolved, in view of discussions with shareholders that were held on the subject and as a response to their requests, that the subject of the increase in registered capital would be removed from the agenda of the general meeting.

Section 2.14 – Taxation

On a deferred tax asset in respect of losses in DBS, see Note 6 to the Company's financial statements for the period ended March 31, 2019.

Section 2.16.1 - Control of Company tariffs

On May 19, 2019, the Ministry of Communications sent the Company a preliminary supervisory report on the subject of a price quote for transmission services. According to the supervisory report, for which the review commenced at the beginning of 2017, the Company ostensibly deviated from the provisions of its license by submitting a tender offer that includes reduced tariffs for transmission lines, that were not offered transparently to all its business customers. The ministry argues that it was unaware of the discount included in these tariffs, the discount did not appear in the price lists for the transmission service submitted to the ministry in recent years, and it does not comply with the test of reasonability, under the provisions of Section 17 of the Communications Law. The ministry further stated that it seems that this practice continues to the present time for other services as well, particularly in other tenders. The Company is reviewing the preliminary supervisory report and it has been given an option to comment on the supervisory report by June 20, 2019.

Section 2.16.1.8 - Wholesale market - on May 5, 2019, the Company submitted its comments on a hearing on tariffs for the wholesale market. In its comments, the Company pointed to material errors in the calculation and the underlying assumption concerning tariffs for the BSA service and the obligation to link the tariff for a technician's visit to a relevant index; instead, the Company proposed a dynamic mechanism which addresses the model of demand in passive service as well (instead of the current assumption relating to demand the feasibility of which is unrealistic), and it submitted its objection to imposing the tariff retroactively.

Section 2.18 – Legal proceedings

Section 2.18.1 - Pending legal proceedings

Subsection A – On a motion to approve a class action alleging reporting omissions and the concealment of material information from the investing public - at a hearing that took place on May 22, 2019 on a motion filed by the Company for a re-hearing on the decision to certify the claim as a class action, the court proposed transferring the case for mediation. The parties are due to respond to the proposal.

Subsections B, H, I, K and M (stay of legal proceedings in view of the investigation by the Israel Securities Authority and Israel Police) - as per current decisions of the various courts, at this stage the proceedings are stayed until October 31, 2019.

Subsection C - on the motion from March 2018, alleging abuse of monopoly status, on March 28, 2019, the court ruled to stay the proceedings in the case in view of the ISA's investigation and until any other decision is made the date for filing the response to the motion for certification was extended. The Attorney General's representative was asked to update the court and the parties' attorneys on this matter within 6 months from the date of the decision.

Subsection D - on a motion to certify a class action against the Company, alleging that the Company deliberately restricts the broadband speed for ISPs and refrains from repairing malfunctions on this matter - on April 30, 2019, the court issued a ruling in which it approved the Plaintiffs' abandonment of the motion for certification after reaching the conclusion that there are evidential difficulties in conducting a proceeding against the Company, and this after inspecting the documents they received from the Company and the Company's response to the motion.

Subsection J - on a class action that was filed in the USA against B Communications Ltd., the Company's controlling shareholder, and senior executives therein, in which DBS and officers (past and present) of DBS and the Company, were also included - on March 28, 2019, the Company received notice of a ruling issued by a US court from that same date, which accepted the applications of DBS and the senior officers (past and present) of DBS and the Company, and it dismissed the claim against them outright, due to the absence of personal jurisdiction against them.

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

Section 3.8.2 - Frequency usage rights

Subsection 3.8.2.5 - Tender for mobile radio telephony services over advanced bandwidths: Pelephone has begun to plan and prepare an outline for implementing 5G advanced data communications services. The outline is planned to be integrated with existing infrastructures and systems. The operation of these

advanced services requires receiving additional frequency spectrum that the Ministry of Communications intends to allocate in the context of the tender. So far, the tender has not been published and its concrete conditions are unknown (and naturally, also its outcome).

Section 3.16 – Legal proceedings

Subsection E - motion to certify a class action alleging that Pelephone acted in a manner that amounted to harassment of a large consumer public by making repeated telephone calls aimed at recruiting customers - on May 28, 2019 a judgment was issued dismissing the motion.

In April 2019, a claim was filed in the Central District Court together with a motion for its certification as a class action against Pelephone and Bezeq International and against 6 other telecom companies (hereinafter together: "the Respondents"). The subject of the claim is the allegation that the Respondents neglect to inform their customers as necessary of the possible risks in use of the Internet and the option to subscribe to a free content filtering service, all this in contravention of the provisions of the Communications Law. Additionally, the Respondents provide a filtering service for websites and harmful content which, in their opinion, is inadequate. According to the petitioners, this represents, inter alia, a breach of the provisions of the Consumer Protection Law, breach of obligations under the Torts Ordinance, a breach of contract, and unjust enrichment. The overall loss assessment mentioned in the motion, for all the Respondents together as claimed, on the low side is tens of millions of shekels.

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

Section 4.12 – Legal proceedings

On a new motion to certify a class action that was filed against Bezeq International and Pelephone on the subject of content filtering services, see the update to Section 3.16. Notably, in 2015, a motion to certify a class action against Bezeq International was filed on similar grounds which was certified as a class action in 2018 (described in Section 4.12(C) in the Description of Company Operations in the Company's Periodic Report for 2018).

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

Section 5.13 - Financing

In May 2019, the Company approved a credit facility or investment in the capital of DBS in the total amount of up to NIS 250 million, for a period of 15 months from April 1, 2019 through June 30, 2020. This approval is instead of similar approval given in February 2019 (and not in addition to it).

Section 5.17.1 - Pending legal proceedings

Subsection D - motion to certify a class action which includes a claim that fixed-period transactions were renewed automatically while charging customers unilaterally and without their consent - in April 2019, a judgment was handed down in which the court approved the compromise settlement.

Subsection G, H and J (Pending legal proceedings in view of the investigation by the ISA and Israel Police) - see the update to Section 2.18.1, subsection H, I and L.

Subsection I - on a motion to certify a class action which was filed in the USA - see the update to Section 2.18 J.

May 29, 2019

Date

"Bezeq" The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:

Shlomo Rodav, Chairman of the Board of Directors

Dudu Mizrahi, CEO

**Chapter B -
Board of Directors' Report on the State of the
Company's Affairs for the Period Ended
March 31, 2019**



Board of Directors' Report on the State of the Company's Affairs for the Period Ended March 31, 2019

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, 2019 ("Quarter").

The Board of Directors' report includes a condensed review of its subject-matter, and was prepared assuming the Board of Directors' report of December 31, 2018 is also available to the reader.

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

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

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

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

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

The Group's results were as follows:

	1-3.2019	1-3.2018	Increase (decrease)	
	NIS millions	NIS millions	NIS millions	%
Profit	300	260	40	15.4
EBITDA ¹	977	987	(10)	(1.0)

Results for the Quarter, as compared to the same quarter last year, were affected by higher operating profits. These were due to lower expenses offset by lower revenues across all Group segments.

	1-3.2019	1-3.2018
EBITDA calculation	NIS millions	NIS millions
Operating profit	511	462
Depreciation, amortization, and impairment	466	525
EBITDA	977	987

¹ EBITDA - In light of the continued impairment of DBS's and Walla's property, plant and equipment and intangible assets, the definition for EBITDA was updated in the Quarter as follows: operating profit before depreciation, amortization and continued losses from impairment of property, plant and equipment and intangible assets (See Notes 3.1 and 5 to the financial statements).

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

1.1 Financial position

	March 31, 2019	March 31, 2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Cash and current investments	2,612	3,216	(604)	(18.8)	The decrease was mainly attributable to the Domestic Fixed-Line Communications segment, including loan and debenture repayments.
Current and non-current trade and other receivables	2,550	2,599	(49)	(1.9)	The decrease was mainly attributable to the Cellular Communications segment, due to a decrease in trade receivables following a decrease in revenues from installment-based handset sale.
Eurocom D.B.S.	-	25	(25)	(100)	In 2018, the Company completely wrote off the debt balance from excess advances paid on the second contingent consideration following the purchase of DBS's shares and loans.
Inventory	102	130	(28)	(21.5)	The decrease was mainly attributable to the Multi-Channel Television segment and the International Communications, Internet, and NEP Services segment.
Broadcasting rights	69	451	(382)	(84.7)	The decrease was due to the asset's impairment in DBS. See Note 5 to the financial statements.
Usage right assets	1,444	1,417	27	1.9	
Property, plant and equipment	6,215	6,782	(567)	(8.4)	The decrease was mainly due to the asset's impairment in DBS. See Note 5 to the financial statements.
Intangible assets	1,923	2,728	(805)	(29.5)	The decrease was mainly due to impairment and amortization of excess costs attributed to DBS, and impairment of other intangible assets in DBS. See Note 5 to the financial statements.
Deferred tax assets	1,193	1,027	166	16.2	The increase was mainly due to deferred tax assets from employee benefit plans and the write-off of a tax reserve due to DBS's impairment. See also Note 6 to the financial statements.
Deferred costs and non-current investments	463	547	(84)	(15.4)	The decrease includes, among other things, impairment of a subscriber acquisition asset in DBS at the end of 2018, and a decrease of assets in the International Communications, Internet, and NEP Services segment.
Investment property	58	-	58	-	The balance includes an estimate for permit fees and betterment taxes on the Sakia asset. For more information, see Note 16.1 to the financial statements.
Total assets	16,629	18,922	(2,293)	(12.1)	

1.1. Financial Position (Contd.)

	March 31, 2019	March 31, 2018	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Debt to financial institutions and debenture holders	11,156	12,156	(1,000)	(8.2)	Debenture and loan repayments, offset by debenture issuances in the Domestic Fixed-Line Communications segment.
Liabilities for leases	1,483	1,434	49	3.4	
Trade and other payables	1,845	1,820	25	1.4	
Employee benefits	982	558	424	76.0	The increase was due to a provision for an early retirement plan in the Domestic Fixed-Line Communications segment in 2018, and in the Multi-Channel Television segment in the Quarter.
Current and deferred tax liabilities	64	129	(65)	(50.4)	The decrease was mainly due to an advance paid on betterment taxes on the sale of the Sakia asset.
Other liabilities	352	400	(48)	(12.0)	The decrease was mainly attributable to a decrease in derivatives in the Domestic Fixed-Line Communications segment.
Total liabilities	15,882	16,497	(615)	(3.7)	
Total equity	747	2,425	(1,678)	(69.2)	Equity comprises 4.5% of the balance sheet total, as compared to 12.8% of the balance sheet total on March 31, 2018. This decrease in equity was due to losses in 2018 and a dividend payment.

1.2 Results of operations

1.2.1 Highlights

	1-3.2019	1-3.2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Revenues	2,256	2,361	(105)	(4.4)	The decrease was due to lower revenues across all of the Group's primary segments.
Operating and general expenses	812	841	(29)	(3.4)	The decrease was mainly attributable to the Cellular Communications segment.
Salaries	492	510	(18)	(3.5)	This decrease was attributable mainly to the International Communications, Internet and NEP Services segment.
Depreciation, amortization and impairment	466	525	(59)	(11.2)	The decrease in depreciation and amortization costs was mainly due to impairment of depreciable assets and excess costs in DBS in the fourth quarter of 2018. On the other hand, in the Quarter the item included an ongoing impairment of DBS's assets (property, plant and equipment and intangible assets). See Note 5 to the financial statements.
Other operating expenses (income), net	(25)	23	(48)	-	The decrease was attributable to the Domestic Fixed-Line Communications segment, mainly due to capital gains and a decrease in the provision for termination of employment by way of early retirement. The decrease was offset by expenses from early retirement plans for employees in the Multi-Channel Television segment (see Note 7 to the financial statements).
Operating profit	511	462	49	10.6	
Finance expenses, net	99	108	(9)	(8.3)	This decrease in net finance expenses was attributable to the Domestic Fixed-Line Communications segment.
Share in losses of investees	-	1	(1)	(100)	
Income tax	112	93	19	20.4	
Profit for the period	300	260	40	15.4	

1.2.2 Operating segments

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

	1-3.2019		1-3.2018	
	NIS millions	% of total revenues	NIS millions	% of total revenues
Revenues by operating segment				
Domestic Fixed-Line Communications	1,043	46.2	1,063	45.0
Cellular Communications	578	25.6	619	26.2
International Communications, Internet and NEP Services	341	15.1	352	14.9
Multi-Channel Television	343	15.2	375	15.9
Other and adjustments	(49)	(2.1)	(48)	(2.0)
Total	2,256	100	2,361	100

	1-3.2019		1-3.2018	
	NIS millions	% of segment revenues	NIS millions	% of segment revenues
Operating profit by segment				
Domestic Fixed-Line Communications	531	50.9	473	44.5
Cellular Communications	(10)	(1.7)	2	0.3
International Communications, Internet and NEP Services	34	10.0	34	9.7
Multi-Channel Television	*(59)	(17.2)	(1)	(0.3)
Other and adjustments	*15	-	(46)	-
Consolidated operating profit/ % of Group revenues.	511	22.7	462	19.6

* The Multi-Channel Television segment's results are presented net of impairment losses as detailed in Note 5 to the financial statements. These impairment losses are presented under the Adjustments item.

1.2.2 Operating segments (contd.)

B. Domestic Fixed-Line Communications Segment

	1-3.2019	1-3.2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Fixed-line telephony	269	302	(33)	(10.9)	The decrease was due to lower average revenues per phone line and a decrease in the number of lines.
Internet - infrastructure	397	396	1	0.3	Growth in internet subscribers through the wholesale service, and growth in ARPU (retail) and revenues from internet equipment, were offset by a decrease in the number of retail internet subscribers.
Transmission, data communications and others	306	303	3	1.0	
Digital and cloud services	71	62	9	14.5	The increase was due, among other things, to IP Centrex and cyber services.
Total revenues	1,043	1,063	(20)	(1.9)	
General and operating expenses	141	140	1	0.7	
Salaries	233	228	5	2.2	
Depreciation and amortization	207	204	3	1.5	
Other operating expenses (income), net	(69)	18	(87)	-	The change was mainly due to capital gains on real estate sales and a decrease in the provision for termination of employment by way of early retirement in the Quarter, as compared to expenses from termination of employment by way of early retirement in the same quarter last year.
Operating profit	531	473	58	12.3	
Finance expenses, net	106	121	(15)	(12.4)	The decrease in net finance expenses was mainly due to finance expenses recognized in the corresponding period last year, following a reduction in the fair value of the amount which was expected to be repaid to the Company on DBS's acquisition.
Income tax	104	89	15	16.9	
Segment profit	321	263	58	22.1	

1.2.2 Operating segments (contd.)

C. Cellular Communications segment

	1-3.2019	1-3.2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Services	417	431	(14)	(3.2)	The decrease was mainly due to lower rates and migration of existing customers to cheaper plans offering greater data volumes at current market prices. This decrease in rates was partially offset by growth in the post-paid customer base.
Equipment sales	161	188	(27)	(14.4)	The decrease was mainly due to lower sales volumes.
Total revenues	578	619	(41)	(6.6)	
General and operating expenses	337	359	(22)	(6.1)	The decrease was mainly due to a reduction in the cost of handset sales and continued downsizing and streamlining of operating expenses.
Salaries	94	100	(6)	(6.0)	The decrease was mainly attributable to a reduction in the number of employee positions.
Depreciation and amortization	157	158	(1)	(0.6)	
Operating profit (loss)	(10)	2	(12)	-	
Finance income, net	13	11	2	18.2	
Income tax	1	4	(3)	(75.0)	
Segment profit	2	9	(7)	(77.8)	

1.2.2 Operating segments(contd.)

D. International Communications, Internet and NEP Services

	1-3.2019	1-3.2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Revenues	341	352	(11)	(3.1)	The decrease was mainly due to lower revenues from international calls and internet operations and lower revenues from outsourcing services following the sale of these operations in the second quarter of 2018. This decrease was offset by increased revenues from telecom services to businesses and licensing and equipment sales to businesses.
General and operating expenses	194	189	5	2.6	The increase was due to higher local and international bandwidth expenses and higher cost of sales on licensing and equipment to businesses. The increase was offset by lower international call expenses.
Salaries	67	84	(17)	(20.2)	The decrease was due to the sale of outsourcing operations in the second quarter of 2018.
Depreciation and amortization	46	43	3	7.0	The increase was due to an increase in amortization of the subscriber acquisition asset and international bandwidth.
Other operating expenses	-	2	(2)	(100)	
Operating profit	34	34	-	-	
Finance expenses, net	2	3	(1)	(33.3)	
Tax expenses	7	7	-	-	
Segment profit	25	24	1	4.2	

1.2.2 Operating segments (contd.)

E. Multi-Channel Television

	1-3.2019*	1-3.2018	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Revenues	343	375	(32)	(8.5)	The decrease was mainly due to lower ARPU and a decrease in the number of customers.
General and operating expenses	226	237	(11)	(4.6)	The decrease was mainly due to lower advertising and marketing expenses and miscellaneous expenses, offset by higher content expenses.
Salaries	55	58	(3)	(5.2)	The decrease was mainly attributable to a reduction in the number of employee positions.
Depreciation and amortization	78	79	(1)	(1.3)	
Other operating expenses, net	43	2	41	-	The increase was due to expenses from an employee retirement plan (see Note 7 to the financial statements).
Operating (loss)	(59)	(1)	(58)	-	
Finance expenses (income), net	5	(3)	8	-	Net finance expenses were up, mainly due to changes in the fair value of financial assets, offset by lower finance costs on debentures.
Tax expenses	-	1	(1)	(100)	
Segment profit (loss)	(64)	1	(65)	-	

* The Multi-Channel Television segment's results for the Quarter are presented net of impairment. See Notes 5 and 14 to the financial statements. This matches the way that the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. Furthermore, see Note 15.3 for highlights from DBS's financial statements.

1.3 Cash flow

	1-3.2019	1-3.2018	Change		Explanation
	NIS millions	NIS millions	NIS millions	%	
Net cash from operating activities	765	909	(144)	(15.8)	The decrease in net cash from operating activities was mainly due to changes in working capital, partially offset by a decrease in income tax payments on final tax assessments in the corresponding quarter last year. This decrease was reported across all of the Group's primary segments.
Net cash used in investing activities	(268)	(1,451)	1,183	(81.5)	The decrease in net cash used in investing activities was mainly due to net proceeds of NIS 55 million on redemption of bank and other deposits in the Domestic Fixed-Line Communications segment, compared with a NIS 1.1 billion net investment in bank and other deposits in the same quarter last year.
Net cash from (used in) financing activities	(122)	187	(309)	-	The change in net cash used in financing activities was due to loans undertaken by the Domestic Fixed-Line Communications segment in the same quarter last year.
Net increase (decrease) in cash	375	(355)	730	-	

Average volume in the reported Quarter:

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 11,168 million.

Supplier credit: NIS 870 million.

Short-term credit to customers: NIS 1,767 million. Long-term credit to customers: NIS 335 million.

1.3 Cash flow (contd.)

As of March 31, 2019, the Group had a working capital surplus of NIS 293 million, as compared to a working capital surplus of NIS 1,215 million on March 31, 2018.

According to its separate financial statements, the Company had a working capital surplus of NIS 61 million as of March 31, 2019, as compared to a working capital surplus of NIS 1,098 million on March 31, 2018.

This decrease in the Group's and the Company's working capital surplus was attributable to a decrease in current assets, mainly due to a decrease in cash balances and an increase in employee benefit liabilities through early retirement plans.

2. Disclosure Concerning the Company's Financial Reporting

2.1 Disclosure of a material valuation

The following table discloses a material valuation pursuant to Regulation 8B to the Securities Regulations (Periodic and Immediate Reports), 1970:

	DBS
Subject of valuation	Value in use of D.B.S Satellite Services (1998) Ltd. in order to test for impairment of intangible assets.
Date of valuation	March 31, 2019; the valuation was signed on May 13, 2019.
Value prior to the valuation	Negative amount of NIS (144) million.
Value set in the valuation	Negative amount of NIS (232) million.
Assessor's identity and profile	Prometheus Financial Advisory Ltd. The work was conducted by a team headed by Gideon Peletz, CPA, who holds a BA in Accounting and Economics from Tel Aviv University. Mr. Peletz has extensive experience in valuation, financial statement analysis, preparing expert opinions, and performing various financial advisory studies for companies and businesses. The assessor has no dependence on the Company. The Company has undertaken to indemnify the assessor for damages exceeding three times their fee, unless they acted maliciously.
Valuation model	Value in use
Assumptions used in the valuation	Discount rate - 8.5% (post-tax). Permanent growth rate - 0%. Scrap value of total value set in valuation - N/A.

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

Despite the negative enterprise value assigned to DBS, the Company supports DBS by approving credit facilities or investing in DBS's equity (see Note 4.3 to the financial statements). The Company's support of DBS is due, among other things, to the current and expected future contribution of the Multi-Channel Television operations to the Bezeq Group's overall operations.

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

2.3 For information on material events subsequent to the financial statements' date, see Note 16 to the financial statements.

3. Details of debt certificate series

On April 8, 2019, Midroog Ltd. maintained its Aa2.il rating for the Company's Debentures (Series 6, 7, 9, and 10) and changed its outlook from stable to negative (see immediate report, ref. no. 2019-01-

Board of Directors' Report on the State of the Company's Affairs for the Period Ended March 31, 2019

032406). Furthermore, on May 7, 2019, S&P Global Ratings Maalot Ltd. affirmed its iIAA/Negative rating for the Company (see immediate report, ref. no. 2019-01-039834).

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

4. Miscellaneous

For information concerning the liabilities balances of the reporting corporation and those companies consolidated in its financial statements as of March 31, 2019, see the Company's reporting form on the MAGNA system, dated May 30, 2019.

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

Shlomo Rodav
Chairman of the Board

Dudu Mizrahi
CEO

Signed: May 29, 2019

Part C:

Condensed Consolidated Interim Financial Statements as at March 31, 2019 (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	Page
Review Report	2
Condensed Consolidated Interim Financial Statements as at March 31, 2019 (Unaudited)	
Condensed Consolidated Interim Statements of Financial Position	3
Condensed Consolidated Interim Statements of Income	5
Condensed Consolidated Interim Statements of Comprehensive Income	5
Condensed Consolidated Interim Statements of Changes in Equity	6
Condensed Consolidated Interim Statements of Cash Flows	7
Notes to the Condensed Consolidated Interim Financial Statements	
1 General	8
2 Basis of Preparation	8
3 Reporting Principles and Accounting Policy	8
4 Group Entities	9
5 Impairment	9
6 Income Tax	10
7 Employee Benefits	10
8 Contingent Liabilities	11
9 Equity	12
10 Revenue	13
11 General and Operating Expenses	13
12 Other Operating Expenses (Income), Net	14
13 Financial Instruments	15
14 Segment Reporting	16
15 Condensed Financial Statements of Pelephone, Bezeq International, and DBS	20
16 Subsequent Material Events	23



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Review Report to the Shareholders of

“Bezeq” -The Israel Telecommunication Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of “Bezeq” -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of March 31, 2019 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “Interim Financial Reporting”, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose assets constitute 1 % of the total consolidated assets as of March 31, 2019, and whose revenues constitute 1% of the total consolidated revenues for the three month period then ended. The condensed interim financial information of that company was reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of that company, is based solely on the said review report of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

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

Without qualifying our abovementioned conclusion, we draw attention to Note 1.2 which refers to Note 1.2 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in respect to transactions related to the former controlling shareholder, and the transfer of the investigation file to the District Attorney's Office, and as mentioned in that note regarding the joint investigation by the Securities Authority and the Unit for Combating Economic Crime at Lahav 433 and to the publication of the Attorney General's decision, by which he is considering charging the former controlling shareholder with criminal charges. As stated in the above note, at this stage, 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 cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 8.

Somekh Chaikin

Certified Public Accountants (Isr.)

May 29, 2019

Condensed Consolidated Interim Statements of Financial Position

	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
Assets	NIS million	NIS million	NIS million
Cash and cash equivalents	1,265	1,826	890
Investments	1,347	1,390	1,404
Trade receivables	1,760	1,827	1,773
Other receivables	279	306	267
Eurocom DBS, related party	-	25	-
Inventories	102	130	97
Total current assets	4,753	5,504	4,431
Trade and other receivables	511	466	470
Broadcasting rights, net of rights exercised	69	451	60
Right-of-use assets	1,444	1,417	1,504
Fixed assets	6,215	6,782	6,214
Intangible assets	1,923	2,728	1,919
Deferred tax assets	6	1,193	1,205
Deferred expenses and non-current investments	463	547	462
Investment property	16.1	58	58
Total non-current assets	11,876	13,418	11,892
Total assets	16,629	18,922	16,323

Condensed Consolidated Interim Statements of Financial Position (Contd.)

	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	NIS million	NIS million	NIS million
Debentures, loans and borrowings	1,538	1,609	1,542
Current maturities of liabilities for leases	422	428	445
Trade and other payables	1,845	1,820	1,690
Current tax liabilities	10	43	-
Employee benefits	500	286	581
Provisions	145	103	175
Total current liabilities	4,460	4,289	4,433
Loans and debentures	9,618	10,547	9,637
Liability for leases	1,061	1,006	1,106
Employee benefits	482	272	445
Derivatives and other liabilities	168	258	174
Liabilities for deferred taxes	54	86	56
Provisions	39	39	38
Total non-current liabilities	11,422	12,208	11,456
Total liabilities	15,882	16,497	15,889
Total equity	747	2,425	434
Total liabilities and equity	16,629	18,922	16,323

Shlomo Rodav
Chairman of the Board of
Directors

Dudu Mizrahi
CEO

Yali Rothenberg
Bezeq Group CFO

Date of approval of the financial statements: May 29, 2019

Condensed Consolidated Interim Statements of Income

	Note	Three months ended March 31		Year ended December 31
		2019	2018	2018
		(Unaudited)	(Unaudited)	(Audited)
		NIS million	NIS million	NIS million
Revenues	10	2,256	2,361	9,321
Costs of activity				
General and operating expenses	11	812	841	3,379
Salaries		492	510	1,992
Depreciation, amortization, and impairment losses	5, 3.1	466	525	2,189
Impairment loss	3.1	-	-	1,675
Other operating expenses (income), net	12	(25)	23	634
Total operating expenses		1,745	1,899	9,869
Operating profit (loss)		511	462	(548)
Financing expenses (income)				
Financing expenses		113	127	516
Financing income		(14)	(19)	(81)
Financing expenses, net		99	108	435
Profit (loss) after financing expenses, net		412	354	(983)
Share in losses of equity-accounted investees		-	(1)	(3)
Profit (loss) before income tax		412	353	(986)
Income tax		112	93	80
Profit (loss) for the year attributable to shareholders of the Company		300	260	(1,066)
Earnings per share (NIS)				
Basic and earnings (loss) per share		0.11	0.09	(0.39)

Condensed Consolidated Interim Statements of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit (loss) for the period	300	260	(1,066)
Remeasurement of a defined benefit plan	(2)	-	16
Items of other comprehensive income (net of tax)	15	21	26
Total comprehensive income (loss) for the period	313	281	(1,024)

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Attributable to shareholders of the Company						
Three months ended March 31, 2019 (Unaudited)						
Balance as at January 1, 2019	3,878	384	390	(59)	(4,159)	434
Profit for the period	-	-	-	-	300	300
Other comprehensive income (loss) for the period, net of tax	-	-	-	15	(2)	13
Total comprehensive income for the period	-	-	-	15	298	313
Balance as at March 31, 2019	3,878	384	390	(44)	(3,861)	747
Three months ended March 31, 2018 (Unaudited)						
Balance as at January 1, 2018	3,878	384	390	(85)	(2,423)	2,144
Profit for the period	-	-	-	-	260	260
Other comprehensive income for the period, net of tax	-	-	-	21	-	21
Total comprehensive income for the period	-	-	-	21	260	281
Balance as at March 31, 2018	3,878	384	390	(64)	(2,163)	2,425
Year ended December 31, 2018 (Audited)						
Balance as at January 1, 2018	3,878	384	390	(85)	(2,423)	2,144
Loss in 2018	-	-	-	-	(1,066)	(1,066)
Other comprehensive income for the year, net of tax	-	-	-	26	16	42
Total comprehensive income (loss) for 2018	-	-	-	26	(1,050)	(1,024)
Transactions with shareholders recognized directly in equity						
Dividend to Company shareholders	-	-	-	-	(686)	(686)
Balance as at December 31, 2018	3,878	384	390	(59)	(4,159)	434

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

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended		Year ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit (loss) for the period	300	260	(1,066)
Adjustments:			
Depreciation, amortization, and impairment losses	466	525	2,189
Impairment loss of assets	-	-	1,675
Capital gain, net	(44)	(1)	(15)
Share in losses of equity-accounted investees	-	1	3
Financing expenses, net	96	111	445
Income tax expenses	112	93	80
Change in trade and other receivables	(28)	74	241
Change in inventory	(9)	(5)	(5)
Change in trade and other payables	9	42	(138)
Change in provisions	(30)	8	81
Change in employee benefits	(46)	7	489
Change in other liabilities	(12)	1	-
Net income tax paid	(49)	(207)	(467)
Net cash from operating activities	765	909	3,512
Cash flow used for investing activities			
Purchase of fixed assets	(270)	(273)	(1,216)
Investment in intangible assets and deferred expenses	(103)	(95)	(390)
Investment in bank deposits and securities	(1,111)	(1,170)	(2,338)
Proceeds from bank deposits	1,166	75	1,244
Proceeds from the sale of fixed assets	31	8	160
Receipts on account of sale of the Sakia property	5	-	155
Receipt (payment) of betterment tax for the sale of the Sakia property	5	-	(80)
Permit fees and purchase tax for the Sakia property	-	-	(121)
Miscellaneous	9	4	34
Net cash used in investing activities	(268)	(1,451)	(2,552)
Cash flows used in financing activities			
Issue of debentures and receipt of loans	-	320	891
Repayment of debentures and loans	-	-	(1,567)
Payments of principal and interest for leases	(117)	(126)	(422)
Dividends paid	-	-	(686)
Interest paid	(5)	(5)	(421)
Miscellaneous	-	(2)	(46)
Net cash from (used in) financing activities	(122)	187	(2,251)
Increase (decrease) in cash and cash equivalents, net	375	(355)	(1,291)
Cash and cash equivalents at beginning of period	890	2,181	2,181
Cash and cash equivalents at end of period	1,265	1,826	890

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

1. General

1.1 Reporting Entity

Bezeq – The Israel Telecommunication Corporation Limited (“the Company”) is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Company as at March 31, 2019 include those of the Company and its subsidiaries (together referred to as “the Group”). The Group is a principal provider of communication services in Israel (see also Note 14 – Segment Reporting).

1.2 Investigations of the Israel Securities Authority and the Police Force

For information about the investigations of the Israel Securities Authority and the Police Force, see Note 1.2 to the Annual Financial Statements.

As set out in Note 1.2.3 to the Annual Statements, the Company does not have full information about the investigations, their content, the materials, and the evidence in the possession of the legal authorities. Accordingly, the Company is unable to assess the effects of the investigations, their findings, and their results on the Company, as well as on the financial statements, and on the estimates used in the preparation of these financial statements, if any. Once the constraints on carrying out reviews and controls related to issues that arose in the Investigations are lifted, the review of all matters related to subjects that arose during those Investigations will be completed as required.

2. Basis of Preparation

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

2.2 The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and should be reviewed in the context of the annual financial statements of the Company and its subsidiaries as at December 31, 2018 and the year then ended, and their accompanying notes (“the Annual Financial Statements”). The notes to the interim financial statements include only the material changes that have occurred from the date of the most recent Annual Financial Statements until the date of these consolidated interim financial statements.

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on May 29, 2019.

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

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

3.1 Presentation of impairment loss of assets

An impairment loss arising from a non-recurring adjustment of forecasts for the coming years is classified as other expenses in the statement of income. However, an impairment loss of assets arising from the continuous adjustment of non-current assets of the Group companies to their fair value, less disposal costs (arising due to the expected negative cash flow and negative operating value of those companies) is classified under the same items as the current expenses for these assets. This classification is more consistent with the presentation method based on the nature of the expense and is more suitable for understanding the Group’s business.

Accordingly, as from the first quarter of 2019, impairment of the broadcasting rights in DBS and Walla is presented under "operating and general expenses", while impairment of fixed assets and intangible assets is presented under "depreciation, amortization and impairment" in the statement of income.

3.2 Initial application of new standards

IFRIC 23, Uncertainty Over Income Tax Treatments

As from January 1, 2019, the Group applies the interpretation of IFRIC 23, Uncertainty Over Income Tax Treatments. IFRIC 23 clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Application of IFRIC 23 did not have a material effect on the Group's financial statements.

4. Group entities

4.1 A detailed description of the Group entities appears in Note 14 to the Annual Financial Statements. Below is a description of the material changes that occurred in connection with the Group entities since publication of the Annual Financial Statements.

4.2 See Note 14.1.2 to the Annual Financial Statements for information about the decision of the Company's Board of Directors on February 13, 2019 to approve the request of each of the subsidiaries Pelephone, Bezeq International, and DBS to apply to the Ministry of Communications for approval to change the corporate structures.

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

4.3.1 On March 13, 2019, the Company's Board of Directors approved a resolution of the Board of Directors of DBS to approve a plan for migration from satellite broadcasts to broadcasts over the internet, in a gradual, long-term process that expected to spread over seven years.

4.3.2 As at March 31, 2019, DBS has an equity deficit in the amount of NIS 161 million and a working capital deficit in the amount of NIS 320 million. According to the forecasts of DBS, it expects to continue to accumulate operational losses in the coming years and therefore will be unable to meet its obligations and continue operating as a going concern without the Company's support.

Further to Note 14.2.3 to the Annual Financial Statements, on February 13, 2019, the Company provided DBS with a credit facility or capital investments in the amount of NIS 250 million, which DBS can withdraw for a period of 15 months from that date.

In March 2019, the Company invested NIS 70 million in accordance with the letter of undertaking as aforesaid.

In May 2019, the Company's Board of Directors approved an irrevocable undertaking of the Company to DBS to provide a credit facility or a capital investment of NIS 250 million for a period of 15 months, commencing from April 1, 2019 and until June 30, 2020. Insofar as the Company elects to provide credit, the repayment date of the credit will not be earlier than the end of the term of the credit facility. This undertaking will replace the undertaking that was provided in accordance with the resolution of the Board of Directors on February 13, 2019, as aforesaid (and not in addition to).

The management of DBS believes that the financial resources at its disposal, which include the working capital deficit, the credit facility, and the Company's capital investments, will be adequate for the operations of DBS for the coming year.

4.3.3 See Note 5 below for information about the impairment of assets recognized by DBS in the financial statements as at March 31, 2019.

5. Impairment

5.1 Further to Note 11.4 to the Annual Financial Statements regarding impairment recognized in 2018 for the multi-channel television cash-generating unit, the valuation as at December 31, 2018 presented a value in use that is significantly lower than the carrying amount of DBS. Based on a

review performed by an external assessor as at March 31, 2019 and according to the assessment of the management of DBS, it was found that there were no changes in the projected financial results of DBS, there were no material changes in market expectations, and no regulatory changes were made. Accordingly, in view of the negative value of the operations as determined in the valuation as at December 31, 2018, DBS amortized the non-current assets as at March 31, 2019, up to the net disposal value of these assets.

5.2 Based on the assessment of the fair value of the non-current assets of DBS, which was performed by an external assessor, the carrying amount of the depreciable assets is NIS 88 million higher than their fair value less disposal costs. Accordingly, in the three months ended March 31, 2019, the Group recognized an impairment loss of NIS 88 million. The impairment loss was attributed to fixed assets, broadcasting rights, and intangible assets, as set out below, and was included in depreciation, amortization, and impairment expenses and in operating and general expenses in the statement of income, as set out in Note 3.1 above.

5.3 Attribution of impairment loss to Group assets:

	Impairment
	(Unaudited)
	NIS million
Broadcasting rights - less rights utilized (the expense was presented under operating and general expenses)	46
Fixed assets (the expense was presented under depreciation and impairment expenses)	27
Intangible assets (the expense was presented under depreciation and impairment expenses)	15
Total impairment recognized	88

For information about the method used by DBS to measure the fair value (Level 3) of the assets, less disposal costs, see Note 11.4 to the Annual Financial Statements.

6. Income Tax

Further to Note 7.5 to the Annual Financial Statements regarding the deferred tax asset for the losses of DBS, the Company reassessed the basis for continuation of recognition of the tax asset as at the date of the financial statements, and it believes that the utilization of the tax asset is expected.

As part of the discussion of the prospectus, the draft of which was submitted to the Israel Securities Authority ("the ISA"), the Company is holding discussions with the ISA, and it was required to provide clarifications, among other things, on this matter. This process has not yet been completed.

Regarding the petition that the Company filed with the High Court of Justice against the Ministry of Communications to cancel the structural separation in Bezeq Group, the State was due to file its response to the petition (after the postponement it received) by May 30, 2019, however on May 28, 2019, the Company received a draft of the State's motion for a further postponement to file its response to July 30, 2019. The Company announced its opposition to the motion.

7. Employee Benefits

On March 14, 2019, DBS signed a collective arrangement with the Histadrut Federation of Labor and the employees' representatives regarding streamlining and synergy procedures, commencing on June 1, 2019 until December 31, 2021 ("the Arrangement"). According to the arrangement, in the Arrangement years, DBS will be entitled to terminate the employment of up to 325 employees. In addition, according to the Arrangement, DBS may also retrench by not recruiting employees to replace employees whose employment has terminated. Following the Arrangement and the submission of the efficiency plan outline to the employees' representatives, DBS recognized expenses of NIS 45 million, mainly for termination of employment. The expenses were included under other operating expenses in the statement of income for the three months ended March 31, 2019.

8. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, among other things, on legal opinions as to the likelihood of success of the Legal Claims, the financial statements include adequate provisions of NIS 139 million, where provisions are required to cover the exposure arising from such Legal Claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond these provisions) as at March 31, 2019 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 4.8 billion. There is also additional exposure of NIS 4.5 billion for claims, the chances of which cannot yet be assessed.

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

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

For updates subsequent to the reporting date, see section 8.4 below.

8.1 Following is a detailed description of the Group's contingent liabilities as at March 31, 2019, classified into groups with similar characteristics:

Claims group	Nature of the claims	Balance of provisions	Additional exposure	Exposure for claims that cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	115	4,628	644 ⁽¹⁾
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.	4	13	3,825 ⁽³⁾⁽²⁾
Claims of employees and former employees of Group companies	Mainly individual lawsuits filed by employees and former employees of the Group, regarding various payments.	-	3	-
Claims by the State and authorities	Various claims by the State of Israel, government institutions and authorities ("the Authorities"). These are mainly procedures related to regulations relevant to the Group companies and financial disputes concerning monies paid by the Group companies to the Authorities (including property taxes).	20	21	-
Supplier and communication provider claims	Legal claims for compensation for alleged damage as a result of the supply of the service and/or the product.	-	63	9
Claims for punitive damages, real estate and infrastructure	Claims for alleged physical damage or damage to property caused by Group companies and in relation to real estate and infrastructure. The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	-	68	-
Total legal claims against the Company and subsidiaries		139	4,796	4,478

- (1) Including exposure in the amount of NIS 300 million against a subsidiary and against four additional defendants.
- (2) Including exposure of NIS 2 billion for a motion for certification as a class action filed by a shareholder against the Company and officers in the Company, referring to alleged reporting omissions by the Company regarding the wholesale market and the reduction of interconnect fees, which the plaintiff estimates at NIS 1.1 billion or NIS 2 billion (depending on the method used to calculate the damage). On August 27, 2018, the court certified the claim as a class action. On October 28, 2018, the Company filed a motion for a rehearing of the certification ruling. Subsequently, the court decided to stay the proceedings until a ruling is made on the motion for a rehearing.

In the hearing on May 22, 2019 of the motion filed by the Company for an additional hearing, the Court proposed sending the case to mediation. The parties are required to respond to the proposal.

- (3) Two motions for certification of a class action amounting to a total of NIS 1.8 billion, filed in June 2017 against the Company, officers in the Group and companies in the group of the Company's controlling shareholders regarding the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a joint motion is expected to be filed instead of these two motions. The proceedings were delayed until October 31, 2019, in view of the investigation (as described in Note 1.2) and at the request of the Attorney General.
- 8.2** Further to Note 19.3 to the Annual Financial Statements, regarding a class action filed in the United States against B Communications, Ltd., the controlling shareholder of the Company, and its officers, to which DBS and officers (both past and present) in DBS and in the Company were added, as well as motions filed by the defendants for the dismissal in limine of the motion and the claim, on March 28, 2019, the Company was notified of the ruling of the US court on that date, which accepted the petitions of DBS and of the officers (both past and present) in DBS and in the Company, and dismissed the case in limine due to the absence of jurisdiction against them.
- 8.3** See Notes 19.2, 19.4, and 19.5 to the Annual Financial Statements regarding additional proceedings against the Group companies and officers.
- 8.4** Subsequent to the date of the financial statements, a claim was filed against the Group companies without an exact amount. As at the approval date of the financial statements, the chances of the claim cannot yet be assessed. In addition, claims with exposure of NIS 59 million and three claims without a monetary estimate came to an end.

9. Equity

- 9.1** Further to Note 22.1 to the Annual Financial Statements regarding the approval of the Board of Directors to convene a general meeting to approve an increase in the Company's registered share capital, on April 8, 2019, the Board of Directors of the Company resolved to remove the issue of an increase in the registered share capital from the agenda of the general meeting, due to discussions with shareholders and the response to their requests.
- 9.2** For further information, see Note 22.2.1 to the Annual Financial Statements regarding the resolution of the Board of Directors of the Company on March 27, 2019 to cancel the Company's dividend distribution policy.

10. Revenues

	Three months ended		Year ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Domestic fixed-line communication (Bezeq Fixed-Line)			
Internet - infrastructure	377	380	1,525
Fixed-line telephony	263	294	1,130
Transmission and data communication	194	196	769
Cloud and digital services	71	62	260
Other services	58	54	199
	963	986	3,883
Cellular telephony - Pelephone			
Cellular services and terminal equipment	407	420	1,713
Sale of terminal equipment	162	188	688
	569	608	2,401
Multichannel television - DBS			
	343	375	1,473
International communications, ISP, and NEP services - Bezeq International			
	323	339	1,338
Others			
	58	53	226
	2,256	2,361	9,321

11. General and Operating Expenses

	Three months ended		Year ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Terminal equipment and materials	184	189	737
Interconnectivity and payments to domestic and international operators	189	192	789
Maintenance of buildings and sites	68	71	286
Marketing and general	123	145	555
Consumption and impairment of content (see Note 5.3)	160	156	653
Services and maintenance by sub-contractors	70	71	277
Vehicle maintenance	18	17	82
	812	841	3,379

12. Other Operating Expenses (Income), Net

	Three months ended March 31		Year ended December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Expenses (income) for severance pay in voluntary redundancy	(25)	12	559
Expense for severance due to the efficiency agreement in DBS (see Note 7)	45	-	-
Capital gain (mainly disposal of real estate)	(44)	(1)	(1)
Provision (reversal of provision) for claims	(1)	12	91
Profit from sale of an associate	-	-	(14)
Other revenue	-	-	(1)
	(25)	23	634

13. Financial instruments**13.1 Fair value****13.1.1 Financial instruments at fair value for disclosure purposes only**

The table below shows the differences between the carrying amount and the fair value of financial liabilities. The methods used to estimate the fair values of financial instruments are described in Note 31.8 to the Annual Financial Statements.

	March 31, 2019		March 31, 2018		December 31, 2018	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Loans from banks and institutions (unlinked)	4,275	4,445	4,797	5,051	4,235	4,324
Debentures issued to the public (CPI-linked)	3,476	3,682	4,102	4,343	3,464	3,602
Debentures issued to the public (unlinked)	2,232	2,273	1,662	1,732	2,215	2,214
Debentures issued to financial institutions (CPI-linked)	8	8	13	13	8	8
Debentures issued to financial institutions (unlinked)	205	213	307	327	202	211
	10,196	10,621	10,881	11,466	10,124	10,359

13.1.2 Fair value hierarchy

The table below presents an analysis of the financial instruments measured at fair value, with details of the evaluation method. The methods used to estimate the fair value are described in Note 31.7 to the Annual Financial Statements.

	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1: Investment in marketable securities at fair value through profit or loss	18	14	18
Level 2: forward contracts	(133)	(189)	(135)
Level 3: contingent consideration for a business combination	-	25	-

14. Segment Reporting**14.1 Operating segments**

Three months ended March 31, 2019 (Unaudited)							
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multi-channel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	963	569	323	343	58	-	2,256
Inter-segment revenues	80	9	18	-	3	(110)	-
Total revenues	1,043	578	341	343	61	(110)	2,256
Depreciation, amortization, and impairment	207	157	46	78	1	(23)	466
Segment results – operating profit (loss)	531	(10)	34	(59)	1	14	511
Financing expenses	111	3	3	5	-	(9)	113
Financing income	(5)	(16)	(1)	-	-	8	(14)
Total financing expenses (income), net	106	(13)	2	5	-	(1)	99
Segment profit (loss) before income tax	425	3	32	(64)	1	15	412
Income tax	104	1	7	-	-	-	112
Segment results – net profit (loss)	321	2	25	(64)	1	15	300

* Results of the multi-channel television segment are presented net of the impairment loss set out in Note 5. The impairment loss is presented as part of the adjustments. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 15.3 for condensed selected information from the financial statements of DBS.

Notes to the Condensed Consolidated Interim Financial Statements as at March 31, 2019 (Unaudited)

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

Notes to the Condensed Consolidated Interim Financial Statements as at March 31, 2019 (Unaudited)

Year ended December 31, 2018 (Audited)							
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multi-channel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,883	2,401	1,338	1,473	226	-	9,321
Inter-segment revenues	313	42	53	-	15	(423)	-
Total revenues	4,196	2,443	1,391	1,473	241	(423)	9,321
Depreciation and amortization	850	655	194	323	21	146	2,189
Segment results – operating profit (loss)	1,224	(2)	116	(56)	(36)	(1,794)	(548)
Financing expenses	502	22	16	16	-	(40)	516
Financing income	(32)	(56)	(1)	(27)	-	35	(81)
Total financing expenses (income), net	470	(34)	15	(11)	-	(5)	435
Segment profit (loss) after financing expenses, net	754	32	101	(45)	(36)	(1,789)	(983)
Share in profits (losses) of associates	-	-	1	-	(4)	-	(3)
Segment profit (loss) before income tax	754	32	102	(45)	(40)	(1,789)	(986)
Income tax	187	8	25	3	-	(143)	80
Segment results – net profit (loss)	567	24	77	(48)	(40)	(1,646)	(1,066)

* Results of the multi-channel television segment are presented net of the impairment loss set out in Note 11.4 to the Annual Financial Statements. The impairment loss is presented as part of the adjustments. In addition, see Note 15.3 for condensed selected information from the financial statements of DBS.

14.2 Adjustments for segment reporting of profit or loss

	Three months ended March 31		Year ended December 31,
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Operating profit for reporting segments	496	508	1,282
Financing expenses, net	(99)	(108)	(435)
Adjustments for the multi-channel television segment	14	-	-
Loss for operations classified in other categories and other adjustments	1	(8)	(36)
Impairment loss of assets	-	-	(1,638)
Amortization of surplus cost for intangible assets	-	(38)	(156)
Share in losses of associates	-	(1)	(3)
Consolidated profit before income tax	412	353	(986)

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

In the fourth quarter of 2018, Pelephone, Bezeq International, and DBS decided to change the presentation method in the statement of income to a classification method based on the nature of the expense, similar to the method used in the Group's reports. The comparative figures for the three months ended March 31, 2018 were reclassified according to the new classification method.

15.1 Pelephone Communications Ltd.

Selected data from the statement of financial position

	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	999	1,020	913
Non-current assets	3,162	3,139	3,211
Total assets	4,161	4,159	4,124
Current liabilities	672	737	619
Long-term liabilities	788	723	806
Total liabilities	1,460	1,460	1,425
Equity	2,701	2,699	2,699
Total liabilities and equity	4,161	4,159	4,124

Selected data from the statement of income

	Three months ended		Year ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues from services	417	431	1,755
Revenues from sales of terminal equipment	161	188	688
Total revenues from services and sales	578	619	2,443
Costs of activity			
General and operating expenses	337	359	1,402
Wages	94	100	379
Depreciation and amortization	157	158	655
Total operating expenses	588	617	2,436
Other operating expenses, net	-	-	9
Operating profit (loss)	(10)	2	(2)
Finance expenses (income)			
Financing expenses	3	3	22
Financing income	(16)	(14)	(56)
Financing income, net	(13)	(11)	(34)
Profit before income tax	3	13	32
Income tax	1	4	8
Profit for the period	2	9	24

15.2 Bezeq International Ltd.

Selected data from the statement of financial position

	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	450	537	513
Non-current assets	815	893	831
Total assets	1,265	1,430	1,344
Current liabilities	289	407	345
Long-term liabilities	174	257	222
Total liabilities	463	664	567
Equity	802	766	777
Total liabilities and equity	1,265	1,430	1,344

Selected data from the statement of income

	Three months ended March 31		Year ended December 31,
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues	341	352	1,391
Costs of activity			
General and operating expenses	194	189	776
Wages	67	84	297
Depreciation and amortization	46	43	194
Other expenses, net	-	2	8
Total operating expenses	307	318	1,275
Operating profit	34	34	116
Finance expenses (income)			
Financing expenses	3	4	16
Financing income	(1)	(1)	(1)
Financing expenses, net	2	3	15
Share in the profits of equity-accounted investees	-	-	1
Profit before income tax	32	31	102
Income tax	7	7	25
Profit for the period	25	24	77

15.3 DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	259	276	220
Non-current assets	291	1,284	286
Total assets	550	1,560	506
Current liabilities	579	615	575
Long-term liabilities	132	174	112
Total liabilities	711	789	687
Capital (capital deficit)	(161)	771	(181)
Total liabilities and equity	550	1,560	506

Selected data from the statement of income

	Three months ended March 31		Year ended December 31,
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues	343	375	1,473
Costs of activity			
Operating expenses, general, and impairment	234	237	956
Wages	56	58	233
Depreciation, amortization, and impairment losses	55	79	323
Impairment loss	-	-	1,100
Other operating expenses, net	43	2	17
Total operating expenses	388	376	2,629
Operating loss	(45)	(1)	(1,156)
Financing expenses (income)			
Financing expenses	5	10	15
Financing expenses for shareholder loans, net	-	1	1
Financing income	-	(14)	(27)
Financial expenses (income), net	5	(3)	(11)
Profit (loss) before income tax	(50)	2	(1,145)
Income tax expenses	-	1	3
Profit (loss) for the period	(50)	1	(1,148)

16. Material Subsequent Events

16.1 Further to Note 13 to the Annual Financial Statements regarding the Company's agreement for the sale of a real-estate asset in the Sakia property, on May 5, 2019, the transaction was completed and bank checks in the amount of NIS 377 million (including VAT) were received, representing the entire balance of the consideration for the property. One check of NIS 150 million was designated for immediate payment in full of the betterment levy, without this derogating from and/or impairing the steps taken and/or to be taken by the Company to cancel or reduce this levy. Further to the aforesaid, the Company is expected to recognize a capital gain in its financial statements for the second quarter of 2019.

The capital gain will amount to NIS 250 million if the Company is required to pay the full demands of the Israel Land Authority and the Or Yehuda Local Planning and Building Committee, and NIS 450 million if the Company's claims in its objections are accepted in full. The Company is assessing the capital gain to be recognized in its financial statements for the second quarter of 2019.

16.2 Further to Note 33.3 to the Annual Financial Statements regarding the resolution of the Company's Board of Directors on March 27, 2019 to apply for a permit to publish a prospectus for completion, based on the Company's financial statements as at December 31, 2018, since the discussions with the Israel Securities Authority have not been completed, the application for a permit is for the publication of a prospectus for completion based on the Company's financial statements as at March 31, 2019.

Condensed Separate Interim Financial Information at March 31, 2019



The information contained in these financial information constitutes a translation of the financial information 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	Page
Auditors' Report	2
Condensed Separate Interim Financial Information as at March 31, 2019 (unaudited)	
Condensed Interim Information of Financial Position	3
Condensed Interim Information of Profit or Loss	5
Condensed Interim Information of Comprehensive Income	5
Condensed Interim Information of Cash Flows	6
Notes to the Condensed Interim Financial Information	7



Somekh Chaikin
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To:
The Shareholders of “Bezeq”- The Israel Telecommunication Corporation Ltd.

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

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of “Bezeq”- The Israel Telecommunication Corporation Ltd. (hereinafter – “the Company”) as of March 31, 2019 and for the three-month period then ended. The separate interim financial information is the responsibility of the Company’s Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

We did not review the separate interim financial information of an investee company the investment in which amounted to NIS 32 million as of March 31, 2019, and the loss from this investee company amounted to NIS 2 million for three-month period then ended. The financial statements of that company were reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of that company, is based solely on the said review report of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Somekh Chaikin
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Conclusion

Based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying 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.

Without qualifying our abovementioned conclusion, we draw attention to Note 6.1, which refers to Note 1.2 to the annual consolidated financial statements, regarding the Israel Securities Authority's (ISA) investigation of the suspicion of committing offenses under the Securities' Law and Penal Code, in respect to transactions related to the former controlling shareholder, and the transfer of the investigation file to the District Attorney's Office, , and as mentioned in that note regarding the joint investigation by the Securities Authority and the Unit for Combating Economic Crime at Lahav 433 and to the publication of the Attorney General's decision, by which he is considering charging the former controlling shareholder with criminal charges. As stated in the above note, at this stage, 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 cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 5.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 29, 2019

Condensed Interim Information of Financial Position

	March 31, 2019 (Unaudited) NIS million	March 31, 2018 (Unaudited) NIS million	December 31, 2018 (Audited) NIS million
Assets			
Cash and cash equivalents	852	1,376	527
Investments	1,329	1,376	1,384
Trade receivables	713	695	699
Other receivables	187	223	201
Dividend receivable from investees	-	103	-
Loans granted to investees	73	100	100
Eurocom DBS Ltd, an affiliate	-	25	-
Total current assets	3,154	3,898	2,911
Trade and other receivables	203	109	152
Property, plant and equipment	5,014	4,951	4,993
Intangible assets	232	226	227
Goodwill	265	265*	265
Investment in investees	5,606	7,048*	5,557
Loans granted to investees	48	208	90
Use of rights assets	278	298	294
Non-current investments and other	128	176	126
Deferred taxes	33	-	45
Investment property	58	-	58
Total non-current assets	11,865	13,281	11,807
Total assets	15,019	17,179	14,718

Condensed Interim Information of Financial Position (contd.)

	March 31, 2019 (Unaudited) NIS million	March 31, 2018 (Unaudited) NIS million	December 31, 2018 (Audited) NIS million
Liabilities			
Debentures, loans and borrowings	1,516	1,587	1,520
Trade and other payables	947	788	788
Current tax liabilities	-	38	-
Employee benefits	418	222	524
Current maturities for lease liabilities	106	101	116
Provisions (Note 5)	106	64	132
Total current liabilities	3,093	2,800	3,080
Loans and debentures	9,612	10,522	9,630
Loan from an investee	815	710	815
Employee benefits	415	230	404
Liability for lease	181	200	192
Derivatives and other liabilities	156	242	163
Deferred tax liabilities	-	50	-
Total non-current liabilities	11,179	11,954	11,204
Total liabilities	14,272	14,754	14,284
Capital			
Share capital	3,878	3,878	3,878
Share premium	384	384	384
Reserves	346	326	331
Deficit	(3,861)	(2,163)	(4,159)
Total equity	747	2,425	434
Total liabilities and equity	15,019	17,179	14,718

Shlomo Rodav
Chairman of the Board of Directors

Dudu Mizrahi
CEO

Yali Rothenberg
Bezeq Group CFO

Date of approval of the financial statements: May 29, 2019

*Reclassified – Goodwill created from the acquisition of DBS is presented separately since it is attributable to the Company

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

Condensed Interim Information of Profit or Loss

	For the three months ended		Year ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Revenues (Note 2)	1,043	1,063	4,196
Costs of activity			
Salaries	233	228	912
Depreciation and amortization	207	204	850
Operating and general expenses (Note 3)	141	140	596
Other operating expenses (income), net (Note 4)	(69)	18	614
Cost of Activities	512	590	2,972
Operating profit	531	473	1,224
Financing expenses (income)			
Financing expenses	111	127	502
Financing income	(5)	(6)	(32)
Financing expenses, net	106	121	470
Profit after financing expenses, net	425	352	754
Share in losses of investees, net	(21)	(3)	(1,633)
Profit (loss) before income tax	404	349	(879)
Taxes on income	104	89	187
Profit (loss) for the period	300	260	(1,066)

Condensed Interim Information of Comprehensive Income

	Three months ended		Year ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the period	300	260	(1,066)
Other comprehensive income (loss) items for the period, net of tax	13	21	42
Total comprehensive income for the period	313	281	(1,024)

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

Condensed Interim Information of Cash Flows
--

	For the three months ended		Year ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Cash flows from operating activities			
Profit (loss) for the period	300	260	(1,066)
Adjustments:			
Depreciation and amortization	207	204	850
Share in losses of investees, net	21	3	1,633
Financing expenses, net	89	114	447
Capital gain, net	(44)	(1)	(11)
Income tax expenses	104	89	187
Change in trade and other receivables	(18)	(64)	(16)
Change in trade and other payables	10	97	30
Change in provisions	(26)	5	73
Change in employee benefits	(97)	-	487
Miscellaneous	(1)	1	5
Net cash from (used for) operating activities due to transactions with subsidiaries	(14)	(2)	19
Net income tax paid	(60)	(190)	(432)
Net cash from operating activities	471	516	2,206
Cash flows from investment activities			
Investment in intangible assets and other investments	(32)	(29)	(113)
Advance payments on account of fixed asset sales	29	7	152
Proceeds from sale of the Sakia complex	5	-	155
Investment in bank deposits and securities	(1,111)	(1,170)	(2,324)
Proceeds from repayment of bank deposits	1,166	75	1,233
Purchase of property, plant and equipment	(178)	(176)	(742)
Payment of permit fees and purchase tax for the Sakia complex	-	-	(121)
Receipt (payment) of betterment tax for the sale of the Sakia complex	5	-	(80)
Investments in a subsidiary	(70)	-	(100)
Miscellaneous	7	4	20
Net cash (used in) from investment activities due to transactions with investees	72	(41)	146
Net cash used for investing activities	(107)	(1,330)	(1,774)
Cash flow from financing operations			
Interest paid	(5)	(6)	(419)
Payment of principal and interest for lease	(34)	(33)	(99)
Issue of debentures and receipt of loans	-	320	891
Repayment of debentures and loans	-	-	(1,544)
Dividend paid	-	-	(686)
Miscellaneous	-	-	(37)
Net cash from financing activities due to transactions with subsidiaries	-	140	220
Net cash from (used in) financing activities	(39)	421	(1,674)
Net increase (decrease) in cash and cash equivalents	325	(393)	(1,242)
Cash and cash equivalents at beginning of period	527	1,769	1,769
Cash and cash equivalents at the end of the period	852	1,376	527

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

Notes to the Condensed Separate Interim Financial Information
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1. Manner of preparing financial information**1.1 Definitions**

"The Company": Bezeq The Israel Telecommunication Corporation Limited

"Investee", the "Group", "Subsidiary": as these terms are defined in the Company's consolidated financial statements for 2018.

1.2 Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38(D) of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Regulation") and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Tenth Addendum") with respect to the separate interim financial information of the corporation. They should be read in conjunction with the separate financial information for the year ended December 31, 2018 and in conjunction with the condensed interim consolidated financial statements as at March 31, 2019, ("the Consolidated Financial Statements").

The accounting policies used in preparing these condensed separate interim financial information are in accordance with the accounting policies set out in the separate financial information as of and for the year ended December 31, 2018, other than that described in Note 3.2 to the Condensed Interim Consolidated Statements.

2. Revenues

	For the three months ended		Year ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Internet - infrastructure	397	396	1,596
Fixed-line telephony	269	302	1,156
Transmission and data communication	246	247	977
Cloud and digital services	71	62	260
Other services	60	56	207
	1,043	1,063	4,196

3. Operating and general expenses

	For the three months ended		Year ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Maintenance of buildings and sites	33	34	143
Marketing and general	39	40	183
Interconnectivity and payments to telecommunication operators	25	28	108
Services and maintenance by sub-contractors	18	20	83
Vehicle maintenance	8	7	37
Terminal equipment and materials	18	11	42
	141	140	596

4. Other operating expenses (income), net

	For the three months ended March 31		Year ended December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Gain from disposal of property, plant and equipment (mainly real estate)	(44)	(1)	(11)
Provision for severance pay in voluntary redundancy	(25)	12	547
Other expenses (mainly provision for claims)	-	7	78
	(69)	18	614

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 these litigations, the financial statements include appropriate provisions in the amount of NIS 106 million, where provisions are required to cover the exposure arising from such litigation.

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

At March 31, 2019:

Balance of provisions	* Amount of additional exposure for which probability of realization cannot be foreseen	* Amount of exposure for Claims that cannot yet be assessed
NIS million		
106	894	4,103 ^{(1) (2)}

* CPI-linked and prior to addition of interest.

- (1) Including exposure of NIS 2 billion for a motion to certify a class action filed by a shareholder against the Company and officers in the Company, claiming Company reporting failures concerning the wholesale market and decrease in interconnect fees, which the plaintiff estimates at NIS 1.1 billion or NIS 2 billion (depending on the method to be determined for calculating the damage). On August 27, 2018, the court certified the claim as a class action. On October 28, 2018, the Company filed a motion for a rehearing of the decision to certify. Subsequently, the court decided to stay proceedings until after a decision is handed on the motion for a rehearing. In the hearing on May 22, 2019 on the Company's motion for a rehearing, the Court recommended that the case be sent for arbitration. The parties are required to respond to the recommendation.
- (2) Two motions for certification of class action suits in a total amount of NIS 1.8 billion were filed in June 2017 against the Company, officers of the Group and companies of the group that is the controlling shareholder of the Company, concerning the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. Pursuant to the court's decision, a consolidated motion is expected to be filed, replacing these two motions. The proceeding was stayed due to the investigation described in Note 1.2 to the Consolidated Financial Statements and at the request of the Attorney General, until October 31, 2019.
- 5.2 Further to that stated in Note 11.3 to the condensed annual separate financial information regarding a class action filed in the United States against B Communications, Ltd., the Company's controlling shareholder and officers, to which (current and former) officers of DBS and the Company were joined, and motions filed by the defendants for summary dismissal of the motion and the claim, on March 28, 2019 the Company was notified of the decision of the US court of the same date that the motions filed by DBS and the officers (current and past) of DBS and the Company for the summary dismissal of the motion and the claim, were accepted on grounds of lack of personal jurisdiction.
- 5.3 See Notes 11.2 and 11.4 in the separate annual financial information regarding additional proceedings against the Company.

- 5.4 Subsequent to date of the financial statements, two claims for which exposure amounted to NIS 45 million, as well as a non-financial claim, were concluded.

For further information concerning contingent liabilities see Note 8 to the Consolidated Financial Statements.

6. Events in and subsequent to the Reporting Period

- 6.1 For further information concerning investigations by the Israeli Securities Authority and Israel Police, see Note 1.2 to the Consolidated Financial Statements.
- 6.2 With regard to impairment of the investment with regard to DBS, see Note 5 to the Consolidated Financial Statements.
- 6.3 On February 13, 2019, the Company provided DBS with a credit facility or capital investments in the amount of NIS 250 million, that DBS may withdraw over a period of 15 months from said date. If such support is provided by way of credit, the repayment date of the said credit will not be earlier than the end of the credit facility period.

In March 2019, the Company made an investment of NIS 70 million, based on the foregoing letter of undertaking.

In May 2019, the Company's Board of Directors approved an irrevocable undertaking by the Company to DBS to provide a credit facility or capital investment in the amount of NIS 250 million, for a period of 15 months, as of April 1, 2019. This undertaking will replace the undertaking given under the decision of the Board of Directors dated February 13, 2019, as aforesaid (and not in addition thereto). See Note 4.3.2 to the Consolidated Financial Statements.

- 6.4 For information concerning the Company's engagement in an agreement for the sale of the Sakia real estate property, see Note 16.1 to the Consolidated Financial Statements.
- 6.5 For further information concerning application filed for permission to publish a prospectus see Note 16.2 to the Consolidated Financial Statements.

Chapter E:

Quarterly report on the effectiveness of internal control over financial reporting and disclosure for the period ended March 31, 2019



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 of internal control over financial reporting and disclosure:

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

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

For this matter, the members of Management are:

1. Dudu Mizrahi, CEO
2. Ehud Mezuman, VP Human Resources Division
3. Udi Atar, VP Private Division
4. Eyal Kamil, VP Operations and Logistics Division
5. Izak Ben Eliezer, VP Technologies and Network Division
6. Amir Nachlieli, Legal Counsel
7. Erez Hasdai, VP Regulation and Economics
8. Guy Hadass, VP Corporate Communications
9. Yali Rothenberg, CFO Bezeq Group
10. Yaacov Paz, VP Business Division
11. Keren Laizerovitz, VP Marketing & Innovation Division

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

1. Yehuda Porat, Head of Security Unit
2. Lior Segal, Internal Auditor
3. Shelly Bainhoren, Group Corporate Secretary and Internal Compliance Officer

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

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

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

In the annual report on the effectiveness of internal control over financial reporting and disclosure that was attached to the Periodic Report for the period ended December 31, 2018 ("the Last Annual Report on Internal Control"), the Board and Management assessed the Company's internal control; based on this assessment, the Company's Board and Management came to the conclusion that the said internal control, as of December 31, 2018, was effective.

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

At the reporting date, based on the assessment of the effectiveness of internal control in the Last Annual Report on Internal Control, the internal control is effective.

Concerning the investigations of the Israel Securities Authority and the Israel Police see section 1.1.5 of the Chapter, Description of Company Operations in the 2018 Periodic Report and the Company's Immediate Reports referred to in that section.

The Company does not have complete information about the Investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter. Accordingly, the Company is unable to assess the effects of the investigations, their findings and their effect on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

Once the constraints on carrying out reviews and controls related to issues that arose in the Investigations are lifted, the review of all matters related to subjects that arose during those Investigations will be completed as required.

2. Declaration of Executives:

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

I, Dudu Mizrahi, declare that:

1. I have reviewed the quarterly report of Bezeq – The Israel Telecommunication Corp Limited, ("the Company") for the first quarter of 2019 ("the Reports").
2. To the best of my knowledge, the reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the reporting period.
3. To the best of my knowledge, the financial statements and other financial information in the Reports fairly present in all material respects, the financial condition, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.
4. I have disclosed the following to the auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:
 - A. All the significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;
 - B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involve other employees who have a significant role in the Company's internal control over financial reporting and disclosure
5. I, alone or together with others in the Company:
 - A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010 is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports.
 - B. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.
 - C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was reported to me that would change the conclusions of the Board of Directors and Management concerning the effectiveness of internal controls over the Company's financial reporting and disclosure.

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

Date: May 29, 2019

Dudu Mizrahi, CEO;

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

I, Yali Rothenberg, declare that:

1. I have reviewed the interim financial statements and other financial information included in the reports for the interim period of Bezeq – The Israel Telecommunication Corp Limited, ("the Company") for the first quarter of 2019 ("the Reports" or "the Reports for the Interim Period").
2. To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period do not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports.
3. To the best of my knowledge, the interim financial statements and other financial information in the Reports for the Interim Period fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the dates and periods presented in the Reports:
4. I have disclosed the following to the auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Committees of the Board of Directors of the Company, based on my most recent evaluation of the internal control over financial reporting and disclosure:
 - A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as they refer to the interim financial statements and other financial information included in the Reports for the Interim Period, which are reasonably likely to adversely affect the Company's ability to record, process, summarize or report financial information in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law
 - B. Any fraud, whether or not material, that involves the CEO, or anyone directly subordinate to the CEO, or which involve other employees who have a significant role in the Company's internal control over financial reporting and disclosure
5. I, alone or together with others in the Company:
 - A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under our supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Israel Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports
 - B. Established controls and procedures or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles
 - C. No event or matter that occurred in the period between the date of the last report (quarterly or periodic, as applicable) and this reporting date was reported to me in respect of the interim financial statements and to any other financial information included the Reports for the Interim Period, that would change in my opinion the conclusions of the Board and Management concerning the effectiveness of the internal control over the Company's financial reporting and disclosure.

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

Date: May 29, 2019

Yali Rothenberg,
CFO Bezeq Group