March 13, 2023

Bezeq - The Israel Telecommunication Corp. Ltd.
Periodic Report for 2022

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The information contained in this report 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.

Chapter A

(Description of Company Operations)
Periodic Report for 2022

Chapter A - Description of Company Operations
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Chapter A – Description of Company Operations

Bezeq The Israel Telecommunication Corp. Ltd. (the "Company" or "Bezeq") together with its wholly owned subsidiaries, whose financial statements are consolidated with those of the Company, will hereinafter be called jointly in this Periodic Report: the "Group" or "Bezeq Group".

For the reader's convenience, Appendix A (section 6) to this chapter contains a glossary of the key defined terms in the report.

1. General Development of the Group's Business

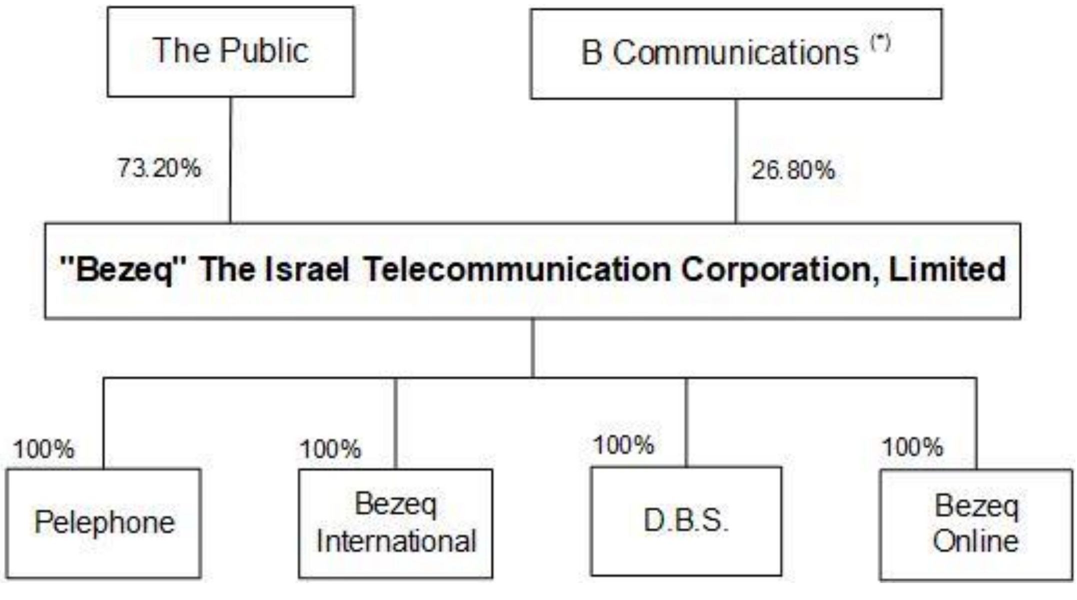
1.1 Group operations and business development

1.1.1 General

As at the publication date of this Periodic Report, Bezeq Group is the main provider of communications services in Israel. Bezeq Group supplies a broad range of telecommunication services and other services, including domestic fixed-line, internet infrastructure and access services, cellular (MRT) services, international communications services, multi-channel television broadcasts by satellite and over the internet (OTT), call center services, maintenance and development of communications infrastructures, communications services to other communications providers (including wholesale market services), television and radio broadcasts, supply and maintenance of equipment, and services on customer premises (network end point – NEP – services).

The Company was established in 1980 as a government company, when the operations carried out until then at the Ministry of Communications were transferred, and it was privatized over the years. The Company became a public company in 1990 and its shares are traded on the TASE.

Chart of the Company's holding structure, and the Company's holdings in the main subsidiaries, as at the approval date of the report (March 13, 2023):



(*) For information about B Communications and control in the Company – see section 1.1.2 and section 8 in Chapter D of this Periodic Report. The rate of holdings in B Communications fully diluted is 26.28%.

1.1.2 Control in the Company

On December 2, 2019, B Communications informed the Company of completion of the transaction with Searchlight II BZQ LP and a company controlled by the Fuhrer family (TNR Investments Ltd.). In the transaction, control of B Communications and the Company was transferred to these entities, after the liquidation of Eurocom Communications Ltd., under which the holdings in its subsidiary, Internet Gold, were sold.[1] For further information, see also the Company's immediate report of December 2, 2019 concerning an announcement by B Communications about completion of the transaction, as well as immediate reports of the Company dated January 2, 2020 concerning the holdings of interested parties and one who became an interested party in the corporation, which are included herein by way of reference.

In accordance with the Communication Order, the transfer or acquisition of control of the Company requires the approval of the government ministers (the "Control Permit"). For further information about the Control Permit in the Company see section 8 of Chapter D of the Periodic Report. On May 14, 2020, the special general meeting of the Company's shareholders resolved not to approve the amendment of the articles of association of the Company as requested by B Communications. This resolution was passed following the position of the Company's board of directors, according to which the requested changes to the Company's articles of association were not found to be in the interest of the Company and all its shareholders, and that the amendment to the articles of association of the subsidiaries, which is expected to be submitted in the future, as set out in the notice of B Communications, may even discriminate against the Company's other shareholders and therefore could be held unlawful. The position of B Communications, which was not accepted by the Company, is that intervention by the board of directors in the affairs of the general meeting is not grounded in law or in the Company's articles of association, the recommendation of the ad hoc committee appointed by the board of directors to recommend how to address B Communication's request to amend the articles of association is not grounded in law, and the amendment of the Company's articles of association is in the interest of the Company as it reflects the directives of the Ministry of Communications under the Communications Order, the provisions of which apply to the Company and must be complied with by the Company, among other things, to ensure that it continues to hold its license. As set out in section 8 in Chapter D of this report, the Control Permit stipulates, among other things, that failure to lay down provisions in the articles of association will constitute grounds for revoking the Control Permit.

It should be noted that according to a report by B Communications, on October 28, 2020, B Communications applied to the Ministry of Communications to rescind the condition stipulated in the Control Permit given to it in connection with its holdings in shares of the Company, to amend the Company's articles of association and the subsidiaries' articles of association, after the general meeting rejected the amendment of the articles of association as aforesaid. Among other reasons, B Communications asserts that the requested amendments establish provisions that in any case exist in the Communications Order and in other laws, and therefore do not create a new law and are not required.

On September 4, 2022, the Draft Communications Order (Telecommunications and Broadcasting) (Determination of an Essential Service Provided by Bezeq the Israeli Communications Company Ltd.) (Amendment), 2022 (the "Draft Amendment") was published on the government legislation website for public comments by September 25, 2022. In accordance with the introduction and in the explanatory notes to the Draft

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[1] To the best of the Company's knowledge, as at October 11, 2021, all of the Company's shares held by B Communications (SP2) Ltd. (a company wholly owned and controlled by B Communications (SP1) Ltd., a company wholly owned and controlled by B Communications),were transferred to the direct ownership of B Communications and as at December 29, 2022, there are 41,483,713 Company's shares. B Communications is an Israeli public company and its shares are traded on the Tel Aviv Stock Exchange Ltd. To the best of the Company's knowledge, the controlling shareholders of B Communications are, from December 2, 2019, Searchlight II BZQ L.P., a limited partnership incorporated in the Cayman Islands ("Searchlight") and TNR Investments Ltd. ("TNR"), a private company incorporated in Israel. The final general partner of Searchlight is Searchlight Capital Partners II GP, LLC, a limited liability company incorporated in the State of Delaware, held by several individuals, including Erol Uzumeri, Eric Zinterhofer, and Oliver Haarmann, the latter being among the individuals who obtained the permit for control of the Company from the Ministry of Communications. TNR is wholly owned and controlled by David Fuhrer (50%) and Michal Fuhrer (50%). As the Company was informed by B Communications, in accordance with the definition of the term "controlling shareholder" in Section 268 of the Companies Law, Searchlight and TNR are considered the controlling shareholders in B Communications by virtue of a control permit dated November 11, 2019 and by virtue of the voting agreement between them that grants them cumulative ownership, as at the publication date of this report, of 73% of the voting rights in B Communications. Moreover, TNR Real Estate Properties Ltd., which to the best of the Company's knowledge is controlled by David Fuhrer (50%) and Michal Fuhrer (50%), holds 2,546,320 of the shares of the Company (Bezeq). To the best of the Company's knowledge, as at the reporting date, B Communications holds 741,483,713 Company shares, representing 26.80% of the issued and paid-up capital (26.28% fully diluted).

Amendment, B Communications applied to the Ministry of Communications with a request, among other things, to amend the Communications Order to allow the future sale of its holdings in the Company to the public, such that on completion of the process, it will no longer be the controlling shareholder of the Company. It is further proposed, among other things, to amend the Communications Order to allow the controlling shareholder, subject to approval of the Prime Minister and the Minister of Communications, after consultation with the Minister of Defense, to transfer means of control to another party if, as a result of the transfer, it is no longer the controlling shareholder. The Draft Amendment includes proposals for additional amendments to the Communication Order, including:

A. To add an option for the controlling shareholder to replace the Israeli shareholder requirement with directives of the General Security Service under Section 13 of the Communications Law.

B. To provide an option for an institutional investor (Israeli) to increase its holding to up to 7.5% without the approval of the ministers.

C. To repeal Section 7(G) of the Communications Order, which determines reporting requirements, terms, and restrictions on any entity holding 2.5% or more of any means of control in a company where more than 75% of the company's shares is held by the public.

In accordance with the announcement of the Cabinet Secretary of the Government of Israel on March 5, 2023, the government approved amendments to the Communications Order on that day. The Amendment to the Communications Order requires the approval of the Knesset Committee.

1.1.3 Transfer of CEO powers to the board of directors

In accordance with the resolution of the Company's board of directors on September 4, 2007, under Section 50(A) of the Companies Law and Articles 119 and 121.1 of the Company's articles of association, the powers of the CEO in all matters related to corporations held directly or indirectly by the Company (including Pelephone, Bezeq International, DBS and Bezeq Online) were transferred to the board of directors.

1.1.4 Structural changes – restructuring in the subsidiaries

Further to previous decisions regarding a restructuring plan in which the private operations of Bezeq International were to merge with and into DBS and the ICT operations of Bezeq International were to split into a new company wholly owned by the Company (the “Merger/Split Plan"), on March 16, 2022, the Company's board of directors and the boards of directors of Bezeq International and DBS decided to cancel the Merger/Split Plan and to approve an alternative outline according to which the ISP operations of Bezeq International in the private sector will be reduced, following the cancellation of the separation between broadband infrastructure service and ISP service, and ISP operations will be established in DBS for selling Triple bundles to customers (the “Alternative Outline"), while striving to achieve, to the extent possible, the strategic, business, and economic goals underlying the decision to promote the structural change, including adapting the activity to the structure of the industry and changing regulation, focusing on increasing revenues and growth, and increasing operational synergy and efficiency.

According to the Alternative Outline, the business goals underlying the Merger/Split Plan will be achieved, as DBS is expected to become a branch for Triple sales that combines fiber and television, and at the end of the process, Bezeq International will become an ICT company focused on growth. In addition, in the Alternative Outline there is potential for significantly reducing Bezeq International’s expenses and investments in ISP alongside accelerated reduction in this operation.

In June 2022, following its application to the Ministry of Communications, DBS received a special ISP license and it began to provide these services while focusing on the sale of combined internet and television bundles to customers. Further to section 1.7.4 regarding the change in the regulatory regime for telecommunication, as from October 2, 2022, the provisions of the Telecommunications Regulations (Telecommunications and Broadcasts) (General Permit for the Provision of Telecommunications Services), 2022 apply to the ISP service of DBS, instead of the provisions in the license.

On August 28, 2022, Ilan Sigal started service as CEO of the subsidiaries Pelephone, DBS, and Bezeq International, replacing Ran Guron, who was appointed as Company CEO (see section 2.9.5). On January 1, 2023, Ron Glav started service as CEO of Bezeq International, replacing Ilan Sigal, in accordance with the strategy to transform Bezeq International into a company focused on integration, communication, and IT solutions for the business sector (ICT). Ilan Sigal continues to serve as CEO of the subsidiaries Pelephone and DBS.

1.1.5 Charges regarding transactions of the former controlling owner and former officers of the Company and Case 4,000

Further to investigations by the Israel Securities Authority (the "ISA") in June 2017 and by the Israel Police in February 2018, into suspected offenses under the Israel Securities Law and the Penal Law, 1977 (the "Penal Law"), regarding transactions related to the Company's former controlling shareholder and former chairman of its board of directors, Shaul Elovitch ("Elovitch"), involving the acquisition of shares of DBS[2] and provision of satellite communication services to DBS, the conduct of the Ministry of Communications vis-à-vis the Company (the "DBS Case"), as well as suspicions of the exercise of authority by Prime Minister Benjamin Netanyahu to promote matters related to the business of Elovitch and to his economic interests and those of the Bezeq Group ("Case 4000") -

1.1.5.1 On January 28, 2020, an indictment was filed with the Jerusalem District Court in Case 4000, among others against Elovitch for various offenses, including bribery and misleading information in an immediate report, involving suspicions of the exercise of authority by Prime Minister Benjamin Netanyahu, to promote matters related to the business of Elovitch and to his economic interests and those of the Bezeq Group.

1.1.5.2 On December 23, 2020, the Company received a notice from the Tel Aviv District Attorney (Taxation and Economics) that consideration was being given to prosecuting the Company and summoning it to a hearing in Case 4000 (the "Notice"), based on the following:

A. After reviewing the evidence presented to him, the Attorney General is considering filing an indictment on suspicions of bribery (an offense under Section 291 of the Penal Law together with Section 23 of the Penal Law) and reporting with intent to mislead a reasonable investor (an offense under Section 53(A)(4) of the Israel Securities Law together with Section 23 of the Penal Law).

B. According to the Notice, the suspicion of criminal liability against the Company for the reporting offense arises from the acts and criminal intent of Elovitch, who was an organ of the Company in the period relevant to the suspicions.

C. In addition, according to the Notice, the suspicion of criminal liability against the Company for the reporting offense arises from the acts and criminal intent of Shaul Elovitch, who was an organ of the Company in the period relevant to the suspicions, and the acts and criminal intent of Stella Handler (the former CEO of the Company), who was an organ of the Company in the relevant period (see section 1.1.5.3B). According to the allegations in this regard, the Company reported a letter from the Director General of the Ministry of Communications which allegedly included a misleading representation (of which Shaul Elovitch and Stella Handler were aware), and only after the intervention of senior officials in the Attorney General's Office was the letter amended and the amendment reported by the Company to the general public.

[2] As from June 24, 2015, the Company holds the entire share capital in DBS after completing on that date the acquisition of the entire holdings of Eurocom DBS in DBS (the "Acquisition Transaction"). Since the final amount of the second contingent consideration in the Acquisition Transaction was lower than the amount of the advances that the Company paid Eurocom DBS for the consideration, Eurocom DBS was required to return the difference to the Company. In this context, the Company filed a motion with the Tel Aviv District Court for the liquidation of Eurocom DBS due to its inability to return the difference, and on April 22, 2018, the Tel Aviv District Court handed down a liquidation order for Eurocom DBS and the Company's legal counsel was appointed as the liquidator for Eurocom DBS. In addition, the Company joined as a creditor in the liquidation procedure of Eurocom Communications, the parent company of Eurocom DBS, and on December 12, 2022, the claim for the debt filed by the Company was dismissed. The Company appealed the decision. It should be noted that in the Company's reports for 2018, the write-off of the entire debt balance was completed, such that the dismissal of the claim is not expected to affect the Company's results.

D. According to the notice, before the Attorney General makes a final decision regarding the criminal prosecution of the Company, and insofar as the Company wishes to argue against the possibility of a criminal prosecution, the Company must arrange within 30 days a date for a hearing, which will take place within 90 days from the date of the Notice, and it must submit its main pleadings in writing two weeks before the scheduled hearing date.

It should be noted that Walla (a former subsidiary of the Company) received a similar notice, according to which, after reviewing the evidence presented to him, the Attorney General is considering filing an indictment against Walla as well, on suspicions of bribery (an offense under Section 291 of the Penal Law together with Section 23 of the Penal Law), with the suspicion of criminal liability against Walla for the bribery offense arising from the acts and criminal intent of Shaul Elovitch, who was an organ of the company during the period relevant to the suspicions.

Subsequently, on July 8, 2021, the Company and Walla submitted written pleadings for a hearing. On August 12, 2021, a hearing was held for the companies before the Deputy State Attorney (Criminal Enforcement) and before the team of prosecutors handling the case. As at the publication date of the report, a decision has not yet been handed by the Prosecutor's Office and the Attorney General regarding the filing of an indictment following the allegations raised in the hearing, and date for the ruling has not yet been scheduled.

1.1.5.3 On December 23, 2020, to the best of the Company's knowledge, the Prosecutor's Office published a notice, according to which, among other things, its Taxation and Economics Division had filed on the same day with the Economic Department of the Tel Aviv District Court an indictment against Elovitch, as well as against former senior officers in the Bezeq Group and in DBS – Or Elovitch, Amikam Shorer, Linor Yochelman, Ron Eilon, and Miki Neiman, in the DBS case. According to the publication:

A. The indictment attributes to the defendants offenses of receiving something fraudulently under aggravating circumstances, fraud and breach of trust in a corporation, and reporting violations under the Israel Securities Law, and refers to two cases: fraud with respect to payment of the consideration for the acquisition of DBS shares by the Company, and fraud with respect to the conduct of the independent committees set up in the Company to review the transactions of the Company in which Elovitch had a personal interest.

B. The Taxation and Economics Division entered into a conditional stay of proceedings arrangement, upon terms in accordance with the Israel Securities Law, with Stella Handler, in which Handler admitted that she was involved in the inclusion of a misleading item in the Company's reports. As set out in the arrangement, the DBS case was closed in the matter of Stella Handler.

C. The investigation cases against other suspects who were investigated in the aforementioned cases, including the former VP of Regulation of the Company, and Or Elovitch and Amikam Shorer, were closed (for the latter two – with the exception of the DBS case, as set out at the beginning of this section).

On July 20, 2022, the ruling of the Economic Department in the Tel-Aviv-Jaffa District Court was published on the motion filed by some of the defendants to cancel charges in the case, according to which the second and third charges in the indictment (fraudulent conduct of the independent committees in the Bezeq-yes transaction and the yes-Spacecom transaction) were dismissed against all the defendants in these charges: Elovitch, former officers of the company – Or Elovitch, Amikam Shorer, and Linor Yochelman, and against the companies in these charges – Eurocom Group companies. The ruling further stipulates, among other things, that Elovitch's claim cannot be accepted, according to which indictment finds no culpability with the first charge (fraudulent receipt of advance payments on account of the second contingent consideration in the Bezeq-yes transaction). The ruling emphasizes that it has no implications whatsoever on the civil aspect and on contingent claims in this context (for information about civil proceedings against the Company and/or its officers see section 1.1.5.5.). On September 6, 2022, the Ministry of Justice announced that the Criminal Department at the Prosecutor's Office appealed the ruling on the same day.

1.1.5.4 The Company does not yet have complete information about the investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter (although in January 2021 the Company received the core of the investigation material related to Case 4000, further to the summons of the Company to a hearing in this matter, as set out in section 1.1.5.2). Accordingly, the Company is still unable to assess the effects of the investigations, their findings, and the effect on the Company and its financial statements. In this regard, see Note 1.3 to the 2022 Financial Statements.

1.1.5.5 It should be noted that following the opening of the investigations, several civil legal proceedings were opened against the Company and DBS, officers in the Company in the relevant period, and companies in the group of the former controlling shareholder in the Company, including motions for certification of a class action and petitions for disclosure prior to filing a motion for certification of a derivative claim. For further information about these proceedings, see section 2.18.

1.1.5.6 In everything relating to DBS, which on November 20, 2017 received a "notice to the suspect", according to which the investigation file in which it was being investigated as a suspect had been sent to the Prosecutor's Office for review, according to a notice received by DBS from the Prosecutor's Office, it was decided on January 11, 2021 to close the case against it, without filing an indictment.

1.2 Operating segments

The Group has four main operating segments which correspond with the corporate division among the Group companies and report as business segments in the Company's consolidated financial statements (see also Note 28 to the 2022 Financial Statements):

1.2.1 The Company – Domestic fixed-line communications

This segment consists primarily of the Company's operation as a domestic carrier, including telephony services, internet services (including fiber service and wholesale BSA service), transmission and data communication services, and wholesale service for use of the Company's physical infrastructure. The operations of the Company in the domestic fixed-line segment are described in section 2 of this report.

1.2.2 Pelephone – Cellular communications (MRT)

This segment includes cellular communications services, terminal equipment marketing, and the installation, operation, and maintenance of cellular equipment and systems. The operations of Pelephone are described in section 3 of this report

1.2.3 Bezeq International – internet, international communication, and ICT solutions

As at the reporting date, this segment includes internet services for existing subscribers in a private service and does not include the marketing of this service to new/renewing subscribers. As at the reporting date, Bezeq International focuses on business services, including integration services and internet for businesses (for information about restructuring see section 1.1.4). This segment also includes international communication services, hosting and cloud services, and ICT solutions (jointly: "Bezeq International Services"). The operations of Bezeq International are described in section 4 of this report.

1.2.4 DBS – multi-channel television

This segment includes multi-channel digital satellite television for subscribers (DBS) and over the internet (OTT) broadcasting services and supply of value added services for subscribers and internet services (infrastructure through the wholesale market). The operations of DBS are described in section 5 of this report.

It should be noted that in addition, the Company's consolidated financial statements include an "Others" segment, which includes customer call centers (through Bezeq Online), which is not material on the Group level.

1.3 Investments in the Company's capital and transactions in its shares

For information about the completion of the transaction for transfer of control in the Company on December 2, 2019, see section 1.1.2.

On December 28, 2022, B Communications informed the Company that it acquired 2,530,000 additional ordinary shares of the Company in TASE transactions on that day, for a consideration of a total amount of NIS 15 million and at an average price of NIS 5.95 per share. Subsequent to the acquisition, B Communications holds 26.81% of the issued and paid up share capital of the Company.

Beyond that, no investments were made in the Company’s equity in the reporting year and the Company is not aware of any other material transactions performed by interested parties in the Company’s off-floor shares.

1.4 Distribution of a dividend

1.4.1 Dividend policy

On March 13, 2023, the Company's board of directors resolved to revise the Company's dividend policy so that every six months, the Company will distribute 60% of the half-year profit (after tax) based on the Company's consolidated financial statements, starting with the next distribution (for the second half of 2022), in view of the improvement in the business results and the continued decline in the Company’s debt, and based on the Company's forecasts for the business results in the coming years.

In addition, the Company will strive to revise its dividend policy so that it will distribute 70% of the half-year profit (after tax) based on the Company's consolidated financial statements, subject to the Company's credit rating remaining in the AA group.

Application of the policy to distribute a dividend is subject to the provisions of the law, including the distribution tests set out in the Companies Law, all taking into consideration the expected cash flow, the Company's requirements and obligations, the Company’s cash balance, its plans and position as it will be from time to time, and subject to the approval of the general meeting of the Company's shareholders regarding each specific distribution, as set out in the articles of association of the Company.

The approval of the Company's dividend policy as aforesaid does not oblige the Company to distribute a dividend to the Company's shareholders and each specific distribution will be examined in its entirety in accordance with the conditions for implementing the dividend distribution policy as stated above. Additionally, cancellation of the policy will not prevent the Company's board of directors from assessing, from time to time, the policy for distribution of dividends to the Company's shareholders, taking into consideration, among other things, the provisions of the law, the state of the Company's business and its plans, and its capital structure, while maintaining a balance between ensuring the Company's financial robustness and stability, including its debt level and credit rating, and the continued attribution of value to the shareholders of the Company through ongoing distribution of a dividend.

The board of directors considers it important to maintain the balance between ensuring the Company's financial robustness and stability, while maintaining a rating in the Company's current rating group [AA] over time, and continuing to add value for its shareholders through a regular dividend distribution. The Company's board of directors was presented, among other things, with analysis and results of professional work, the forecasts of the Company and the Group, as well as sensitivity analyses for unexpected deterioration in the business of the Company and the Group. After examining all of the above, the Company's board of directors determined that this decision reflects the correct balance between the requirements as described above.

1.4.2 Distribution of a dividend

The Company did not distribute a dividend in 2020-2021. For information about the dividend distributed by the Company in May and October 2022, see Note 20 to the 2022 Financial Statements. As at the reporting date, the remaining distributable profits amount to NIS 1,648 million (the balance is comprised of retained earnings accumulated in the last two years after deducting the amounts of the dividend paid in May and October 2022).

For information about recommendation of the board of directors of March 13, 2023 to the general meeting of the Company's shareholders regarding distribution of a dividend for profits in the second half of 2022, see Note 20 to the 2022 Financial Statements.

1.5 Financial information about the Group's operating segments

All the figures in sections 1.5.1 to 1.5.4 are in NIS million.

1.5.1 2022

	Domestic fixed-line communications	Cellular communications (MRT)	Bezeq International services	Multichannel television (3)	Other	Adjustments to consolidated (2)	Consolidated
Total revenues:							
From external sources	3,980	2,359	1,183	1,277	187	-	8,986
Other operating segments in the corporation	326	40	56	-	6	(428)	-
Total revenues	4,306	2,399	1,239	1,277	193	(428)	8,986
Total attributable costs:							
Variable costs attributable to the operating segment (1)	606	852	759	382	159		
Fixed costs attributable to the operating segment (1)	2,240	1,354	510	943	28		
Total costs	2,846	2,206	1,269	1,325	187	(484)	7,349
Costs that do not constitute revenue in another operating segment (3)	2,805	2,114	1,009	1,305	183	(67)	7,349
Costs that constitute revenue of other operating segments	41	92	260	20	4	(417)	-
Total costs	2,846	2,206	1,269	1,325	187	(484)	7,349
Profit (loss) from regular operations attributable to shareholders of the Company	1,460	193	(30)	(48)	6	56	1,637
Total assets attributable to the operations as at December 31, 2022	9,023	4,080	760	1,249	87	(1,787)	13,412
Total liabilities attributable to the operations as at December 31, 2022	10,468	1,563	570	469	32	(1,314)	11,788

(1) The Group companies, which are companies providing services (as opposed to manufacturing companies), do not manage a dedicated pricing system, which differentiates between fixed and variable costs. The above distinction was made for the purposes of this report only. Variable costs are costs for which the companies have flexible management and control in the short-term and which directly affect output, unlike fixed expenses, which are not flexible in the short term and do not directly affect output (on this, regarding the definition of fixed and variable costs, "short-term" means a period of up to one year). Variable costs include non-recurring expenses (revenues) that were included in other expenses (revenues) of each company.

(2) Details of adjustments for consolidated – transactions between operating segments

(3) See Notes 10 and 28 to the 2022 Financial Statements regarding the exclusion of an impairment loss in the multichannel television segment. The impairment loss in this segment is presented as part of the adjustments.

1.5.2 2021

	Domestic fixed-line communications	Cellular communications (MRT)	Bezeq International services	Multichannel television (3)	Other	Adjustments to consolidated (2)	Consolidated
Total revenues:							
From external sources	3,845	2,249	1,186	1,270	271	-	8,821
Other operating segments in the corporation	337	40	51	-	6	(434)	-
Total revenues	4,182	2,289	1,237	1,270	277	(434)	8,821
Total attributable costs:							
Variable costs attributable to the operating segment (1)	369	982	723	369	215		
Fixed costs attributable to the operating segment (1)	2,065	1,265	492	942	35		
Total costs	2,434	2,247	1,215	1,311	250	(506)	6,951
Costs that do not constitute revenue in another operating segment (3)	2,389	2,153	944	1,291	246	(72)	6,951
Costs that constitute revenue of other operating segments	45	94	271	20	4	(434)	-
Total costs	2,434	2,247	1,215	1,311	250	(506)	6,951
Profit (loss) from regular operations attributable to shareholders of the Company	1,748	42	22	(41)	27	72	1,870
Total assets attributable to the operations as at December 31, 2021	9,245	4,452	783	1,293	100	(1,939)	13,934
Total liabilities attributable to the operations as at December 31, 2021	11,415	1,753	566	474	37	(1,407)	12,838

(1) The Group companies, which are companies providing services (as opposed to manufacturing companies), do not manage a dedicated pricing system, which differentiates between fixed and variable costs. The above distinction was made for the purposes of this report only. Variable costs are costs for which the companies have flexible management and control in the short-term and which directly affect output, unlike fixed expenses, which are not flexible in the short term and do not directly affect output (on this, regarding the definition of fixed and variable costs, "short-term" means a period of up to one year). Variable costs include non-recurring expenses (revenues) that were included in expenses (other revenues) of each company.

(2) Details of adjustments for consolidated – transactions between operating segments

(3) See Notes 10 and 28 to the Financial Statements for 2022 regarding the exclusion of an impairment loss in the multichannel television segment. The impairment loss in this segment is presented as part of the adjustments.

1.5.3 2020

	Domestic fixed-line communications	Cellular communications (MRT)	Bezeq International services	Multichannel television (3)	Other	Adjustments to consolidated (2)	Consolidated
Total revenues:							
From external sources	3,813	2,127	1,217	1,286	280	-	8,723
Other operating segments in the corporation	346	59	54	1	6	(466)	-
Total revenues	4,159	2,186	1,271	1,287	286	(466)	8,723
Total attributable costs:							
Variable costs attributable to the operating segment (1)	850	799	1,021	532	186		
Fixed costs attributable to the operating segment (1)	1,604	1,471	491	797	56		
Total costs	2,454	2,270	1,512	1,329	242	(539)	7,268
Costs that do not constitute revenue in another operating segment (3)	2,405	2,162	1,246	1,296	236	(77)	7,268
Costs that constitute revenue of other operating segments	49	108	266	33	6	(462)	-
Total costs	2,454	2,270	1,512	1,329	242	(539)	7,268
Profit (loss) from regular operations attributable to shareholders of the Company	1,705	(84)	(241)	(42)	44	73	1,455
Total assets attributable to the operations as at December 31, 2020	8,471	4,371	785	1,365	96	(1,847)	13,241
Total liabilities attributable to the operations as at December 31, 2020	11,764	1,742	580	505	42	(1,242)	13,391

(1) The Group companies, which are companies providing services (as opposed to manufacturing companies), do not manage a dedicated pricing system, which differentiates between fixed and variable costs. The above distinction was made for the purposes of this report only. Variable costs are costs for which the companies have flexible management and control in the short-term and which directly affect output, unlike fixed expenses, which are not flexible in the short term and do not directly affect output (on this, regarding the definition of fixed and variable costs, "short-term" means a period of up to one year).

Variable costs include non-recurring expenses (revenues) that were included in expenses (other revenues) of each company.

(2) Details of adjustments for consolidated – transactions between operating segments

(3) See Notes 10 and 28 to the Financial Statements for 2022 regarding the exclusion of an impairment loss in the multichannel television segment. The impairment loss in this segment is presented as part of the adjustments.

For explanations about the development of the financial information presented in sections 1.5.1 to 1.5.3, see section 1 of the Directors Report on the State of the Company's Affairs (the "Directors Report").

1.5.4 Main results and operational data

Condensed information on the results of each of the Company's main segments of operation in 2022 and 2021:

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

	2022	2021	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenues (NIS million)	4,306	4,182	1,057	1,086	1,067	1,096	1,052	1,037	1,039	1,054
Operating profit (NIS million)	1,460	1,748	293	388	393	386	358	390	407	593
Depreciation and amortization (NIS million)	1,005	938	266	252	248	239	245	239	231	223
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	2,465	2,686	559	640	641	625	603	629	638	816
Net profit (NIS million)	849	1,063	153	235	243	218	206	219	238	400
Cash flow from operating activities (NIS million)	2,230	2,024	628	427	541	634	593	567	354	510
Payments for investments in fixed assets and intangible assets and other investments (NIS million)	1,135	1,155	277	294	279	285	244	314	285	312
Proceeds from the sale of fixed assets and intangible assets (NIS million)	36	273	9	8	5	14	87	4	-	182
Lease payments	138	116	35	34	33	36	32	31	24	29
Free cash flow (NIS million) (2)	993	1,026	325	107	234	327	404	226	45	351
Number of active telephony subscriber lines at the end of the period (in thousands)(3)	1,503	1,583	1,503	1,522	1,542	1,563	1,583	1,602	1,615	1,630
Average monthly revenue per line (NIS) (ARPL) (4)	42	47	40	41	41	47	46	46	47	49
Number of outgoing minutes (in millions)	2,979	3,385	698	754	726	801	811	782	827	965
Number of incoming minutes (in millions)	3,939	4,627	922	986	951	1,080	1,096	1,152	1,095	1,284
Telephony churn rate (6)	10.9%	10.6%	2.5%	2.8%	2.6%	3.0%	2.8%	2.4%	2.6%	2.8%
Total number of internet lines at the end of the period (in thousands) (7)	1,504	1,524	1,504	1,505	1,512	1,519	1,524	1,524	1,529	1,540
Of which, the number of subscribers connected to the fiber network at the end of the period (in thousands) (9)	267	84	267	212	161	124	84	44	16	1
Of which, the number of retail internet lines at the end of the period (thousands) (7)	1,032	1,023	1,032	1,024	1,022	1,024	1,023	1,014	1,009	1,001
Of which, the number of retail subscribers connected to the fiber network at the end of the period (in thousands) (7)	198	65	198	157	118	93	65	36	16	1
The number of wholesale internet lines at the end of the period (thousands) (7)	472	501	472	481	490	495	501	510	520	539
Of which, the number of wholesale subscribers connected to the fiber network at the end of the period (in thousands) (7)	69	19	69	55	42	31	19	8	0	0
Average monthly revenue per internet subscriber (NIS) - retail (ARPU) (8)	114	106	117	116	113	110	109	107	106	103
Deployment of fiber optic network at the end of the period (thousands of households available for connection) (9)	1,526	1,064	1,526	1,442	1,308	1,193	1,064	848	597	310
Average package speed per internet subscriber - retail (Mbps)(5)	220	130	220	192	164	151	130	104	88	78

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

assessing the results of the Company's operations or cash flows. Additionally, the measure presented in this report may be calculated differently from corresponding measures in other companies. The Company's EBITDA is calculated as operating profit before depreciation, amortization, and ongoing losses from the impairment of fixed assets and intangible assets. To present fairly its financial activity, the Company presents continuing losses from the impairment of fixed assets and intangible assets in DBS and Bezeq International under depreciation and amortization, and continuing losses from the impairment of broadcasting rights under general and operating expenses (in the statement of income). In this regard, see also Note 10 and section 7 to the Financial Statements.

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

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

(4) Calculated according to average number of lines for the period. For further information see section 7.

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

(6) The number of telephony subscribers (gross) who left Bezeq Fixed-Line during the period divided by the average number of registered telephony subscribers in the period. See also section 7.

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

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

(9) As at the publication date of the report, deployment of the fiber optic network – 1.654 million households are available for connection, of which, 332 thousand subscribers are connected to the fiber network (of which, 235 thousand retail and 97 thousand wholesale).

1.5.4.2 Pelephone

	2022	2021	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue from services (NIS million)	1,791	1,642	441	467	446	437	424	417	409	392
Revenue from the sale of terminal equipment (NIS million)	608	647	151	141	153	163	178	124	167	178
Total revenue (NIS million)	2,399	2,289	592	608	599	600	602	541	576	570
Operating profit (loss) (NIS million)	193	42	17	60	52	64	8	22	15	(3)
Depreciation and amortization (NIS million)	532	577	135	139	136	122	147	144	144	142
EBITDA (earnings before interest, taxes, depreciation, and amortization) (NIS million) (1)	725	619	152	199	188	186	155	166	159	139
Net profit (NIS million)	165	64	13	50	46	56	13	23	20	8
Cash flow from operating activities (NIS million)	874	425	149	203	244	278	19	185	149	72
Payments for investments in fixed assets, intangible assets and other investments, net (NIS million)	295	253	0	157	66	72	54	68	60	71
Lease payments (NIS millions)	228	219	62	58	47	61	54	52	53	60
Free cash flow (NIS million) (1)	351	(47)	87	(12)	131	145	(89)	65	36	(59)
Number of postpaid subscribers at the end of the period (thousands) (2)	2,149	2,096	2,149	2,137	2,122	2,093	2,096	2,074	2,050	2,030
Number of prepaid subscribers at the end of the period (thousands) (2)	431	480	431	538	514	490	480	473	471	462
Number of subscribers at the end of the period (thousands) (2)	2,580	2,576	2,580	2,675	2,636	2,583	2,576	2,547	2,521	2,492
Monthly average revenue per user (ARPU) (NIS) (5) (3)	57	54	57	58	57	57	55	55	54	53
Monthly average revenue per user (ARPU) net of interconnect fees (NIS) (6)	43	40	43	45	43	42	41	41	40	38
Churn rate (4)	24.1%	22.9%	6.1%	5.7%	5.5%	6.8%	5.8%	5.5%	5.8%	5.8%

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

(2) Subscriber figures include Pelephone subscribers (excluding subscribers from other carriers hosted on the Pelephone network and excluding IOT subscribers), and do not include inactive subscribers connected to Pelephone's service for six months or more. An inactive subscriber is one who in the past six months has not received one call, has not made one call / sent one SMS, or has performed no browsing activity, or has not paid for Pelephone services. Prepaid subscribers are included in the number of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if the subscriber makes no outgoing use of the device for six months or more. It should be noted that a customer may have more than one subscriber number ("line"). Subscribers include subscribers who use various services (such as data for vehicle media systems), with an average revenue that is significantly lower than for other subscribers. It should be noted that Pelephone markets bundles with an increased browsing volume adapted also for 5G requirements, and as at December 31, 2022, Pelephone has 813 thousand subscribers for such bundles.

(3) Monthly ARPU (postpaid and prepaid). The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom carriers, including revenues from cellular carriers who use Pelephone's network, repair services, and extended warranty in the period, by the average number of active subscribers in the same period. See also section 7.

(4) The churn rate is calculated at the ratio of subscribers who disconnected from Pelephone's services and subscribers who became inactive in the period, to the average number of active subscribers in the period. See also section 7.

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

(6) Monthly average monthly revenue per user (ARPU) net of interconnect fees – The reform to change the interconnect fees regime, which will be applied gradually from June 2023 until June 2025, is expected to result in a decrease in interconnect fees and a decrease in ARPU, therefore Pelephone elected to present monthly average monthly revenue per user (ARPU) net of the revenue component from interconnect fees, in addition to the full ARPU.

1.5.4.3 Bezeq International

	2022	2021	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenues (NIS million)	1,239	1,237	319	311	302	307	328	287	310	312
Operating profit (loss) (NIS million)	(30)	22	(60)	17	17	(4)	1	13	16	(8)
Depreciation and amortization (NIS million)	134	173	35	32	29	38	40	38	46	49
EBITDA (earnings (loss) before interest, taxes, depreciation and amortization) (NIS million) (1)	104	195	(25)	49	46	34	41	51	62	41
Net profit (loss) (NIS million)	(32)	8	(58)	16	15	(5)	(5)	10	11	(8)
Cash flow from operating activities (NIS million)	210	131	56	5	37	112	(52)	96	26	61
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)(2)	93	98	17	23	27	26	14	27	27	30
Lease payments	36	33	9	9	9	9	7	9	9	8
Free cash flow (NIS million) (1)	81	0	30	(27)	1	77	(73)	60	(10)	23
Churn rate (3)	46.5%	25.3%	15.0%	12.4%	12.9%	7.3%	5.9%	5.5%	6.0%	7.9%

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

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

(3) The number of internet subscribers who left Bezeq International in the period, divided by the average number of registered internet subscribers in the period. See also section 7.

1.5.4.4 DBS

	2022	2021	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenues (NIS million)	1,277	1,270	330	315	316	316	322	318	315	315
Operating profit (loss) (NIS million)	8	32	0	0	(2)	10	(14)	30	22	(6)
Depreciation, amortization and continuing impairment (NIS million)	199	203	57	46	46	50	52	45	45	61
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	207	235	57	46	44	60	38	75	67	55
Net profit (loss) (NIS million)	13	30	1	0	2	10	(17)	29	18	0
Cash flow from operating activities (NIS million)	186	233	56	9	43	78	42	73	56	62
Payments for investments in fixed assets and intangible assets and other investments, net (NIS million)	178	178	44	39	49	46	55	38	42	43
Lease payments	25	26	7	6	6	6	7	6	7	6
Free cash flow (NIS million) (1)	(17)	29	5	(36)	(12)	26	(20)	29	7	13
Number of subscribers (at the end of the period, in thousands) (2)	579	563	579	575	567	564	563	560	560	559
Of which, IP subscribers (3)	329	226	329	307	280	253	226	198	173	147
Of which, STINGTV subscribers	104	84	104	101	94	89	84	79	74	70
Monthly average revenue per user (ARPU) (NIS) (4)	183	188	181	182	184	186	190	188	186	187
Churn rate (5)	12.8%	15.1%	3.0%	3.2%	2.9%	3.7%	3.4%	3.7%	3.7%	4.3%

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

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

(3) The number of DBS subscribers who use yes+ and STINGTV streaming services (as set out in sections 5.2.1.2.A and 5.2.1.2.B). As at the publication date of the report, there are 344 thousand customers (of which 107 thousand are STINGTV subscribers), representing 60% of all DBS subscribers. This figure also includes subscribers using satellite services as well.

(4) Monthly ARPU is calculated by dividing total DBS revenues (excluding revenues from the sale of content to external broadcasting entities, revenue from end equipment, and revenue from ISP) by the average number of customers in the period. See also section 7.

(5) Number of DBS subscribers who left DBS during the period, divided by the average number of registered DBS subscribers in the period. See also section 7.

1.6 Medium-term forecast and objectives for the Group

1.6.1 Forecast for 2023

The following is the Group's forecast for 2023 based on the information currently known to the Bezeq Group:

Adjusted net profit[3] for shareholders is expected to be NIS 1.2 billion

[4] EBITDA is expected to be NIS 3.8 billion

[5] CAPEX is expected to amount to NIS 1.75 billion.

The Company will report, to the extent required, any deviation of ± 10% or more of the amounts set out in the above forecast.

– Scope of the Company's fiber network deployment - reaching two million households

– Financial stability – maintaining a high credit rating, in the AA group

1.6.2 Medium-term objectives

– Adjusted EBITDA – average annual growth of 1% in CAGR terms with an adjusted EBITDA margin of between 41% and 43%

– CAPEX – until 2025 – stability in CAPEX and in the CAPEX to revenue ratio followed by a gradual decline

– Free cash flow[6] – average growth for the year (in CAGR terms) at a moderate single-digit rate

– Scope of the Company's fiber network deployment – reaching 2.7 million households

– Dividend policy – To strive to distribute 70% of the half-year profit (after tax) based on the Company's consolidated financial statements, subject to the Company's credit rating remaining in the AA group.

Financial stability – maintaining a high credit rating, in the AA group

The Company does not commit to updating on a regular or other basis regarding its objectives or any other changes that will apply to the objectives or to the actual results in relation to the objectives.

1.6.3 Forward-looking information

The Company's forecasts and objectives in this section are forward-looking information, as defined in the Israel Securities Law. The Group's forecasts are based on the Company's assessments, assumptions, and expectations, and among other things, on the Group's assessments for the structure of competition in the telecommunication market and regulation in this sector, on the current economic situation, and accordingly, the Group's ability to implement its plans for 2023, and taking note of changes that may occur in the foregoing, in business conditions and the effects of regulatory decisions, technology changes, or developments in the structure of the telecommunication market, or insofar as one or more of the risk factors listed in the Periodic Report for 2022 materialize.

In addition, regarding the Company's objectives, taking into consideration that this refers to the medium term and the difficulty of predicting the Company's actual results and market performance in the medium term, there is no certainty that the Company's objectives will be

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[3] Adjusted net profit and adjusted EBITDA - net of other operating expenses/income, one-time losses/gains from impairment/appreciation, and equity compensation plan expenses. It should be noted that the adjusted EBITDA and the adjusted net profit for 2022 amounted to NIS 3.736 billion and NIS 1.196 billion, respectively.

[4] See footnote 3.

[5] CAPEX – payments (gross) for investment in fixed assets and intangible assets It should be noted that the CAPEX for 2022 amounted to NIS 1.713 billion.

[6] For the definition of free cash flow see section 7.2.2.

fully or partially met, and the deviation of the Company's actual results and performance from the objectives may be significant and material. Moreover, objectives by nature do not purport to be forecasts and they should be read as such.

1.7 General environment and the influence of outside factors on the Group's operations

The communications industry, globally and in Israel, is developing rapidly with frequent changes in technologies, the business structure of the industry, and applicable regulation. Below is a description of the main trends and central characteristics of the communications market in recent years, which have significantly affected the operations of the Group as a whole.

Considering the diversity of the Group's communication operations, regulatory and other developments could sometimes have different effects on different operating segments and risk factors in the Group (see sections 2.20, 3.19, 4.14 and 5.18), meaning that changes in regulation and other factors that adversely affect one segment could potentially have a positive effect on another segment. In certain cases, opposing effects on the operating segments might be offset one against the other at the Group level.

1.7.1 Competition in the communication market

There is fierce competition in most of the Group's operating segments:

In the internet services segment, there is fierce competition with companies that own infrastructure, including fiber infrastructure for households, and with companies that offer services through the wholesale market (see section 1.7.5 and section 2.16.4). In addition, regional competition has expanded due to the fact that companies that do not hold a general license are permitted to provide fiber internet services using their own broadband infrastructure or using the Company's passive infrastructure.

In the cellular telephony segment, the large number of carriers has strengthened competition and led to lower prices and increased customer migration. In the fixed-line telephony segment, competition, including from cellular companies, has resulted in a decline in fixed-line telephony minutes and higher churn in fixed-line telephony services (including a growing number of customers without a fixed line at home). These trends impair the Group's results.

In the television services segment, competition has increased by over the top (OTT) streaming television content services (VOD services and linear channels), including by foreign service providers such as Netflix, which are not subject to regulatory supervision and the same liabilities as those of the multichannel broadcast providers, and receiving Idan+ channels.

To reduce the impact on performance arising from the above, the Group companies are introducing streamlining and other measures to improve the services they provide and differentiate themselves from their competitors.

1.7.2 Communications groups in the Israeli market

The market is characterized by competition among communications groups (Bezeq Group, Hot Group, Cellcom Group (which in 2020 also acquired the cellular company Golan Telecom) , and Partner Group) operating in parallel in several segments (fixed-line and cellular telephony, fixed-line and cellular internet services, multichannel television, and international calls).[7]

Cellcom and Hot, together with Israel Infrastructure Fund (IIF) (23% each) and Israel Electric Corporation (30%), hold shares in IBC, which deploys fiber optic infrastructure and mainly provides services to telecommunication providers (a carrier-of-carriers).

The communications groups market bundles of different communication services of the companies in each group to allow them to offer its customers a comprehensive solution that does away with the need to subscribe to several different providers, and to offer more attractive prices than the price that can be offered for purchasing each service separately (in some cases with cross-subsidization among the bundle components). In addition, wholesale BSA service (see section 2.16.4.2), also allows carriers that do not own infrastructure and those that are not part of a communications group to offer an end-to-end service bundle (including infrastructure) to their customers. From April 3, 2022, infrastructure companies –

[7] In this regard, a "group" is characterized by proximity arising from the identity of shareholders, even though in some of the groups there is corporate, accounting, or marketing segregation between the entities belonging to the Group.

the Company and Hot – are permitted to provide ISP service to private customers together with their infrastructure service, after cancellation of the requirement for separation of infrastructure service from ISP service.

Competitors that do not belong to the communications group (such as Xfone and MVNO cellular carriers, including ISPs in the wholesale market) also operate in the wholesale market. In addition, as aforesaid, there is a growing number of small-scale ISPs (who are not part of a group), which provide broadband internet services, including infrastructure (see section 1.7.6).

As at the reporting date, stricter restrictions apply to Bezeq Group in marketing service bundles than to the other communication groups. As at the reporting date, the operations of Bezeq Group, as a communications group, are subject to several regulatory restrictions in terms of collaborations between the Group companies, including the obligation to maintain structural separation between the Company and its subsidiaries and the restriction on marketing joint service bundles that include the services of the Company and its subsidiaries.

Against the background of the challenges facing the Group and the requirements in the communications market environment, alongside the Company's actions to cancel the structural separation, a comprehensive strategic plan is implemented for the Group as a communications group within the complex regulatory restrictions imposed on it (see section 1.8).

1.7.3 Regulatory supervision – the obligation of structural separation

The Communications Law grants the Minister of Communications the authority to order accounting segregation between different services provided by the same group/company and to demand separate companies for the provision of different services, including separation of services to a license holder from services to a subscriber, and provisions regarding implementation of the separation.

The Company's domestic carrier license stipulates that it must maintain structural separation between itself and its subsidiaries. This includes a requirement for full segregation between the management of the Company and that of the subsidiaries, including in terms of the business, finance, and marketing systems, and the Company is prohibited from disclosing commercial information to a subsidiary (subject to exceptions).

Structural separation restrictions place the Group at a competitive disadvantage which is intensifying opposite the other telecom groups that are not subject to restrictions on a similar scale. These structural separation restrictions also give rise to high overheads.

1.7.3.1 <u>Cancellation of the structural separation</u>

The Company believes that all the conditions requiring cancellation of the structural separation have long been fulfilled in accordance with the policy document of the Ministry of Communications dated May 2, 2012 regarding expansion of competition in the fixed-line – wholesale market. In the context of the petition that the Company filed with the High Court of Justice in 2021, which it withdrew, the state submitted a report of the interdepartmental team set up to review adjustments to the obligation of structural separation in the Bezeq Group and Hot Group, recommending that the Minister does not to cancel the obligation of structural separation in Bezeq Group and Hot Group at the present time. However, the team found that certain changes may be made in the overall regulation, including considering the cancellation of the separation between infrastructure and ISP in Israel, which was indeed canceled (see section 1.7.5.1).

1.7.3.2 <u>Marketing joint service bundles with a subsidiary and between subsidiaries</u>

The Company is permitted to offer subscribers joint service bundles with its subsidiaries, subject to approvals by the Ministry of Communications and several terms set out in the domestic carrier license, including: The bundles will be "unbundleable", meaning that a service included in them will be offered separately and on the sale terms; when applying for approval of a bundle, there is a group of services in similar format being marketed to a subscriber as a bundle by a license holder that is not a subsidiary of the Company, or there is a group that includes license holders that provide a private subscriber with all the services included in the joint service bundle.

Joint service bundles marketed by the subsidiaries, including the services of the Company, are also subject, according to their licenses, to similar limitations, including a requirement for unbundling (except for a bundle marketed by a subsidiary that contains only the broadband access service for the Company's internet providers).

These limitations, and in particular the unbundling obligation, which severely limits the Group's ability to offer discounts on the components of the bundles, puts the Group in a competitively inferior position compared with competing communications groups, which are not subject to similar limitation in marketing bundles (other than, to the best of the Company's knowledge, a diminishing limitation of Hot Group).

Following the amendment of the terms of the merger between the Company and DBS in accordance with the decision of the Competition Commissioner of April 12, 2021, DBS was allowed to sell communication bundles that include internet and television services without any obligation to sell the television services at a uniform unbundled price for bundle subscribers and subscribers who do not buy bundles. See section 2.16.9.3.

Bundles of the Company with DBS – In recent years, the Ministry has rejected various applications from the Company to provide its internet services together with the television services of the subsidiary DBS (including over the internet).

1.7.3.3 Further limitations on collaborations and preferences between the Company and the subsidiaries

There are further limitations on collaborations between the Company and its subsidiaries, both under competition laws and conditions laid down by the Competition Commissioner in approvals of mergers between the Company and the Group companies, prohibiting bias in favor of the subsidiaries when providing certain services (see section 2.16.9), and by virtue of the provisions in the Company's license, which oblige it to provide its services equally. For further limitations, see also section 5.14.3.

Lifting of the restrictions on structural separation and waiving the limitations applicable to collaborations between the Group companies as set out above, if lifted, may create various opportunities for the Group to utilize synergies or facilitate utilization of such synergies.

1.7.4 Amendment to the regulation – Amendment 76 to the Communications Law

On July 4, 2022, Amendment 76 to the Communications Law (the “Amendment to the Law") was published. Under the Amendment to the Law that came into effect on October 2, 2022, the existing regulation for telecommunication was modified, among other things, such that the requirement to obtain a specific license prior to providing telecommunication services, which was the key tool for regulating communication services in Israel, was revoked, and instead the default regulatory requirement is registration in the registry. In this way, in accordance with the Amendment to the Law, any party interested in providing telecommunication services is able to know in advance under what conditions it may operate and to begin operating without applying for or receiving a license. The registry is administered by the Director General of the Ministry of Communications. The Amendment to the Law sets out cases in which the requirement for a license will continue to apply to: (A) a telecommunication service provided through the cellular system; (B) a telecommunication service provided through the telecommunication network when the number of users or subscribers or the number of network termination points or end points exceeds the number determined by the Minister, other than a telecommunication service provided by another authorized provider through a telecommunication network (the regulations for this matter stipulate that a license is required by companies providing a telecommunication service through a fixed access network[8] with at least 100,000 users or through a fixed access network with at least 500,000 subscribers receiving ISP services); (C) a telecommunication service provided through a telecommunication network in which one of the following takes place: (1) it includes a fixed or mobile ground station in Israel for satellite communication; (2) it includes a satellite located at or using the orbit registered in the name of the State of Israel in the International Telecommunication Union (ITU); (D) performance of a telecommunication

[8] An access network in this context – telecommunication facilities used to connect the exchange to the network end point using fixed-line infrastructure, wireless infrastructure, or a combination of both.

operation at a ground telecommunication facility connecting a point in Israel and a point outside Israel (other than Judea and Samaria). In addition, a local authority (including a municipal company or a municipal subsidiary) will not provide a telecommunication service whether it requires registration in the registry or whether it requires a license, unless it holds a license and in accordance with the terms of the license; the Minister has the authority to determine, with the approval of the Knesset Economics Committee, additional telecommunication services that will require a license, as well as additional service providers who will be subject to licensing (for certain services or for all services they provide), if he sees that under the circumstances, regulatory registration in the registry is not sufficient for meeting one or more of the following considerations: maintaining state security or public safety; (b) efficient utilization of a scarce resource; (c) promotion of competition. In addition, the Minister may, due to one or more of the above considerations, instruct a telecommunication service provider registered in the registry that providing the telecommunication service is subject to obtaining a license for any telecommunication service it provides or for a telecommunication service of the type to be determined.

Additionally, the definition of a regulated "telecommunication service" will be modified, to reduce the services subject to regulation. "Telecommunication service" is defined as a service provided to the general public or part of it through a telecommunication network, which is one of the following: a data transmission service; service; telephony service; another service listed in the first addendum of the Law (as at the reporting date, there are no details of the addendum to the Law).

Subsequently, on October 2, 2022, the Regulations implementing the regulatory regime were published on the website of the Ministry of Communications, according to which many entities currently providing telecommunication services will no longer require a license, and will be regulated instead by registering in a dedicated registry and in accordance with the Regulations. Under the Regulations, this will not apply to certain license holders, including the Company, the subsidiaries Pelephone, Bezeq International, and DBS, other than for the ISP service provided by DBS. However, according to the explanation of the Regulations, the Ministry of Communications plans to map the licenses and actively cancel the provisions in the licenses that are regulated in the Regulations, and in the near future, to assess the justification for determining different arrangements under the licenses. For information about the obligation to disconnect dormant subscribers set out in the Regulations, see section 1.7.7.9.

In addition, on December 8, 2022, the Ministry published a "Hearing to Update the Wholesale Market Regulations and the Service Files – Adjustment to the New Regulation, according to which the Ministry is considering amending the service files of wholesale services (BSA and telephony; mutual use of passive infrastructures; physical infrastructure service and Appendix 2 "Documentation of Passive Infrastructure works") to conform with the language of the law once Amendment 76 comes into effect, and with the language of the new related communications regulations. According to the Hearing, the changes being considered include a derivative of the Wholesale Market Regulations and the elimination of distinctions based on different types of licenses, and change of terminology. In its response, the Company stated that the relevant distinctions should be maintained in relation to the various wholesale services provided to various authorized suppliers. As at the reporting date, a decision has not yet been made in the Hearing and the service cases have not yet been amended or replaced in the administrative directives.

In December 2022, a draft amendment to the Use Regulations, which also included adjustments following Amendment 76 to the Law, was also published. As at the report date, the Regulations have not yet been amended.

The effect of the amendment to the Communications Law and the Regulations on the Group companies depends, among other things, on how they are implemented by the Ministry of Communications, including the amendment to the licenses of existing license holders.

1.7.5 Major developments in the reporting period (including years prior to the reporting period)

1.7.5.1 <u>End-to-end internet service</u>

From April 3, 2022, the Company markets and provides end-to-end internet service, infrastructure and internet access, both on a traditional network (copper) and on an advanced network (fiber). From this date, the Company is not permitted to market a bundle that includes internet infrastructure service with the access service of Bezeq International or of another license holder. This development is further to the decision of the Minister of Communications of June 20, 2021 regarding cancellation of the separation of infrastructure service from internet access service, and granting the Company, followed by HOT, permission to provide end-to-end internet service to subscribers in a private service. The decision includes a requirement, among other things, to regulate, through a shelf agreement, key performance indicator (KPI) for the service level and agreed compensation arrangements with the infrastructure owners (the Company and HOT) with an applicant for access holding an ISP license with at least 10,000 active customers in the wholesale market. On September 19, 2021, the Director General of the Ministry of Communications decided that the agreement regulating the KPIs submitted by the Company will constitute a “shelf offering" in accordance with the Minister's decision and will apply to all access applicants, without discrimination.

Implementation of the measure and the Company’s ability to offer end-to-end service have a positive effect on its business. Regarding Bezeq International, the measure resulted in a significant reduction in the number of its internet customers and the structural change described in section 1.1.4, so that Bezeq International does not market internet services to private customers, and from the second half of 2022, DBS is an authorized ISP and provides internet services over fiber (infrastructure through a wholesale service). The total effect on the Group in the coming years is expected to be positive.

1.7.5.2 Multiple small-scale operators

Following changes in the regulation, the number of small-scale service providers that provide broadband internet services including infrastructure has expanded, in practice and potentially, first through the granting of special licenses instead of an end-to-end/general license (subject to a limit on the number of subscribers and time), in accordance with the decision of the Minister of Communications of October 13, 2022, and later, by eliminating the need for licenses (other than exceptions) and transitioning to providing communication services (including but not limited to broadband infrastructure) through registration in the registry only and subject to the Permit Regulations under Amendment 76 of the Communications Law (see section 1.7.4 Authorized providers are not .(required to apply for a license in order to provide telecommunication service. Additionally, the terms relevant to licensed providers under the Permit Regulations, for the provision of services and in general, do not necessarily include all the terms set out in the licenses, for example, instructions regarding maintaining functional continuity in an emergency, and certain consumer instructions apply only to a licensed provider of service on an advanced network to at least 50,000 end users and to an authorized provider providing mobile telephony services to at least 200,000 end subscribers.

1.7.6 Wholesale market

Starting in 2015, a "wholesale market" model was implemented in Israel, in which the owners of the national fixed-line access infrastructure in Israel (the Company and Hot) were required to allow other communications operators to use their infrastructure at a price that will not exceed the maximum prices set in the regulations.

In this context, the Ministry of Communications established service portfolios for the different services, setting out the format for services provided by the infrastructure companies:

1.7.6.1 Wholesale BSA service

This service allows internet service providers that do not own infrastructure to offer their customers full internet services, including internet connectivity services (of the ISP) and internet infrastructure services (based on the Company’s network or the Hot network – both on the traditional network and on the fiber network). Since launching the service, hundreds of thousands of customers have switched to services through these service providers).

1.7.6.2 Wholesale service use of passive infrastructure

This service allows providers to use the Company's passive infrastructure to deploy communication cables (some of which are in incentive areas only) and for certain providers to use dark fiber at the rates set out in the Regulations. For further information see section 2.16.4.

The Company was also granted the right to use the passive infrastructure of other companies, however their rates (with the exception of HOT) are not set out in the Regulations.

1.7.6.3 Wholesale telephony service

This service allows service providers that do not own infrastructure to offer their customers telephony service at wholesale rates using the Company's network. At present, the service has no customers. In this matter, see also section 2.16.4.4.

The regulatory provisions regarding the wholesale market, as well as its implementation and development in the reporting period, affect a material part of the Group's operations. For further information about the wholesale market services and their regulation see section 2.16.4.

1.7.7 Additional regulatory aspects relevant to the entire Group or several Group companies

1.7.7.1 Interconnect fees

The Group's telecom companies (Bezeq, Pelephone, and Bezeq International) pay interconnect fees to other operators for calls that are terminated on the networks of those carriers, and some of them (the Company and Pelephone), receive interconnect fees for calls that are terminated on their networks and from international telecom operators for incoming and outgoing calls on their networks. The interconnect fees are determined by the regulator as the maximum rates in the interconnection regulations. The changes in the interconnect fees have an offsetting effect at the Group's level, in view of their effect on the expenses or revenues of the Company and its subsidiaries.

On June 28, 2022, an amendment to interconnect regulations was published, stipulating that the transfer of interconnect payments for telephony calls terminated on cellular or domestic carrier networks will be gradually reduced over three years as follows:

1. On June 15, 2023: for a call terminating on a cellular network, a maximum rate of 4 agorot per minute, for a call terminating on a domestic carrier network, 0.7 agorot per minute, and for an outgoing international call - based on the network from which it originated (domestic carrier or cellular).
2. On June 15, 2024: for a call terminating on a cellular network, a maximum rate of 2 agorot per minute, for a call terminating on a domestic carrier network, 0.4 agorot per minute, and for an outgoing international call - based on the network from which it originated (domestic carrier or cellular).
3. On June 15, 2025, a related arrangement will come into effect, according to which each carrier will bear its own costs and interconnect fees will no longer be transferred between cellular and domestic carrier license holders for call minutes, calls terminating in the networks of cellular carriers and on domestic carrier networks (a bill and keep arrangement), and an international carrier will not pay for forwarding an outgoing international call.

For incoming international calls on a cellular or domestic carrier network, the payment by an international carrier will be according to the cellular or domestic carrier requirement, respectively (effective from July 28, 2022).

At this stage, this is the same as SMS interconnect fees.

1.7.7.2 Restriction of the disconnection penalty that a license holder is permitted to collect from a subscriber

Under the provisions of the Communications Law, holders of domestic carrier, international carrier, and broadcasting licenses (including the Company, Bezeq International, and DBS) are not permitted to charge subscribers who cancel agreements disconnection fees if their average monthly bill is less than NIS 5,000, or deny them a benefit that they would have received had they not ended the agreement.[9] Cellular operators (including Pelephone) may not collect disconnect fees from customers who hold up to 100 phone lines or make a contract for cellular services conditional on an agreement to purchase, rent, or lease terminal equipment (unlocking).

1.7.7.3 <u>Amendments of licenses and additional legislation</u>

A. Call center response times

The amendment to the licenses of the Company, Pelephone and Bezeq International prescribes, among other things, provisions concerning the obligation to route calls on certain matters to a professional human response, call waiting times as well as provisions concerning call center work hours, the recording and documenting of calls and reporting obligations. The amendment came into effect on the effective date (July 25, 2019) of the Consumer Protection Law, which addresses, among other things, the waiting time for a human response. The DBS broadcasting license was amended in the same way.

On June 30, 2021, the licenses of the Company, Pelephone and Bezeq International and the licenses of other telecom operators were amended. According to the amendment, call centers handling subscriber inquiries (other than inquiries regarding a problem in receiving telecommunication services and loss of cellular terminal equipment) must be manned 45 hours a week. It was likewise stipulated that the license holder must operate digital communication means, such as SMS and chat services, to receive inquiries relating to the license holder's services other than inquiries regarding malfunctions and loss of cellular terminal equipment. This amendment does not apply to call centers that operate 7/24 (such as call centers for addressing malfunctions), where the activity remains unchanged. On September 2, 2021, DBS's license was similarly amended.

B. Amendment on the subject of internet protocol version 6 (IPv6) (internet addresses)

On July 3, 2019, the Ministry of Communications published a decision on the hearing and the license amendment in which the transition to Ipv6 protocol will take place in accordance with the defined milestones. For the Company (as the holder of a domestic carrier license) and for the holders of internet access licenses, it was determined, among other things, that the network and its components will be adapted to provide access for subscribers to IPv6 from all terminal equipment supporting IPv6; license holders are required to voluntary transfer existing and new subscribers with terminal equipment supporting IPv6 to addresses on IPv6. Transfer of the subscribers will be based on milestones, so that up to 24 months from the date of the amendment, 50% of the subscribers will be transferred, up to 36 months – 75%, and up to 48 months – 100% (with the exception of subscribers in possession of private terminal equipment that does not support IPv6 and decided not to replace it, provided that they sign a waiver for the license holder). The Company is in the process of migrating to IPv6 based on the milestones and it does not expect any significant expense for it. With respect to the holders of cellular licenses (such as Pelephone), it was determined that the voluntary transfer will reach 100% within 24 months.

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[9] Regarding the carriers' claims in the hearing held by the Ministry of Communications in respect of this provision, according to which the discounts or benefits, which are prescribed in the conditions that the subscribers are required to comply with, do not violate the provisions, the Ministry decided that in any case it will examine whether the conditions are relevant also when the subscriber remains active.

1.7.7.4 Consumer legislation and privacy protection laws

Changes in consumer legislation affect the operations of the Group's companies on a regular basis. In recent years, various amendments to the Consumer Protection Law and its regulations have been approved. Various bills have also been presented in the Knesset introducing further amendments to the Consumer Protection Law which may, among other things, affect the terms of the agreement and the conduct of the Group's companies towards their subscribers.

On January 1, 2023, the provisions of the Consumer Protection Law came into effect, prohibiting a dealer or anyone on its behalf from contacting a consumer by telephone (or by email) for marketing purposes, using the consumer’s telephone number listed in the database of the Consumer Protection Authority with the aim of entering into a transaction (subject to the exceptions set out in the law) . Under the amendment, the database will list telephone numbers of consumers wishing to restrict such marketing calls to them The provisions of the law could create a limitation on marketing activities and the extent of their effect will depend on the number of consumers joining the database.

Additionally, the operations of the Group companies are affected by the Privacy Protection Law and its regulations with respect to management and maintenance of databases and the information security which they contain.

1.7.7.5 Enforcement and financial sanctions

The Communications Law, Economic Competition Law, Israel Securities Law, Consumer Protection Law, Law for Increased Enforcement of Labor Laws , 2011, and the Telegraph Ordinance were amended, giving the regulators powers of enforcement, supervision, and imposition of substantial graded fines for violation of these laws or regulations and the related directives.

Under Amendment 76 to the Communications Law, the Director General of the Ministry of Communications has the authority to impose a financial sanction of up to 10 times the base amount set out in the Communications Law for violation of a license provision regarding the obligation to deploy an advanced network or provide a service on the service.

In recent years, the Ministry of Communications has exercised the supervisory authority extensively. For information about the financial sanctions imposed by the Ministry of Communications regarding wholesale services see section 2.16.4.2 (footnote 34), for information about sanctions imposed by the Competition Authority regarding passive infrastructure see section 2.16.9.5.

The Consumer Protection and Fair Trade Authority also exercises enforcement powers provided in the Consumer Protection Law and from time to time issues demands for information, conducts investigations against the Group’s companies for suspected violations of this law, and imposes fines. In April 2022, a financial sanction in the amount of NIS 6.9 million was imposed on the Company for alleged violation of Section 2(A)(1) of the Consumer Protection Law, claiming that the Company failed to provide thousands of consumers who purchased a TOP 100 internet package this browsing speed. The Company filed an appeal with the Magistrate’s Court, with a motion, among other things, to cancel the decision of the Authority.

1.7.7.6 The Market Concentration Law

The Concentration Law that was enacted in 2013 establishes restrictions on providing credit to business groups, separation between significant non-financial corporations and significant financial entities (the Company and the corporations under its control are defined as significant non-financial corporations under the Concentration Law) and consideration of national concentration considerations in the allocation of rights – restrictions on the allocation of rights in critical infrastructure to "highly concentrated entity”. In this matter, a list of sectors that will be considered "critical infrastructure sectors" has been defined, operations in the sector that require communication licenses. The Company and the companies that it controls are included in the list published by the Competition Authority and are considered highly concentrated entities. The law may adversely affect the Group’s ability to enter new operating segments as well as its current operations.

1.7.7.7 Millimeter waves

Millimeter wave technology allows substantially larger wireless broadband transmission than technologies that were available in the past. The technology can be used from point to point and from point to multiple points and is a solution for the last segment, meaning the connection to the subscriber's end point. This technology allows relatively quick connection of large areas and at lower costs compared with the deployment of cable infrastructure.

In January 2022, the Ministry notified the Company that providing service other than through a deployment of lines is only approved in some areas, that the approval given by the Spectrum Division is for frequency use and not approval for wireless service, and that if the Company intends to provide service through non-wired infrastructure to additional areas, application to the advisory committee is required. The Company responded that its license allows it to provide service over wireless infrastructure, such as millimeter waves. The Company believes that using this technology, it is able to provide satisfactory service to subscribers, as required by its license. On July 11, 2022, the Ministry requested information from the Company regarding the deployment and provision of telecommunication services using wireless technology and repeated its position. On August 4, 2022, the Company submitted the information, explained its position again, and also suggested a discussion on the matter.

1.7.7.8 Hearing for the demand for data – consumption of communication services

On January 17, 2021, the Ministry of Communications published a hearing according to which it plans to require the submission of information on a regular monthly basis, on an extremely broad scale, specifying the use of communications services by subscribers (including identifying details about the subscriber and about the package and each of the services used by the subscriber). The demand for information will be sent to all operators in the communications market that provide services to end customers (private and business) as well as to various license holders, and it applies to all types of customers (private and business) that receive wholesale or retail services from a license holder. According to the hearing, cross-referencing of the information will allow the Ministry to obtain a complete picture about the activity of the communications providers as well as the characteristics of the communications consumer and will allow the Ministry to monitor the competition in the different submarkets. On March 9, 2021, the Company submitted its comments on the hearing, according to which the hearing includes numerous fundamental problems and deficiencies, including – the violation of privacy and business confidentiality; the requirement for information on a vast scale without the definition of any appropriate and clearly formulated underlying objective, in breach of the authority conferred by law; a very concrete risk arising from the establishment of a giant database in which detailed personal, financial and business information is concentrated regarding the entire population of the country and the business companies operating in it, offering infinite possibilities for cross-referencing information; the individual nature of the requested information, creating an opening for complicated legal problems: the reporting format, which in many cases is irrelevant and/or impracticable; the extensive resources the Company will need to invest in the matter, necessitating the diversion of IT employees from critical business operations. The Company believes that the solution for these problems is to shelve the plan presented in the hearing for the sweeping transmission of all the information about the Company's customers, and alternatively, to define specific goals and objectives as a basis for clear and precise definition of the relevant information to be received, which is compatible with the powers of the Ministry to receive information and is supported by the structure of the Company’s information systems. Similar comments were submitted by the subsidiaries Pelephone, Bezeq International, and DBS.

1.7.7.9 Inactive subscribers

On September 10, 2020, the Ministry of Communications issued a letter to the telecom operators (including the Company, Pelephone, and Bezeq International) expressing the concern that some of the subscribers for the operators' services do not use these services and are not even aware of their existence. In its letter to the carriers, the Ministry recommended that they contact these subscribers and stop charging them, and requested to receive periodic reports on the matter in the next six months. The letter also stipulates that the Ministry will consider whether to issue binding directives in this regard, if independently initiated actions do not substantially minimize the problem. Regarding the implications of the Ministry of Communications' letter on Bezeq International and its handling of the matter, see section 4.4 and Note 10.6 to the 2022 Financial Statements. On January 14, 2021, DBS was also sent a preliminary communication by the Cable and Satellite Broadcasting Council regarding a "demand for information about 'dormant' subscribers and about services which subscribers pay for but do not use". In March 2021, DBS replied that it gives its subscribers adequate notification and that it is unable to provide the requested information, among other things, because it does not have well-founded information, because the Council lacks authority for at least some of its requests, and because of other difficulties involved in the Council's communication. It should be noted that in the Regulations, the permit that applies to the internet access services of DBS (and not to the other Group companies) includes an obligation to disconnect "dormant subscribers" (a subscriber who has not used an internet access service for at least six consecutive months) from internet access services, other than for the service for medium- and large-scale business subscribers as defined in the Regulations.

1.7.8 Restrictions on creating charges on the assets of Group companies

For convenience, below are referrals to sections in the 2022 Periodic Report that relate to the restrictions applicable to Group Companies in placing charges on their assets, and the main restrictions:

1.7.8.1 <u>Regulatory restrictions</u>

The Communications Law, Communications Order (which applies to the Company), and some of the communications licenses of the Group companies include a restriction on granting of third-party rights on assets used to provide the critical service or on the assets of the license[10] as the case may be, including the need for regulatory approval to create charges on these assets. In some cases, such as Pelephone's cellular carrier license, and Bezeq International's end-to-end internet service license, there are exceptions permitting the creation of charges in favor of banks without the need for the regulator's advanced approval, provided that the charge agreement includes instructions to ensure that the services rendered under the license will not be affected if the bank exercises the charge. In addition, under the provisions of the law and the communications licenses, the license and the resulting rights are not transferable and they cannot be pledged or confiscated (with certain exceptions). See also sections 2.16.3.7, 3.14.2, and 5.14.1.7.

1.7.8.2 <u>Agreement limitations</u>

The Company undertook to certain financing entities not to pledge its assets without simultaneously creating a charge of the same class, rank, and amount (negative charge), subject to specific exceptions. See also Note 13.3 to the 2022 Financial Statements.

1.7.9 Covid-19 pandemic

At the beginning of 2020, the COVID-19 pandemic broke out in the world and in Israel (the "Event"). As a result of the Event, many countries, including Israel, took various steps and imposed restrictions in an attempt to curb the spread of the virus.

In 2022, Covid-19 and the effects of the Event started to wane and the consequences of the event on the Group's operations in 2022 were reflected mainly in the impairment of Pelephone's revenues from roaming services (an impairment that gradually diminished over the year and up to the publication date of this report), without any significant negative effects

[10] The assets required to secure the provision of service by the license holder.

in other operating segments. As at the publication date of the report, the Event has no particular effect on the Group's operating segments.

For information about the pandemic as a general risk factor in the Group's operating segments see sections 2.20.23. 3.19.1.2, 4.14.5. and 5.18.1.3.

1.7.10 Cyber defense management

1.7.10.1 The Group companies implement a cyber protection policy with security systems to protect their infrastructure and systems to prevent and reduce possible malicious or unintentional use of the Company's data by an internal or outside party, and the possibility of an outside party taking control of and managing network components or abusing information about the Company's infrastructures and systems. For further information about each area of operations and cyber risks, see sections 2.20.11, 3.19.2.8, 4.14.7, and 5.18.3.9.

1.7.10.2 In addition, on May 12, 2022, the licenses of the Company, Pelephone, and Bezeq International were amended to include provisions for preparations for managing cyber security. On December 26, 2022, this amendment was replaced by an administrative directive that is essentially the same.. The main points of the administrative amendment address, among other things, the protection of telecommunication networks; ensuring that the systems remain relevant and up to date; management of cyber incidents by license holders; and situations in which the license holders are required to report and share information.

Other regulatory developments in the reporting period and the main restrictions applicable to the Group's areas of operation of the Group – for further information see sections 2.16, 3.14, 4.11 and 5.14.

1.8 Bezeq Group's business strategy

1.8.1 The Group's vision

Bezeq Group – the largest and leading telecommunication group in Israel, will guide and accelerate the digital revolution in Israel through advanced infrastructure and services for the private and business sectors, while striving to achieve operational excellence and continuous improvement of its business results.

1.8.2 The Group's strategy

1.8.2.1 <u>Strategic focus – to focus on developing infrastructures and growth engines</u>

A. Accelerating the deployment of fiber optics and switching to an end-to-end internet package will constitute a growth engine for Bezeq Fixed-Line

B. The internet services of Bezeq International for the private sector will be scaled down, and an ISP activity will be created in DBS, which will sell the Triple service bundle that combines fiber optics and television.

C. Pelephone will leverage the migration to G5 to increase revenues and ARPU.

D. Bezeq International will become an ICT company focused on growth.

1.8.2.2 <u>Strategic focus on growth by sector</u>

A. Household telecommunication, information, and content services – investing and focusing efforts on growth and reinforcing the competitive status in the market by offering the broadest possible bundle of services and deepening the penetration into households

B. Business telecommunication services – maintaining and strengthening the lead in this market by offering added value to customers, based on quality of service and state-of-the-art products

C. Cellular services – maintaining and reinforcing the competitive status, while striving to increase revenues and improve profits

D. ICT services for businesses – investing in building capacities to allow significant growth

1.8.2.3 Additional strategic measures

The Group will take steps to locate investments in areas that are synergistic and complementary to the Group's operations and its competitive capacities. The proactive investment and acquisition operations will enable shareholders to increase their returns by entering into operating segments with higher growth than the Group's traditional core operations. Diversification of the portfolio will allow distribution of the risk and reducing dependence on regulatory risks.

1.8.2.4 Apart from these strategic changes, the Group is working to strengthen the foundations for continued mid-term growth, striving for operating excellence by expanding the digital transformation, streamlining costs, improving market response times and flexibility for change, and striving to cancel the structural separation.

1.8.2.5 Optimal cash flow and capital management – maximizing value for shareholders, while maintaining the Group's AA credit rating – The Group has set itself the goal of maintaining the Group's high AA credit rating while adjusting debt repayments to cash flow generation and maintaining significant liquidity, while distributing dividends to shareholders.

1.8.2.6 In addition, the Group strives to be an ESG leader.

This section includes forward-looking information, as defined in the Israel Securities Law, including forecasts, goals, business strategy, assessments, aspirations, and estimates, regarding the operations of the Company and of its investees and the markets in which they operate, as well as other information relating to future events or matters, which may or may not materialize and are not under the Company's control ("Forward-looking Information"). Although the Company believes that the Forward-looking Information is based on reasonable estimates, the information set out above is subject to certain risks and uncertainties. Forward-looking Information is inherently subject to the risk of failure to materialize and is uncertain, and the Company does not in any way guarantee that its assessments, expectations, aspirations and objectives will materialize in practice. Accordingly, the Forward-looking Information should not be construed as a promise that it will actually materialize. The materialization of and/or other changes in the Forward-looking Information are dependent on factors that are not necessarily known in advance, and are not necessarily in the Company's control, and include risk factors and the nature of its operations, developments in the general environment, and external factors and regulation affecting its operations and other factors. The future results and achievements of Bezeq Group may differ materially from those presented in the Forward-Looking Information presented in this section.

1.8.3 Streamlining measures and promoting integration of synergies between the subsidiaries

Pelephone and DBS took and are taking significant steps to promote and implement the synergies between them, including signing collective agreements that include streamlining and synergy processes; transition to similarly composed managements, for more efficient decision making and to save costs; implementation of measures to increase efficiency and save operating expenses; sales of services of the companies through the distribution channels of the other companies; integration of a shared CRM system on an advanced cloud platform; expanding joint purchasing, and using shared resources. For further information see also section 1.1.4.

Bezeq International, which is in the process of transitioning to an ICT company focused on growth, is also taking streamlining measures, including the signing of a collective agreement that includes streamlining, as well as streamlining and cost-saving measures. In addition, the reduction in ISP activity at Bezeq International is compatible with the synergy in the Group.

For information about additional strategic goals for each of the Group companies, see sections 2.19, 3.17, 4.13 and 5.17.

For information about the decisions of the board of directors of the Company and of DBS regarding the outline for gradual migration from satellite broadcasts to over the top (OTT), see section 5.17.1.

The estimates set out in this section are forward-looking information as defined in the Israel Securities Law, which may 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, and changes in the Company's competitive status. 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 5.18.

1.9 Corporate responsibility (ESG)

On February 24, 2022, the Company's board of directors approved the expansion of the Company's environment, social and governance (ESG) activity, in addition to the Company's existing operations in this area. In this context, the board of directors approved a sustainability vision for the Company - "Bezeq connects Israel to a sustainable future" and ESG goals, including long-term environmental responsibility goals to reduce net greenhouse gas emissions to zero by 2050 (Net Zero 2050); social responsibility goals to increase representation of women in the Company's management to 50% by 2030 (on the Company's board of directors, at least 40%); and to increase the rate of diverse populations to 20% by 2030. The Company is also taking steps to apply the ESG goals in its subsidiaries Pelephone, Bezeq International, and DBS. On the same date and in February 2023, the board of directors also approved the Company's corporate responsibility policy documents on various issues.

In addition, in 2022, the Company continued its collaborations with civil society organizations to narrow the digital divide and encouraged its employees to volunteer in a wide range of social goals, and continued to invest resources in the ongoing improvement of corporate governance in the Group, including the adoption of management norms and the management of advanced compliance plans.

The Company publishes ESG in accordance with the reporting standard of the Global Reporting Initiative (GRI).

2. Bezeq - Domestic Fixed-Line Communications

2.1 General information about the operating segment

2.1.1 Operating segment and changes in the segment

The Company holds a general license to provide domestic fixed-line communication services and provides a range of such services as described in section 2.2, mainly internet access infrastructure services, domestic fixed-line telephony, transmission and data communication services, cloud and digital services, and wholesale services (for information about the wholesale services, see section 2.16.4).

2.1.2 Legislative restrictions, standards and special constraints

2.1.2.1 Communications laws and the Company's domestic carrier license

The Company's operations are subject to government regulations and extensive oversight, due to its position as a general license holder under the Communications Law, which is subject to the provisions of the Communications Law, its regulations, orders and rules, and the provisions of the domestic carrier license and other laws. For further information and for the restrictions on the Company's operations and the changes in this context, among other things, regarding price setting, structural separation, permits for new services, and service bundles, as well as the wholesale market, see sections 1.7.3 .and 2.16.

In addition, the Company was declared a provider of telecommunication services under the Communications Order. Pursuant to this declaration, the Company is obliged to provide a number of basic services under the domestic carrier license, and may not terminate or narrow them without approval. The order also sets out restrictions on transferring and acquiring means of control in the Company, and certain restrictions on the Company's operations. For further information see section 2.16.3.

2.1.2.2 Economic competition laws

The Company was declared a monopoly in its main areas of operation, and is also subject to oversight and restrictions under the Economic Competition Law (see section 2.16.9).

2.1.2.3 Environmental laws and planning and construction laws

Some of the Company's operations involve the use of wireless frequencies and the use of facilities that emit electromagnetic radiation, which are subject to the Telegraph Ordinance (see section 2.16.10), the Non-Ionizing Radiation Law (see section 2.15.2), and National Outline Plan (NOP) 36 and 56 (see section 2.16.11).

2.1.3 Changes in the scope of operation in the segment and its profitability, market developments, and customer characteristics

For key data about the scope of operation in domestic fixed-line communications and its profitability in 2022 and 2021, see section 1.5.4.1. The following is a description of the main changes in the scope of operation in the segment in the reporting period[11:]

2.1.3.1 Wholesale market

At the beginning of 2015, the Company started providing a wholesale BSA service to service providers, whereas as at the end of 2022, the number of wholesale internet lines on the Company's network was 473 thousand, which constitutes 31% of all Company subscribers. In this regard, it is noted that these lines also include lines that were not on the Company's network in the beginning (new or from a competitor's network). There is no demand for wholesale telephony services (zero subscribers as at the publication date of the report).

The Company also provides a wholesale service that allows a competitor to use the Company's passive infrastructure.

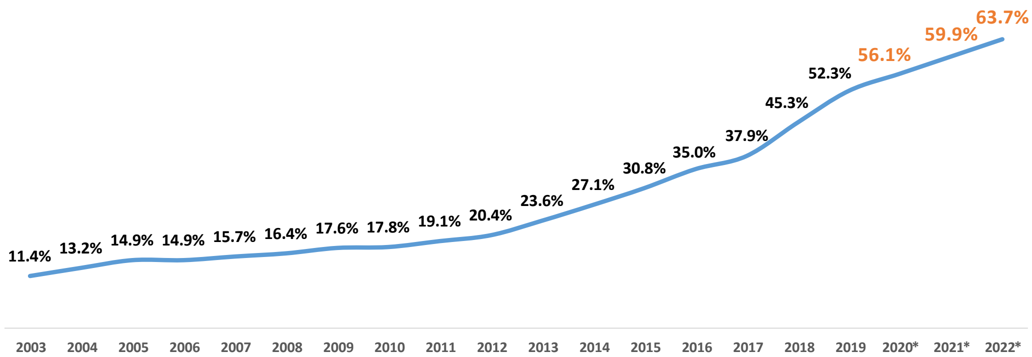
For information about the wholesale services see section 2.16.4.

[11] For detailed data and definitions of subscriber and average revenue, see the notes to the table in section 1.5.4.1.

2.1.3.2 Fixed-line telephony

In recent years, there has been a decline in demand in this segment, which is reflected in the decrease in the rate of ownership of fixed telephone lines and a gradual erosion in the number of calls originating in fixed-line networks. The Company believes that this is mainly due to the rise in the use of personal phones, smartphones, attractive deals for call minutes marketed extensively by the cellular companies in recent years, and the decrease in prices in the segment (the Company estimates that 87% of all calls originate in the cellular network), and from an increase in VoIP calls (see section 2.1.4). In 2022, the number of the Company's internet subscribers decreased by 5% compared with 2021.

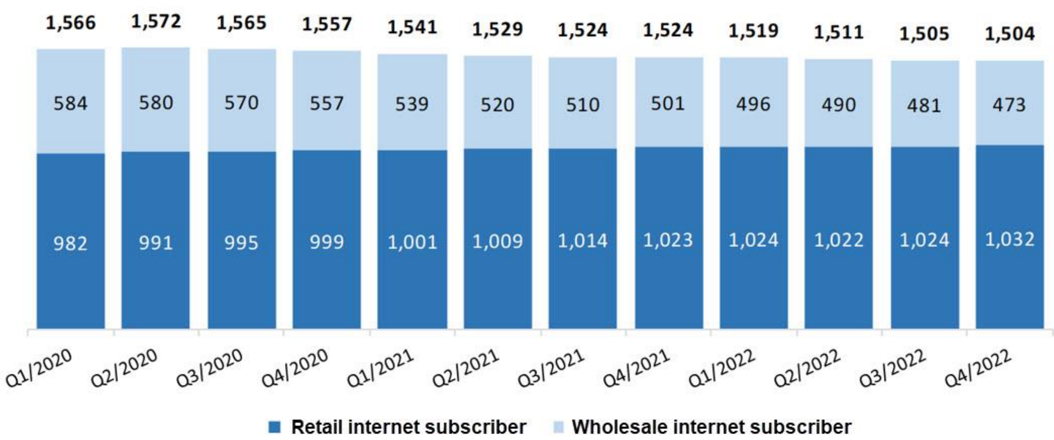
Graph – Rate of households without a fixed-line home telephone[12]



2.1.3.3 Internet access segment

In the internet market, there has been a significant increase in bandwidth and browsing speeds, mainly with the deployment of fiber infrastructure and the adoption of advanced services and value-added applications. In addition, in recent years, the number of customers has continued the direction of growth. In 2022, the Company estimates that the following changes took place compared with 2021: an increase of 2% in the number of fixed-line internet subscribers in Israel and a decrease of 1% in the total number of the Company's internet subscribers (an increase in retail and decrease in wholesale). In terms of browsing speeds, the Company provides fiber service at speeds of up to 300 Mbs, 600 Mbs, and 1Gb, in the areas where it deploys fiber (for information about the Company's selected areas see section 2.7.2.2). The Company also provides speed of up to 200 Mbps on its copper network.

Graph – Breakdown of internet lines on Bezeq infrastructure (quarterly, in thousands):



12 The figures were taken from Central Bureau of Statistics publications (findings of a 2019 survey of household expenses and initial findings of a 2018 survey of household expenses) in November 26, 2019 and July 31, 2022. For 2020-2022 figures, the Company's estimate is based on Central Bureau of Statistics' surveys from previous years.

2.1.3.4 Transmission and data communication services

In the transmission and data communications segments for business customers and communications providers, there is a rapid increase in customer broadband consumption, but in general at lower prices per given volume of traffic. This is due to both from development of technology allowing greater bandwidth at lower prices than in the past, and from competition in this sector (see section 2.6.4). There is also significant migration to the independent infrastructures of communications providers. For further information see also section 2.16.4.3.

2.1.3.5 Service bundles

For information about the increase in consumption of service bundles and packages, see section 1.7.1 and for information about the Company's joint service bundles, see section 1.7.5.1.

2.1.4 Technological developments that may have a significant effect on the operating segment

In the communications market, there is migration to IP-based protocol, which advances technology convergence between the different communication systems (for example, telephony and data). Moreover, the penetration of integrated products providing different communication solutions in a single device (for example, cellular and Wi-Fi services) has increased. These two, together with the increase in the availability of IP-based technologies and the continuing increase in bandwidth provide customers, including business customers, a broader range of applications and services on IP-based infrastructures, such as telephony services, including private exchange services, video transfer services, television, private networks, network services with enterprise applications on the internet infrastructure (such as ERP and CRM), and cloud services These developments are leading to increased demand for bandwidth by the Company’s internet infrastructure, transmission, and data communication service customers. Technological developments and falling equipment prices could allow other operators to provide services similar to those provided by the Company at costs that are much lower.

Technological changes could result in cannibalization of services. An example is the decrease in consumption of the Group’s traditional fixed-line telephony services (for information about competition in the telephony segment by services provided on the Company’s voice over broadband (VoB) infrastructure, see section 2.6.3.1). The increase in cellular speeds allow cellular operators to compete with the Company's telephony and internet services, and to market larger bandwidths to their customers at lower prices. As at the reporting date, the Company estimates the increase in the number of customers using the cellular internet has not materially affected the volume of its internet operations. However, there is a real potential for growth in the use of cellular networks at the expense of use of the Company’s network, and it may increase as 5G technology becomes established (see section 3.1.5), since it will also be able to provide ultra-fast internet in the customer's home.

The Company also develops and provides wireless services for internet of things (IoT) solutions, including for businesses and smart facilities. See section 2.2.5.

2.1.5 Critical success factors and changes in the operating segment

2.1.5.1 The ability to offer reliable communications systems at a competitive price based on a cost structure suited to the frequent changes in the Company's business environment

2.1.5.2 Regulatory decisions and the ability to address with them

2.1.5.3 The ability to maintain innovation and technology leadership and translate this into advanced and reliable applications with customer value at short response times, and marketing leadership

2.1.5.4 Preservation of brand values and their adaptation to the changing competitive environment

2.1.5.5 Effectiveness of the sales and service systems

2.1.5.6 Managing an informed price policy, subject to regulatory restrictions

2.1.6 Main entry and exit barriers and changes in the operating segment

Licenses are required for operation in the domestic fixed-line communications segment. For information about the change in regulation and the transition to communication services through registration in the registry only see section 1.7.4.

Traditionally, the main entry barrier to this segment is the need for heavy investments in technological infrastructure and in related systems until achieving economies of scale, and from the high costs involving the establishment of marketing, sales, collection, and customer support systems and the building of a brand. Over the years, these traditional barriers to the Company's operating segments have lessened considerably due to the following: technological improvements, lower infrastructure and equipment prices, the change in regulation (see sections 2.7.2 and 2.16.5), regulatory exemptions for new competitors, the mandatory obligation to allow the use of the infrastructure and services of the Company (and of HOT), including in the wholesale market, and the use of VoB-based technology, which allows telephony services on the broadband infrastructure of another operator without the need for independent fixed-line telephony infrastructure.

The main exit barriers are due to the Company’s commitment, which is set out in its license, to provide its services universally (to the general public in Israel, other than fiber as set out in section 2.16.5), the requirements in the Communications Order, the regulations related to the Communications Law, and the provisions under Section 13A of the Communications Law regarding emergency operation; the Company’s commitment to its employees who are employed under collective agreements; the heavy investments that achieve a return in the long term; and the commitment to repayment of long-term loans taken to finance the investments. Some of these exit barriers are unique to the Company and are not relevant to other operators in the segment.

2.1.7 Substitutes for and changes in the products in the segment

Cellular communications services are a substitute product for the Company's services, in the telephony segment, including through applications and IP technology such as VoB (see section 2.6.2) and in the internet (see sections 2.6.3.1), data and communications and transmission segment. Technological developments (such as 4G and 5G in cellular, infrastructure based on fiber optics, millimeter waves, and advanced cable internet protocols) allow new services at high speeds and competitive prices.

2.1.8 Structure of and changes in competition

Domestic fixed-line telephony is regulated and overseen by the Ministry of Communications, among other things, by allowing telecommunication service providers to register as authorized providers operating in compliance with the permit regulations, and by granting licenses where required to entities operating in the sector.

Two license holders for fixed-line domestic communication services in the communications market are required to provide service to all, with nationwide deployment and a universal service (except for the fiber network, for which the Company is required to provide service according to the selected areas – see section 2.7.2.3): the Company and HOT Telecom. IBC is also obligated to deployment, such that five years after March 7, 2021, 1.7 million households in Israel will have access to the network.[13] These three companies compete with each other (for information about Cellcom and HOT joining IBC, see section 2.6.2.1). However, they are allowed to make mutual use of each other’s physical infrastructures (except for the infrastructure owned by IEC, which is required for critical services) and the infrastructures of another licensed provider, so that there can in fact be competition through the physical infrastructures of another licensed provider, and in practice, at present, mainly on the Company’s infrastructures (for further information see section 2.16.4.4).

Cellcom and Partner, which are holders of special domestic carrier licenses (that do not require universal deployment), are deploying an independent fiber network, including on the Company's physical infrastructure.

The high rates of penetration in the internet segment are attributed to the deployment of national access infrastructure. In this sector there have been substantial changes in the last two years: Starting in March 2021, the Company provides internet infrastructure service on

[13] The obligation to provide services to anyone in Israel requesting them also applies to general license holders that offer cellular services, e.g. Pelephone, Cellcom and Partner, and in the international telephony services segment, such as Bezeq International.

an advanced network – the fiber network it deploys; starting in April 2022, the Company is also a player in the end-to-end internet service, which includes both infrastructure (fiber or copper) and access service, and it is not permitted to market bundles with other ISPs; providers holding a special domestic carrier license for broadband infrastructure were permitted to deploy fixed-line infrastructure for internet services and to use the Company's passive infrastructure in the incentive areas for that purpose. After Amendment 76 came into effect, new providers became authorized providers registered in the registry.

The Company's main competitor for services provided on a traditional (copper) network is HOT. HOT received permission to provide end-to-end service in August 2022. The Company's main competitor for services provided on an advanced fiber network is IBC (which is also held by HOT and Cellcom); the Company’s main competitors for fiber internet services for the competitors’ subscribers are Partner and Cellcom. The Company is also exposed to competition from the cellular networks (see section 2.1.4).

Internet services providers (ISP) became competitors of the Company after implementation of the wholesale market in 2015, as they provide a bundle that includes broadband internet access infrastructure through the Company's infrastructure that they use for the wholesale services. From mid-2021, they are also able do so on the Company's fiber network.

There is competition in the fixed-line telephony segment, and the Company’s competitors, some as part of communication groups, (see section 1.7.1) are the cellular companies (see section 2.6.3.2), HOT Telecom, and VoB service providers, which have been operating under licenses for several years with no obligation to provide universal services, and without their own independent access infrastructure. For information about wholesale telephony services see section 2.16.4.

In the wholesale services segment, HOT and IBC compete with the Company as owner of infrastructure required to provide wholesale services. In practice, wholesale BSA services on the HOT network were launched in the second half of 2018 (see also section 2.16.4). The entity deploying in the incentive area (a domestic carrier with a license or administrative order is required to deploy in an area in which it won a tender) is also required to provide a BSA wholesale service to other authorized providers in the same incentive area.

In the transmission and data communications segment, the Company competes mainly with HOT Telecom, Cellcom, and Partner, which operate as communications groups and provide a comprehensive communications solution to customers.

Competition in the industry depends on a number of factors, such as regulatory decisions, possible changes in the terms of the licenses of the Company and the subsidiaries, the Permit Regulations or administrative directives applicable to their competitors, mergers and joint ventures between companies that compete with the Group companies, the possible repercussions of the Market Concentration Law, further development of the wholesale market, the lack of symmetry between the ability of the Company and the competitors to provide comprehensive service packages, the new services that the Company will be permitted to provide, the price policy or intervention in prices, cancellation of the structural separation, the extent of flexibility granted to the Company when offering service bundles that are not unbundleable, including with subsidiaries, and technological developments.

For a description of the development of competition, see sections 1.7 and 2.6.

2.2 Products and services

2.2.1 General

The Company provides a wide range of communications services to its business and private customers, as described below.

2.2.2 Telephony

The Company's telephony services include mainly the basic telephony services on the household telephone line, and associated services such as voice mail and caller ID.

The Company also provides its customers with national numbering services for businesses (1-700, 1-800), for full or partial payment for the calls by the business.

The Company operates a consolidated telephone directory[14] on a code (1344) determined by the Ministry of Communications for fixed-line and cellular telephony operators, as well as a consolidated website which is free of charge, in addition to the Company's 144 service.

For information about resale service and wholesale telephony services see section 2.16.4.4.

2.2.3 Internet access infrastructure services and ISP

The Company provides broadband internet access services on copper infrastructure using xDSL technology on VBAND and on the fiber network in statistical areas subject to the milestones in its license. The Company's fiber infrastructure allows higher speed and accordingly, the average package speed is higher. In addition, from April 3, 2022, the Company markets and provides end-to-end internet services, infrastructure, and internet access (for information see section 1.7.5.1).

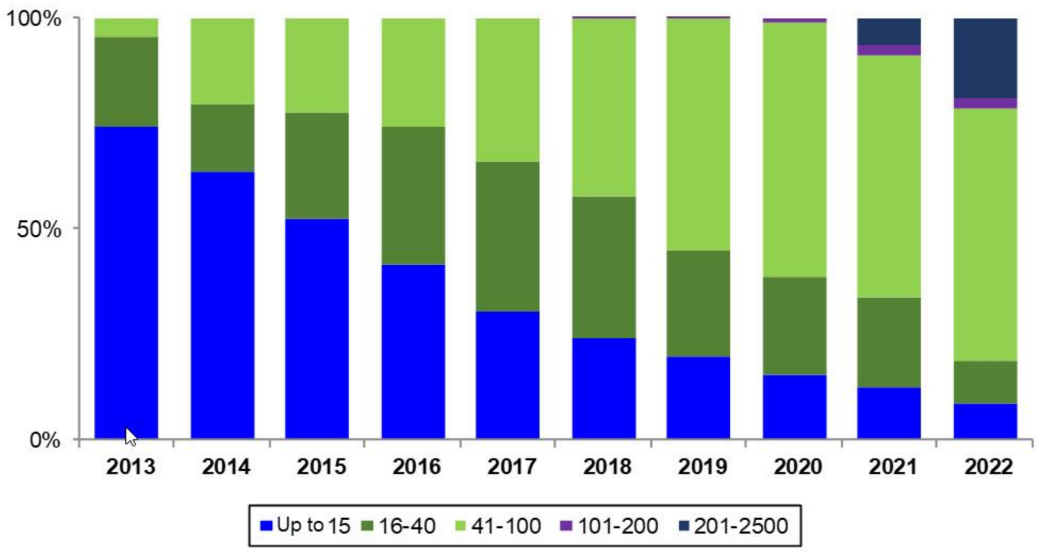
For information about changes in the number of the Company’s internet subscribers and monthly average revenue per internet subscriber and average package speed see section 1.5.4. For information about the Company’s market share in the segment see section 2.6.2.

ISP services is one of the Company's main occupations and a central channel for its investments in technology, marketing, advertising, and customer acquisition, and upgrades.

xDSL service is also provided on subscriber lines free of charge for the access line.

The Company is required to provide broadband internet access services (including on an advanced fiber network) in a wholesale BSA format to authorized providers that provide end-to-end internet service in this way to their customers, including infrastructure. For information about this service see also section 2.16.4. For information about the indefeasible right of use (IRU) for BSA fiber (wholesale market) provided by the Company to Partner, see section 2.6.2.1.

Graph – Changes in package speeds of the Company's internet subscribers in 2013-2022 (in Mbps at the end of each year)*:



* For packages with a range of speeds, the maximum speed in the package is taken into account.

2.2.4 Transmission and data communication services

Data communication services are network services for point-to-point data transmission, data transmission between computers and between various communications networks, services to connect communications networks to the internet, and remote access services.

14 "Consolidated" directory service is an information service containing data on the subscribers of all the operators. Fixed-line and cellular telephony operators are required, under the terms of their licenses, to provide consolidated information services. The operation is exempt from approval of a cartel, which is valid until November 5, 2023.

The Company offers transmission services, including at high speeds, to communication operators, international entities, and its business customers over a variety of interfaces (see section 2.6.4).

2.2.5 Cloud and digital services

This category includes, among others, virtual server services; cyber services; smart business and smart city services; private virtual PBX (IP Centrex) services; and B144 service, which is the Company’s advertising platform for digital advertising and marketing for small businesses, BCam, Wi-Fi, SMS and remote backup.

2.2.6 Other services

2.2.6.1 <u>Additional services to communications operators</u>

The Company provides services to other communications operators, including cellular operators, international call operators, ISPs, domestic carriers, and Palestinian communications providers.

The services provided by the Company include infrastructure services, connection to the Company's network, billing services, leasing of space, and services in leased premises.

For information about wholesale services to communications operators and the option of using the Company's physical infrastructure by infrastructure owners as well, see section 1.7.3. In this regard, it should be noted that starting from 2019, there has been a deterioration in the payment ethics of communications operators, deferment of payments, and an increase in the volume of disputed claims. This situation, alongside erosion of the financial robustness of various operators, increases the risk of the need to recognize doubtful and bad debts. However, as at this date, this deterioration does not have a material effect on the Company.

On April 27, 2020, the Company informed the Ministry of Communications, through its attorneys, that it did not intend to allow the continued provision of wholesale services to service providers that do not pay for these services. Following the assessment of the Ministry of Communications and a hearing it published on the subject, on March 25, 2021, the Ministry decided to establish a procedure for addressing the issue, which established, among other things, that the team addressing complaints at the Ministry of Communications can recommend that the competent official in the Ministry may decide that the Ministry will not prevent the relevant license holders from taking steps, such as discontinuing the provision of service and not connecting new subscribers, depending on the circumstances and severity of the case. However, the Company still has operator obligations. As the requirement to provide wholesale services to authorized suppliers grows, including use of the Company's infrastructure (see section 1.7.4 for information about the hearing as well), there may be a deterioration in this matter.

2.2.6.2 <u>Broadcasting services</u>

The Company operates and maintains radio transmitters, among other things, for Israel Broadcasting Corporation, Israel Army Radio (Galei Zahal), and the transmitters of several regional radio stations. The Company also operates the DTT transmitters for the Second Authority. The Company is responsible only for operating and maintaining the transmitters for broadcasting of radio and television contents, and not for the content of the broadcasts. For further information see also section 2.15.

2.2.6.3 <u>Contract works</u>

The Company sets up and operates networks or subnetworks for various customers (such as the Ministry of Defense, HOT Telecom, radio and television broadcasting companies, cellular operators, international call operators, local authorities, municipalities, and government bodies).

2.2.6.4 License to supply power

On September 1, 2021, the Company received a license from the Israel Electricity Authority to supply power without means of generation. The Company provides service to a few customers under the terms of the license.

2.2.7 Sale of terminal equipment and devices

From 2019, the Company sells smartphones (in addition to the other terminal equipment that it sells). The Company expanded the range of terminal equipment and other devices.

2.3 Breakdown of product and service revenues

The following table shows the distribution of the Company's revenues by main products and services in its segment of operation, 2020-2022 (in NIS millions):

	2022	2021	2020
Revenues from internet services	1,789	1,624	1,622
Percentage of total fixed-line revenues	41.55%	38.83%	39.0%
Revenue from fixed-line telephony	780	913	1,008
Percentage of total fixed-line revenues	18.11%	21.83%	24.24%
Revenue from transmission and data communication services	1,132	1,087	1,011
Percentage of total fixed-line revenues	26.29%	26.0%	24.31%
Revenue from cloud and digital services	331	318	288
Percentage of total fixed-line revenues	7.69%	7.6%	6.92%
Revenue from other services and terminal equipment sales	274	240	230
Percentage of total fixed-line revenues	6.36%	5.74%	5.53%
Total revenues from domestic fixed-line communications	**4,306**	**4,182**	**4,159**

2.4 Customers

The Company is not dependent on a single customer, and there is no customer that accounts for 10% or more of the Company's total revenue. The Company’s revenues are divided into two main customer types: Private (50%) and business (50%)[15]: The distribution is by revenue, as shows in the following table (in NIS millions):

	2022	2021	2020
Revenue from private customers	2,099	2,071	2,033
Revenue from business customers	2,207	2,111	2,126
Total revenue	4,306	4,182	4,159

2.5 Marketing, distribution and service

The Company has marketing, sales, and service systems for its business and private customers, which include customer managers for the business sector, combined sales and service centers around the country, technical support centers for private and business customers, several points of sale and service (Bezeq Stores) at various locations, and a virtual online shop.

The Company markets its services mainly through mass media advertising, telesales centers, customer managers, and an array of independent dealers that include outsourcing sales centers. The Company also has independent service and sales channels on its website, a dedicated application (My Bezeq), and interactive voice response (IVR).

In addition, the ISPs provide end-to-end ISP service based on the Company's wholesale BSA service, and from April 3, 2022, they will no longer be able to market the Company's internet infrastructure to private customers in a bundle outside the wholesale market.

[15] Including revenue from the service providers in the wholesale service.

2.6 Competition

The following is a description of the development of competition in the domestic fixed-line communications segment:

2.6.1 Wholesale market (see also section 2.16.4)

The wholesale market allows communications providers to compete with the Company while using its services and physical infrastructure, at controlled maximum prices that are not set by the Company. It also allows them to offer their subscribers, among other things, broadband services.

To the best of the Company's knowledge, the number of wholesale subscribers on the HOT network is small (see section 2.16.4).

2.6.2 The internet segment

The Company believes that at the end of 2022, its market share in the internet infrastructure market (retail and wholesale customers) was 55% (compared with 57% at the end of 2021). The Company also estimates that its market share in terms of retail customers at the end of 2022 was 38%.[16] In addition, customers of the Company's end-to-end ISP service represent 47% of its retail customers as at the end of 2022.

Starting in March 2021, the Company markets internet infrastructure service to customers on an advanced network – the fiber network that it deploys, competing with Partner, which deploys an independent fiber network, Cellcom, and HOT. Authorized providers are also permitted to deploy broadband internet infrastructure, including by using the Company's passive infrastructure, and to provide services through it.

From April 2022, the Company is also a player in the end-to-end ISP service market, which includes both infrastructure (fiber or copper) and access service. The Company is permitted to continue to provide infrastructure service only (without access service) to existing customers of this service, but it is not permitted to market the infrastructure service in a bundle with other ISPs. In this area, the competition is with holders of licenses for the service and authorized providers.

2.6.2.1 <u>Internet infrastructure segment</u>

There is intense competition in this segment, as set out below:

<u>Competition from HOT Group</u>

HOT has internet infrastructure that traditionally is deployed nationwide, through which a range of communication services can be provided. On July 28, 2019, the Minister of Communications adopted the recommendations of the advisory committee and approved the provisions of services by HOT in areas without infrastructure based on a technology neutral format, meaning, without being required to deploy physical infrastructure, but it will be permitted to make immediate use of any cellular network to provide its services at download speeds of 12/30 Mbps and to provide television service through the Company's services. The adopted recommendations also set milestones for upgrading the network for the alternative cellular network, minimum service quality, and reporting obligations.

The HOT network is currently the main alternative to competition with the Company's infrastructure in the private sector in everything related to traditional networks. HOT was compelled to provide wholesale services, including BSA services, and to the best of the Company's knowledge, it started marketing wholesale BSA services on its network in mid-2018.

In 2021, HOT announced the launch of its new fiber network. HOT and Cellcom have holdings in IBC (see this section below).

[16] The Company's assessment of its market share in internet infrastructure services at the end of 2022 is based on the number of customers that use services on the Company's infrastructure (retail and wholesale) and on publications regarding the number of Partner and Cellcom subscribers. It should be noted that HOT and smaller companies operating in the market are not reporting entities and their information is not public. Accordingly, it is difficult to provide accurate information about the market shares and these are estimates only.

Competition from IBC

IBC's license permits services mainly to license holders. IBC is also obligated to deploy its services, such that five years after March 7, 2021, 1.7 million households in Israel will have access to the network. IBC is held by the Israel Electric Corporation (30%) and by HOT, Cellcom and the Israel Infrastructure Fund (IIF), 23.3% each. In this context, to the best of the Company's knowledge, Cellcom sold its fiber optic infrastructure to IBC, an agreement was signed for the investment of HOT in IBC, and an IRU agreement was signed, under which HOT will acquire a right of use for infrastructure to be established by IBC. Additionally, the Ministry of Communications amended the HOT license, permitting, among other things, subject to conditions, marketing of a joint service bundle on the IBC network, as well as an amendment to the IBC license that requires it to submit to the Ministry for approval a shelf offering for the purchase of fiber infrastructure service (in an IRU format) at a reduced rate. IBC is the main competitor for fiber infrastructure service to service providers.

Regarding Cellcom – In March 2023, Cellcom reported that an agreement with IBC (which has not yet been signed) is being formulated, according to which Cellcom undertakes to increase its commitment to purchase infrastructure lines from IBC in the IRU agreement to 12.5% and then to 15% of connected customer households. Cellcom further reported that against IBC's undertaking to expand the deployment of infrastructure beyond the commitment under its license, Cellcom undertakes to purchase IRU services exclusively from IBC for at least three years under certain conditions.

Competition from Partner

The Partner communications group provides internet services on its independent fiber infrastructure and uses the Company's infrastructure in the wholesale market, and under the IRU agreement signed between the Company and Partner as set out below.

Competition from small providers

Under the decision of the Minister of Communications of October 13, 2020, holders of special licenses are permitted to deploy broadband infrastructure and provide services over this infrastructure (significantly reducing the threshold requirements for receiving a license to provide broadband infrastructure services). The special licenses were limited to up to 8,000 private subscribers or up to 800 network endpoints of business subscribers, or up to three years from the date of the decision, whichever comes first.[17] Under Amendment 76 to the Communications Law, which changed the regulation format, licensed providers are also permitted to deploy broadband infrastructure and provide services on it without a license, by registering in the registry and operating in accordance with the Permit Regulations. The regulations under Amendment 76 set a threshold above which a license will be required (see section 1.7.4). The providers are also authorized to use the Company's passive infrastructure in the incentive areas after complying with security instructions.

Agreement between the Company and Partner for the indefeasible right of use (IRU) for the BSA service

On December 21, 2022, the Company and Partner signed a long-term agreement for Bezeq to provide Partner with indefeasible right of use (IRU) for BSA fiber (wholesale market). Under the agreement, Partner was granted the non-transferable and irrevocable independent right of use to provide service to its customers on 120 thousand fiber cables of the Company at a download speed of 1 Gbps per cable, for 15 years starting on January 1, 2023 (the right of use of the cables will start in gradual batches over a period of up to five years). The consideration for the service, which includes one-time payments and annual payments, is expected to reach a total amount of NIS 1 billion (NIS 574 million for one-time payments, annual maintenance fees of 4% of the one-time payments

[17] These restrictions were lifted under Amendment 76 to the Communications Law and the holders of the special licenses became licensed providers operating under the Permit Regulations.

for the cables for which the right of use will be granted up to that year, plus interest and/or linkage differences under the terms of the agreement); most of the consideration is expected to be paid in the first nine years of the agreement. The agreement includes an option to increase the number of cables by another 48 thousand cables under the same terms, to upgrade speeds, and to extend the IRU period for two option periods of five years each, at a lower cable cost than in the first agreement period. Increasing the scope of the agreement will result in a corresponding increase in the total financial scope of the agreement. The agreement also includes a price protection mechanism for Partner that weights the regulatory price of the cable, starting from the sixth year of the agreement. The agreement is expected to increase the usability and utilization of the Company's fiber network, its revenues and profits, and its free cash flow (mainly in the first nine years of the agreement) with a high level of certainty for future revenues from the cables in the wholesale market. At the same time, the agreement includes a discount on wholesale market rates for commitment to quantity and period of time.

On December 27, 2022, the Company received a letter from the Ministry of Communications according to which, after a preliminary assessment, it was found that the agreement raises concerns of competition, taking note that it corresponds with the characteristics of a single authorized provider (Partner), therefore cannot serve as a relevant off-the-shelf offer for other authorized providers in the wholesale market. Further to the letter, the Company held discussions with the Ministry of Communications with the aim of adjusting the agreement, and further to the discussions, the Company agrees to reduce the prices for the individual fiber lines under the BSA for all the suppliers (at a cumulative speed of up to 1.1 Gbps) to a monthly fee of NIS 72[18] (linked to the CPI under the standard mechanism for adjusting prices) plus VAT, such that after the reduction in the price, the Ministry will regard the agreement as an off-the-shelf offer for any interested party. On January 16, 2023, the Ministry informed the Company that, after taking into consideration the reduction in price, the Company's commitment to act equitably and without discrimination, as well as the Company's presentation of the agreement as an alternative that is available to all, it is satisfied that the agreement does not generate concern of significant harm to competition. Accordingly, the Ministry does not object to the agreement.

It should be noted that in view of the number of fiber lines under the BSA, which is currently tens of thousands, the reduction in the prices of individual fiber lines does not have a material effect on the Company's business results, and it does not change its assessment regarding the benefits of the Agreement for the Company, as set out in above.

Some of the information in this section is forward-looking information as defined in the Israel Securities Law, based on the Company's assessments, among other things, for the structure of competition and regulation in the communications market, the behavior of communications operators and consumers, and for how Partner chooses to take advantage of the right to use the cables in the different areas (differentiating between areas where only the Company's fiber network is deployed and areas where other fiber infrastructure is deployed as well as that of the Company). Actual estimates and results may be different depending on the changing variables set out above.

2.6.2.2 Internet service segment

Multiple operators in end-to-end service

The competition for providing end-to-end ISP service has increased in the last year, after the Company, followed by HOT, were permitted to provide end-to-end ISP service (see section 1.7.5.1); holders of special licenses were permitted to deploy broadband infrastructure and provide services on it, authorized providers without a license were also permitted to do so, and some were permitted to use

[18] It should be noted that as at the reporting date, the price in the regulations for an individual fiber line at a cumulative speed of up to 550 Mbps and the price of an individual fiber line at a cumulative speed of over 550 Mbps up to 1,100 Mbps is NIS 76.5 and NIS 85.2, respectively, plus VAT.

the Company's infrastructure and wholesale services for this purpose. In addition, in the incentive areas, the companies that were awarded the tenders and other providers are permitted to provide service on an advanced network, while the Group is prohibited from doing so for five years from the date of the requirement to deploy in the license of the company that was awarded the tender or by administrative order. For further information see also sections 2.16.4 and 2.16.5.

Partner and Cellcom launched and began marketing fiber internet several years before the Company, giving them an advantage over the Company. The Company started marketing fiber service in March 2021 (and the end-to-end service from April 2022).

Starting in 2015, the wholesale market allows internet providers and related companies to offer service packages for customers that include internet infrastructure based on the Company's infrastructure and the Company’s services for payment (the Company's maximum rates are controlled).

The service providers are permitted to provide BSA service on the Company's fiber infrastructure as well in return for payment (the Company's maximum rates in this segment are also controlled). It should be noted that a provider deploying infrastructure in an incentive area (where the license or the administrative order given to the domestic carrier includes a requirement to deploy an advanced network under Section 14D(f) of the Communications Law) is required to provide BSA service over fiber in the incentive areas.

The cellular companies have deepened their internet operations on the cellular range, both in the private sector and in the business sector. Browsing services are provided both from the cellular device and through a cellular modem that connects to laptop and desktop computers.

2.6.3 Telephony

In the private fixed-line telephony segment, there is a decrease in the rate of ownership of fixed telephone lines and a gradual decline in the number of calls originating from fixed-line networks (see section 2.1.3.2). The Company estimates that in 2022, erosion in the telephony market continued at the same rate as in 2021 and at a higher rate than in earlier years. For further information see also section 2.3. The Company estimates that at the end of 2022, its market share in the fixed-line telephony market was 53% of the private sector and 69% of the business sector, a decrease of 1% in both markets compared with 2021[19].

2.6.3.1 Competition from other domestic carrier license-holders

The Company and HOT Group have a nationally deployed fixed-line telephony infrastructure, and the competition between them is reflected, among other things, by HOT Group marketing the Triple (combining internet infrastructure, telephony, and cable television), and possibly cellular services as well, mainly to households. HOT Group also markets telephony services to business customers.

The Company also has competition from license holders for domestic fixed-line communication services, including VoB (see section 2.1.8), which provide the service (including through the Triple), among others, on the Company's broadband access service, including the wholesale BSA service.

Since July 2017, the Company provides telephony services on its network in a resale format to license holders that are permitted to provide domestic carrier services. At the reporting date there is no demand for the service. For information about wholesale telephony services see section 2.16.4.

2.6.3.2 Competition in telephony from the cellular companies

The Company believes that the high penetration rate of cellular telephones combined with low airtime rates on an international scale and packages that include call minutes with no effective limit at fixed monthly prices have made the cellular telephone a substitute product for the fixed-line telephone. The Company

[19] These market shares are in terms of lines and based on the Company’s assessment. It should be noted that HOT is not a reporting entity and its information is not public. Therefore, it is difficult to provide accurate information about the market shares and the above is based on estimates only.

believes that the increasing replacement of fixed lines with cellular lines is one of the reasons for the reduction in the average traffic per line and of the growing removal rate of telephone lines (see section 2.1.3).

In the cellular telephony sector, the trend has been switching to using applications that allow making calls and sending messages over the internet.

Partner and Cellcom also provide domestic fixed-line services through companies they own, and they sell service bundles that combine fixed-line and cellular telephony and internet services

2.6.4 Transmission and data communications

In this segment, competition is intensifying. In addition to the Company, other companies operating in this segment are mainly Cellcom, Partner, and HOT, as well as ISP companies. operate in the field.

To the best of the Company's knowledge, Cellcom has deployed and set up a transmission network that it uses for its own needs and to compete with the Company's services in the transmission and data communications market. Partner also operates in the integrated transmission and data communication segment integrating telephony and internet for business customers (for information about the sale of Cellcom's network to IBC, see section 2.6.2.1).

Cellcom and Partner use the Company’s physical infrastructures as part of the wholesale service (see section 2.16.4.3)[20], among other things, to compete with the Company in this segment.

IBC and HOT, which own infrastructure (deployed nationwide, but not fully), also operate in the segment. These infrastructure owners are permitted to use the Company’s physical infrastructure. For further information see sections 2.16.4.3 and 2.6.5.

IBC is permitted to provide VPN transmission services and broadband data communication lines.

2.6.5 Other competing infrastructures[21]

In addition, there are currently a number of infrastructures in Israel with the potential to serve as communications infrastructure, which are based on fiber optics and are mostly owned by government companies and entities, such as Israel Railways, Mekorot Israel National Water Co., Petroleum & Energy Infrastructures Ltd., and Trans Israel Ltd. Some local authorities are also attempting to create an alternative to installation of pipes or fibers by deploying their own infrastructures. Under Amendment 76 to the Communications Law, a local authority, including a municipal company and a municipal subsidiary, requires a license for a service it seeks to provide in any case (but does not require registration in the registry). It should be noted that the Amendment to the Telecommunications Law regarding fiber deployment and the Ministry's decision that permits deployment of infrastructure by authorized providers may accelerate deployment by these entities.

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

The Company addresses competition in domestic fixed-line telecommunication services in several ways:

2.6.6.1 The Company launches new communications services, value added applications (such as smart business, smart facilities, and integration services), bundles of products and services, and joint bundles (that correspond to some of those offered by its competitors, although under an unbundling restriction, see section 1.7.3) to broaden the scope of use of subscriber lines, respond to customer needs, and reinforce its technological innovation image. The Company invests in enhancement and modernization of its infrastructure so as to enable it to provide advanced services and products for its subscribers.

[20] Holders of end-to-end internet service licenses that are entitled to provide domestic fixed-line services may also receive wholesale service for use of the Company’s physical infrastructures.

[21] Migration to HOT and IBC infrastructure.

2.6.6.2 The Company is taking steps to introduce high-speed internet infrastructure service and increase the number of its customers for the service (see also sections 2.2.3 and 2.7.2). In March 2021, the Company launched the fiber service on an advanced network deployed in the statistical areas (see sections 2.7.2.2 and 2.16.5). The Company also has a VBAND broadband wireless service.

2.6.6.3 The Company works constantly to improve the quality of its services and to maintain its customers, as well as to simplify and automate processes, and to adapt its operations to the structure of competition in its operating segments.

2.6.6.4 The Company offers packages to telephony customers, consumption-adapted tracks, and special offers.

2.6.6.5 The Company is acting to reduce its operating expenses and is focusing on investing in growth operations as a means of decreasing maintenance expenses. Nevertheless, the Company's ability to adjust its expenses in the short and medium term is limited due to the structure of its costs, which are mainly rigid in the short and medium term (in particular depreciation expenses and expenses related to salaries and salary incidentals, as well as operating costs such as infrastructure maintenance and building leasing and maintenance).

2.6.6.6 In 2018, the Company started marketing its Be router. This is an advanced router with an innovative design and cutting-edge capabilities including smart Wi-Fi which provides high-quality, continuous browsing on the home network and cyber protection. The router and services are managed by a dedicated application As at the end of 2022, 764 thousand Company customers use the Be router (74% of the Company’s retail internet customers). In addition, the Company markets products such as Be Spot and Be Mesh to extend the range of home internet networks, selling 416 thousand units as at the end of 2022. With the introduction of internet services on fiber, a router and a product to improve reception range that are compatible with the fiber network at ultra-fast speeds have been launched.

2.6.7 Positive and negative factors that affect the Company’s competitive status.

2.6.7.1 Positive factors

A. Nationally deployed, quality infrastructure through which a range of services are provided.

B. Presence in most businesses and households.

C. Strong and familiar brand.

D. Technological innovation.

E. High positive cash flow, financial robustness, and access to financing sources.

F. Broad service infrastructure and varied customer interfaces.

G. Professional, experienced and skilled human resources.

2.6.7.2 Negative factors

The Company believes that various restrictions imposed upon it by existing regulation impede its ability to compete in its operating segments. The main restrictions in this context are the following:

A. Wholesale market (see also section 2.16.4)

Wholesale market – Operation of the wholesale market at controlled prices, arrangements subject to the intervention of the regulator, implementation of a control mechanism over the Company's wholesale services offers, expansion of use and of those permitted to use the Company's infrastructure.

B. Absence of rate flexibility

C. The Company is limited in its ability to grant discounts on its main services and to offer differential rates.

D. Structural separation

For information about the structural separation obligation applicable to the Company see section 1.7.3.

E. Universal service and fiber deployment obligation

The Company operates under an obligation to provide service to the entire public in Israel at a uniform price (universal service), except in relation to an advanced network (fiber) for private customers. Due to this obligation, the Company is required to provide services also in circumstances that are not financially viable (subject to the possibility of obtaining an exemption in extraordinary circumstances). For information about the scope of the obligation to provide services on an ultra-wide bandwidth fiber network, see section 2.16.5. This obligation is not imposed on other authorized providers of fixed-line services (with the exception of HOT; for information about HOT and IBC see section 2.6.2.1), which are permitted to offer their services only to profitable customers, which are a material source of the Company's income. These companies have deployed and are rapidly deploying fiber in economically viable areas. In addition, HOT, which is required to provide a universal service, received various exemptions for the requirement for full deployment, and the Company is required to allow HOT and IBC to use its passive infrastructure (see section 2.16.4).

F. Restrictions in marketing joint service bundles of the Company and other Group Companies - See section 1.7.3.2.

G. Characteristics of fixed-line telephony terminal equipment

Fixed-line terminal equipment does not have personal characteristics and is technologically less advanced than cellular terminal equipment, and the supply of advanced services that can be consumed with it is limited.

2.7 Property, plant, and equipment

2.7.1 General

The Company's fixed assets include mainly domestic communications infrastructure, real estate assets (land and buildings), computer systems, vehicles, and office equipment.

2.7.2 Infrastructure and domestic fixed-line communications equipment

2.7.2.1 <u>Telephony network</u>

The Company's telephony network consists of exchanges (meaning call switching and transferring them from the origin to the destination), a transmission network (through which the connection between the exchanges takes place), data communication networks, and an access network (connecting the network endpoint at the subscriber to the exchange). The infrastructure connects to terminal equipment installed at the subscriber. The connection from the terminal equipment to the access network is based on copper cables, and this copper network is the Company's access infrastructure for the telephony services (it should be noted that the copper cables are also part of the Company's internet network, as set out below). Subscribers are managed through a class 5 telephony switch. In 2020, the Company completed the replacement of its telephony switch with a new switch and all telephony customers were converted to this switch.

2.7.2.2 <u>Internet network</u>

The Company has a Next-Generation Network (NGN) based on a core IP network and deployment of an optical fiber network to street cabinets (network topology known as Fiber to the Curb, FTTC), and also based on an access network (a system that connects NEPs on the subscriber's premises to the network and engineering systems). The connection from the home to the access network is based on copper cables (as noted in the description of the telephony network above) and the connection from the access systems to the backbone is based mainly on optic cables. In addition, some of the peripheral equipment (equipment installed at the subscriber, such as routers) is owned by the Company and leased to the customer. In the NGN, bandwidths with download speeds of up to 100

Mbps can now be provided using VDSL2 technology and download speeds of up to 200 Mbps using B35 technology, depending on the quality of the copper infrastructure, as well as innovative value-added services. Other advantages of the new technology are simplification of the network structure and improved management ability.

2.7.2.3 <u>Ultra-wide bandwidth fiber infrastructure</u>

The Company operates in accordance with the plan for the deployment of ultra-broadband fixed-line infrastructure (the "Fiber Project"). The Fiber Project is a complex and resource-intensive project involving significant investments of billions of shekels by the Company over the years of its execution.

Accordingly, the Company began deploying optic fibers to buildings, including the deployment of GPON vertical equipment in buildings, and on March 14, 2021, it announced the rollout of services to its customers on its fiber optic network.

For information about the amendment to the Company's license and the Company's selection of the fiber network deployment areas, see section 2.16.5.

As at the publication date of the report, the Company completed physical deployment of the fiber network to 1.654 million households throughout the country that are available for commercial connection, of which 332 thousand subscribers were connected to the Company's fiber network (of which 235 thousand retail and 97 thousand wholesale).

2.7.2.4 <u>Call for public comments – shutting down copper networks</u>

On September 19, 2022, the Company received a call for public comments issued by the Ministry of Communications concerning the principles in its policy to shut down the copper networks, in which the Ministry reviews the key issues, challenges, and criteria involved in shutting down the copper networks and the transition to fiber-based networks. According to the call for public comments, there are a number of regulatory options that the Ministry of Communications can adopt with regard to shutting down the copper networks, including setting out an outline plan and milestones for implementing the shutting down of the copper networks, and it asked the public and all license holders to submit their responses and positions regarding the announcement (by November 24, 2022). The Company submitted its opinion, according to which due to the complexity of the matter, the treatment method and its stages for existing customers on copper infrastructure should be separated from customers in new neighborhoods and service areas, in a process starting with discontinuation of deployment of a new copper network and solutions for connecting new lines.

2.7.3 IT

The IT system in the Company supports four main areas: Marketing and customer management, engineering infrastructures of the telecommunication networks, Company resources management, and company-wide systems.

The Company has a large and complex IT system supporting critical work processes and handling very large volumes of data. This system consists of a large number of systems, some of which are information systems which started being developed many years ago, while others are modern and were developed and applied recently. Most of the systems operate in open computer environments.

2.7.4 Real estate

2.7.4.1 <u>General</u>

The Company has real estate assets from four sources: assets transferred to the Company by the state in 1984 under the assets transfer agreement (see section 2.17.2.1), assets in which the Company acquired rights subsequent to that date, assets leased from third parties, and assets for which the Company received a right of use, under the Communications Law and related regulations, to provide telecommunication services and/or for telecommunication operations, whether or not there is a written arrangement for rights. In addition, the Company has an interest (migration rights) in other real estate to provide telecommunication services (for example, to install cables).

The real estate assets are used by the Company for telecommunication services (such as exchanges, control rooms, and broadcasting sites) and for other operations (such as offices and storage areas). Some of the Company's owned or leased assets are assets with potential for betterment.

The following is a list of the Company's assets in accordance with the material rights on the asset. Furthermore, the Company has an interest (such as migration rights) in other real estate (such as for the construction of offices and laying cables):

Nature of the right	Number of assets	Plot area (thousands of sq. m.)	Built area (thousands of sq. m.)	Remarks
Ownership, lease or right of lease	298	825	81	Of this, 295 properties cover an area of 805 thousand sq. m. and 71 thousand sq. m. built up are for communication needs, and the remainder for administration needs.
Possession (authorized/ possession rights by law)	40	1.5	0.8	Assets in Israeli settlements in Judea and Samaria, all for communication requirements. There is no written regulation of the contractual rights for these properties, but the Company believes that this does not create material exposure.
Lease	332	31	64	Of which, 313 assets on a built up area of 17 thousand square meters are for communication requirements, and the remainder are for administration needs. Of which, 2 thousand square meters of a built up area are under a sublease.
Miscellaneous rights in 'residential rooms'	2,600	N/A	27 (based on estimate)	These are rooms for cables and installations for residential communications. For most of the assets, the rights are for use granted to the Company under the Communications Law and its regulations, and there is no written rights arrangement with the property owners. In the Company's estimation and based on past experience, this does not create material exposure.

2.7.4.2 Registration

As at the publication date of the Periodic Report, the Company's rights in some of its real estate assets are not registered in the Lands Registry, and therefore they fall within the definition of contractual rights. The Company is in the process of registering assets that can be registered in the Lands Registry in its name.

2.7.4.3 Real estate settlement agreement

On March 10, 2004, the settlement agreement signed on May 15, 2003 between the Company, Israel Land Authority (ILA), and the state (the “Settlement Agreement") was certified as a judgment. The agreement refers to most of the real estate assets transferred to the Company under the asset transfer agreement signed for commencement of the Company's business operations. According to the Settlement Agreement, the properties remaining in the Company's possession have the status of capitalized lease, and subject to signing individual lease contacts, the Company will be entitled to make any transaction in the properties and to enhance them. The Settlement Agreement sets out a mechanism for payment to the ILA for betterment of the properties (if any) in addition to the rights under plans approved before 1993, as set out in the Settlement Agreement, at the rate of 51% of property appreciation after betterment (if the Company also pays betterment tax, it will be entitled to a refund from the ILA for half of the payment paid to the ILA for the appreciation or the betterment tax, whichever is lower). The Settlement Agreement also states that 17 properties must be returned to the State, through the ILA, on various dates (up to 2010), on the terms set out in the Settlement Agreement. As at publication date of the Periodic Report, the Company returned 15 properties to the ILA. Another property will be returned within a year and a half, and in the coming days, the Company will receive a substitute property in its place. The remaining property will be returned to the ILA after the Company receives a substitute property, as set out in the Settlement Agreement.

2.7.4.4 Sale of real estate

A. General

In accordance with the approval of the board of directors, the Company is continuing its measures to sell inactive properties or properties that are relatively easy to vacate without incurring any significant expenses, or for a consideration that justifies providing a worthy alternative, and in recent years, the Company has sold properties, recognizing capital gains for these sales, which in some years were material.

The Company completed the sale of most of the properties (in terms of value) that met this definition and also intends to complete the sale of the remaining properties of this type in the coming years. Selling the remaining properties is likely to generate additional capital gains for the Company in material amounts (although at a substantially lower amount than the capital gains recorded by the Company in recent years for the sale of these properties).

It should be emphasized that the above also refers to real estate assets for which a concrete decision to sell them has not yet been made and there can be no certainty regarding the timing of their sale or whether a decision will be made to sell them). Furthermore, the sale of some of the properties may involve difficulties, including a lack of demand or various planning restrictions.

In view of the above, it should be emphasized that the Company's estimates set out above are forward-looking information, as defined in the Israel Securities Law, and they may not materialize, or may materialize in a way that is significantly different than foreseen. These estimates are based, among other things, on the Company's estimates for the value of the real estate assets it owns in relation to their carrying amount, since the Company has no appraisals for some of the assets, or the appraisals in the Company's possession are out of date and the valuations are therefore based on the Company's internal estimates; and the Company is unable to predict the consideration that may actually be paid for any assets sold (if and when they are sold).

B. Property in Sakia

On January 21, 2018, the Company signed an agreement for the sale of a property near the Mesubim junction in which the Company has a capitalized lease right (the "Property"). On May 5, 2019, the transaction was finalized, and the total consideration received by the Company for the Property (including linkage differences and interest according to the provisions of the agreement) amounted to NIS 511 million, plus VAT.

On May 21, 2018, the Company received a demand from the ILA for permit fees of NIS 148 million plus VAT for a property betterment plan approved prior to signing the agreement (the "Betterment Plan"). The Company filed an objection to the demand on legal grounds. On January 20, 2019, the ILA dismissed all of the Company's claims on legal grounds; however, the parties are currently negotiating as part of the dispute settlement mechanism set out in the Settlement Agreement. In parallel, the Company filed an assessment appeal against the demand.

On August 5, 2018, the Company received a demand for payment from the local planning and building committee in Or Yehuda, for betterment tax in the amount of NIS 143.5 million for disposal of the Property by way of a sale (the "Demand for Betterment Tax"). On September 17, 2018, the Company filed an appeal on the Demand for Betterment Tax and sent the ILA a demand for payment of the full amount of the betterment tax according to the ILA's undertaking in the Settlement Agreement. On January 20, 2019, the ILA dismissed the Company's Demand for Betterment Tax. Upon conclusion of the sale transaction as set out above and receipt of the entire consideration, the Company paid half of the betterment tax in the amount of NIS 75 million, and it provided a bank guarantee for the other half of the tax, without this derogating from or prejudicing the steps taken or to be taken by the Company to cancel or reduce this tax.

On June 27, 2021, the Company filed a claim with the Tel Aviv District Court against the ILA for reimbursement of the full amount of NIS 217 million paid by the Company to the ILA as permit fees and betterment tax, and for the award of declaratory relief, according to which the ILA must pay the Company any amount that is forfeited, if forfeited, from a bank guarantee of NIS 75 million provided by the Company to the Or Yehuda Local Planning and Building Committee as collateral for the balance of the betterment levy. In the claim, the Company argued that it is not required to pay permit fees and betterment tax since, in accordance with the settlement agreement it signed with the ILA and the State of Israel, it was entitled to receive the lease contract for the property after betterment under the plan and without payment of permit fees to the ILA and that in accordance with the provisions of the settlement agreement, the ILA is liable for payment of the betterment tax.

On January 17, 2022, the ILA filed a statement of defense claiming that the claim should be dismissed for the following reasons: (1) payment of the permit fee, for which the Company demands a refund, was lawfully imposed on the Company, since the betterment plan deviated from the limited rights granted to the Company in the settlement agreement; (2) regarding the Company's claim to receive from the ILA the betterment tax paid by the Company to the local committee – the ILA's obligation in the settlement agreement to pay the betterment tax, on which the Company bases its claim, was for these limited rights, and today is not possible to calculate the part of the betterment levy applicable to the ILA for the limited rights granted to the Company compared with the betterment tax applicable to the Company for deviation from the limited rights in the betterment plan.

It should be noted that the amount of the permit fees to be imposed on the Company at the end of the proceedings could also affect the amount of the betterment tax that the Company will be required to pay. The Company believes that the amount of the permit fee and the betterment tax that it will be required to pay is expected to be significantly lower than the total amount of the demands. Accordingly, the Company recorded a capital gain of NIS 403 million in its financial statements for the second quarter of 2019. If the Company's estimates do not materialize, the final capital gain will be between NIS 250 million and NIS 450 million. For further information see also Note 6.6 to the 2022 Financial Statements.

On January 1, 2023, the interim decision of the appeals committee dismissed the Company's claim that when the betterment plan was approved it did not have rights for which it could be charged the betterment tax. The Company appealed this decision at the district court. Following the interim decision, the appeals committee will discuss the Company's claims regarding the betterment amount. It should be clarified that the interim decision does not change the Company's estimates for the amount of the capital gain that was recorded, since the Company's estimates were also based on the legal situation in the claim against the ILA, which includes the ILA's obligation in the settlement agreement to bear the betterment tax for the property .

The information in this section about the Company's estimates and the capital gains arising from the sale of the property is forward-looking information, as defined in the Israel Securities Law, and it is based, among other things, on the foregoing and the Company's estimates regarding its claims relating to payment of the demands. The information may not fully materialize if the Company's aforementioned estimates materialize in a way that is different than expected.

2.8 Intangible assets

2.8.1 The Company's licenses

|The Company operates under its domestic carrier license, which forms the basis for its domestic fixed-line communications operations (for a description of the main points of the license, see section 2.16.2). The Company also has a general domestic carrier license for the Judea and Samaria region (see section 2.16.2.9).

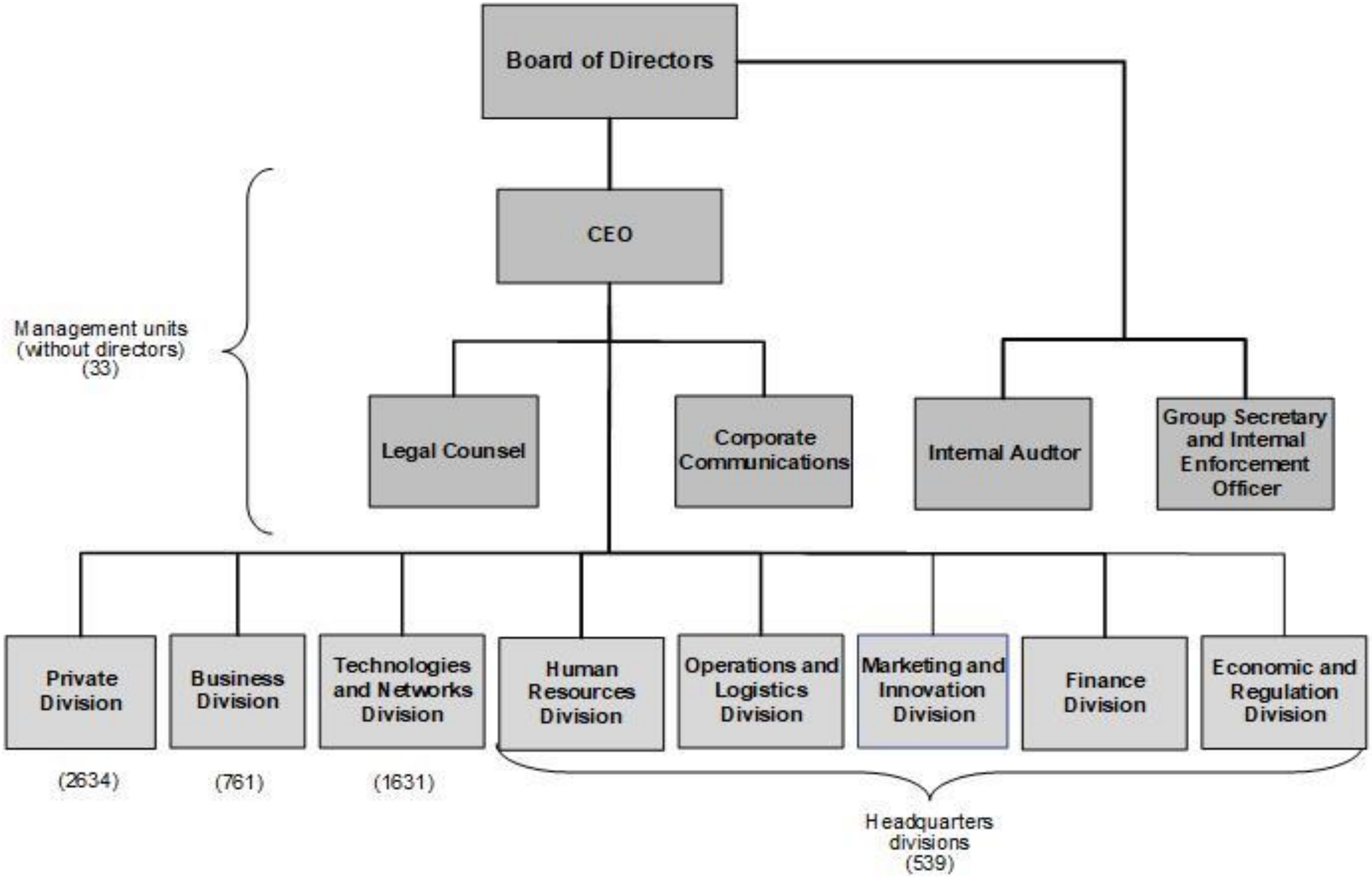
2.8.2 Trademarks

The Company uses trademarks that characterize its services and products. As at the publication date of this Periodic Report, there are 160 trademarks registered or in the process of being registered in the Company's name as well as three samples. The main trademarks of the Company are "Bezeq" – the name of the Company, and "B" – the Company's logo.

2.9 Human resources

2.9.1 Organizational structure and headcount according to the organizational structure

Below is a chart of the Company's general organizational structure as at December 31, 2022:



2.9.2 Number of Company employees and employment frameworks

As at December 31, 2022, the Company has 5,598 employees (compared with 5,475 at the end of 2021). 93% of the Company's employees are employed under a collective agreement (of which 56% are permanent employees and the remainder are not permanent). The remainder of the Company's employees (7%) are employed under personal agreements, not under collective agreements.

For information about the special collective agreement of December 2006 and its amendments see section 2.9.4.

2.9.3 Early retirement plans

In 2022, 74 permanent employees retired from the Company under the early retirement plan.

On December 28, 2022, the Company's board of directors approved, as part of the implementation of the efficiency plan and in accordance with the collective agreement in the Company, the retirement of 80 long-term permanent employees in 2023 in an early retirement track at a total cost of NIS 95 million. Accordingly, the Company recorded a corresponding expense in its financial statements for the fourth quarter of 2022.

For further information see also Note 16.5 to the 2022 Financial Statements.

2.9.4 Nature of employment agreements in the Company

Labor relations in the Company are regulated in collective agreements between the Company, the representatives of Company employees and the Histadrut New Federation of Labor, and in personal agreements. Company employees are also subject to expansion orders to certain general collective agreements such as cost-of-living increment agreements.

Below are the main points of the special collective agreement between the Company and the employees union and the Histadrut New Federation of Labor of 2006 and the amendments that were signed over the years (jointly in this section: the "Agreement"), which regulates labor relations in the Company:

Under the Agreement, all the agreements, arrangements, and conduct in the Company before signing the Agreement, including the mechanism for linkage of salaries to the public sector, will continue to apply only to the long-standing permanent employees of the Company, to which the Agreement applies, subject to explicit changes added to the Agreement. Existing and future temporary employees will be employed on the basis of monthly/hourly salary agreements based on a market salary model according to occupation, with high management flexibility. The Agreement sets out restrictions on certain types of future organizational changes, and a mechanism of notification, negotiation, and arbitration with the employees union in the event of organizational changes.

Under the Agreement, during the term of the Agreement, two employee-directors[22] who are proposed by the employees union will serve on the Company's board of directors (subject to their approval by the board of directors and their election by the general meeting). The employee-directors are not entitled to payment for their service as directors, and will not participate in board meetings on the terms of employment of senior employees.

The Agreement also defines a "new permanent employee", whose employment terms are different from those of a long-standing permanent employee of the Company (under the collective agreement): the salary model is based on the Company's salary policy and is compatible with market salaries and at the end of employment in the Company, the employee is entitled to increased severance pay only (depending on the number of years of employment).

The Agreement is valid until December 31, 2025 and the term of the retirement arrangement in the collective agreement is until December 31, 2026.

Under the retirement arrangements (as at the publication date of the report and in accordance with the last amendment of December 16, 2020 of the collective agreement), the Company may, at its discretion, terminate the employment of up to 80 permanent employees (including "new permanent employees") each year (in addition to the retirement quota of 300

[22] At the beginning of 2016, the employees union announced that it agrees that if up to 15 directors serve on the board of directors, one representative among the employees will also serve on the board of directors and if there are more than 15 directors, an additional representative among the employees will serve on the board of directors.

permanent employees, which has not been exercised under the agreement, whose employment may be terminated by the Company at the end of the term of the agreement).

For information about other material agreements related to labor relations see section 2.17.3.

2.9.5 Officers and senior management in the Company

On publication date of the Periodic Report, nine directors serve in the Company (according to a composition of nine directors decided on by the board of directors), of which three are external directors, one is an independent director (who is not external directors), and five are not independent directors (including one employee-director). In addition, 11 senior management members also serve in the Company.

As from June 19, 2022, Ran Guron serves as CEO of the Company, replacing Dudu Mizrahi who ended his term (prior to his appointment as CEO of the Company, Ran Guron previously served as CEO of the subsidiaries Pelephone, Bezeq International, and DBS). On September 14, 2022, the general meeting of the Company's shareholders approved the terms of office and employment of the Company’s CEO.

The senior management members are employed under personal agreements that include pension coverage, payment of target-based bonuses, and advance notice before retirement.

For information about compensation of officers, see section 7 to Chapter D of the Periodic Report and Note 29 to the 2022 Financial Statements.

On December 10, 2020, the Company's board of directors approved a capital compensation plan (the "Plan") according to which options may be allotted, representing 2.94% of the Company's issued and paid-up capital fully diluted after exercise as at the date of approval by the board of directors. On December 12, 2020, an outline based on the plan (as amended on January 14, 2021 and May 9, 2022) was published (the "Outline"). Under the Outline, from time to time, the Company makes allotments to the officers and/or employees in the Company and its subsidiaries.

On April 28, 2022, the general meeting of the Company's shareholders approved, among other things, an updated compensation policy for three (3) years, effective from January 1, 2022, which includes clarifications for reimbursement of compensation paid due to incorrect financial information, adjustment allowing the granting of performance-based variable compensation to the chairperson of the Company's board of directors, as well as amendments to wording and other technical corrections. For further information about the revised compensation policy, see the immediate report of March 23, 2022 on the convening of a meeting, included in this report by way of reference.

In addition, on March 13, 2023, the Company's board of directors approved the convening of a special general meeting of the Company's shareholders, among other things, to approve amendments to the Company's compensation policy, such that the compensation policy with the amendments will be valid for three years from the date of its approval by the general meeting. The amendments include application of the compensation policy for the chairman of the board of directors, and the option of linking salaries to the CPI, grossing up expenses and related conditions, granting an adjustment period, and a signing bonus for officers. For further information, see the Company's immediate report of March 14, 2023 about the convening of a general meeting, which is published together with this report and which is included in this report by way of reference.

For further information about the capital compensation plan – see Note 26 to the 2022 Financial Statements.

2.10 Equipment and suppliers

2.10.1 Equipment

The main equipment used by the Company is exchanges, communication cabinets (MSAG), copper cables, optic cables, transmission equipment, data communication systems and equipment, servers, internet modems, and routers. The Company purchases most of the equipment for its communications infrastructure from Israeli companies affiliated with international communication equipment manufacturers. In addition, the Company purchases hardware and software from several suppliers.

2.10.2 Percentage of purchases from main suppliers and form of agreement with them

With respect to Section 23 of the First Schedule to the Securities Regulations, the Company considers a "main supplier" to be a supplier that accounts for more than 5% of the volume of the Company's annual purchases and accounts for more than 10% of the volume of all the Company's purchases in a particular operating segment.

In 2022, the Company had no main supplier, as defined above.

2.10.3 Dependence on suppliers

Most of the equipment purchased for data communication, switching, transmission, and MRT systems is unique, and the possibility of receiving support other than through the manufacturer over the years of operation is limited. In view of the importance of manufacturer support for specific equipment used by the Company, the Company believes that it may be dependent on the following suppliers:

Supplier	Area
Nokia Solutions and Networks Israel Ltd.	Metro Ethernet and access systems to the NGN GPON equipment for the fiber project
Juniper Networks	Metro transmission
Cisco/BroadSoft	Metro switches
Dialogic Networks (Israel) Ltd.	Transfer exchanges for connecting operators to the Company's switching network
Adtran Holdings Ltd.	Access systems to the NGN
IBM	Hardware and backup, restoration and survivability solutions for systems and infrastructures, and storage equipment
VMware	Infrastructure for most of the server virtualization system
Heights Telecom T Ltd.	Be Router
F5 Networks Inc.	ISP (carrier-grade NAT router)

Agreements with suppliers on which the Company may be dependent, as set out in this section, generally include a warranty period for a certain period and terms and conditions set out in the agreements, followed by another period of maintenance or support. Where necessary, the Company may enter into an agreement with the provider for support and maintenance services for a further period. These agreements usually include various forms of relief for the Company should the supplier breach the agreement. Such agreements with suppliers are usually long term.

2.11 Working capital

For information about the Company’s working capital, see section 1.4 in the Directors Report.

2.12 Investments

For information about the Company’s working capital, see Note 12 to the 2022 Financial Statements and sections 3 and 4 to Chapter D in this report.

2.13 Financing

2.13.1 Average and effective interest rates on loans

As at December 31, 2022, the Company is not financed by any short-term credit (less than one year). The following table shows the distribution of long-term loans (including current maturities):

Loan term	Source of finance	Principal amount (NIS millions)	Currency or linkage	Type of interest and change mechanism	Average interest rate	Effective interest rate	Interest range in 2022
Long-term loans	Banks	705	Unlinked NIS	Fixed	3.43%	3.36%	3.20%-4.30%
	Banks	700	Unlinked NIS	Variable, based on the annual prime interest rate *	5.21%	5.30%	2.13%-5.21%
	Non-bank sources	3,449	Unlinked NIS	Fixed	3.07%	3.17%	2.79%-4.00%
	Non-bank sources	2,416	CPI-linked NIS	Fixed	1.54%	1.58%	0.58%-2.20%

Prime interest – 5.75% (as at February 2023)

For further information about the Company’s loans, see Note 13 to the 2022 Financial Statements.

2.13.2 Restrictions on borrowings

2.13.2.1 Restrictions included in the Company's loans

See Note 13 to the 2022 Financial Statements. As at the date of the financial statements and the publication date of the Periodic Report, the Company is in compliance with all the restrictions applicable to it.

2.13.2.2 Bank of Israel restrictions on a single borrower and group of borrowers

The Supervisor of Banks’ directives include restrictions on the liability of a single borrower and of a group of borrowers towards the banks. The Supervisor of Banks’ directives could from time to time affect the ability of banks to grant further credit to the Company. For information about the authorization to set restrictions on borrowings for a business group in the Market Concentration Law see section 1.7.7.6.

2.13.3 Reportable credit

As at December 31, 2022, the Company's reportable credit, in accordance with Legal Position 104-15 of the Israel Securities Authority (Reportable Credit Event) is Debentures (Series 9, 10, 11, and 12) of the Company, as set out in Note 13 to the 2022 Financial Statements and section 4 of the Directors Report.

Further to the amendment to Legal Position 104-15 of the Israel Securities Authority: Reportable Credit Events, it should be noted that all of the Company's loan agreements (public debentures and private loan agreements) include a cross-default clause establishing the right to immediate repayment if a third-party lender calls for immediate repayment of the Company’s debts due to a default event in amounts exceeding the amounts set out in the loan agreements. As at the reporting date, the Company's loans do not include financial covenants, so the cross-violation covenant is not relevant to the financial covenants.

2.13.4 Credit received in the reporting period

On April 7, 2020, the Company published a listing and unlocking prospectus for the Company's Debentures (Series 11 and 12) and a shelf prospectus (dated April 8, 2020) (the “Prospectus"). In April 2022, the Israel Securities Authority approved an extension of the period for offering securities under the Prospectus until April 7, 2023. According to the approval of the ISA, in view of the enforcement proceedings regarding the Company, if the Company plans to publish a shelf offering report under the prospectus in the period stated and as long as the proceedings are ongoing, any such shelf offering report will be subject to a permit from the Israel Securities Authority under Article 2(8) of the Israel Securities Regulations (Cases in which the Publication of a Shelf Offering Report will be Subject to a Permit from the Israel Securities Authority), 2016.

On this matter, see also section 4 of the Board of Directors' Report and Note 13 to the 2022 Financial Statements.

2.13.5 Company debentures

For details about the debentures issued by the Company, see Note 13 to the 2022 Financial Statements and section 4 to the Board of Directors' Report. See also section 2.13.4.

On January 23, 2022, the Company initiated early redemption of part of the Company's Debentures (Series 9) in the amount of NIS 370 million par value. In addition, on December 1, 2022, the Company's Debentures (Series 6 and Series 7) full repaid at final maturity.

2.13.6 Credit rating

The Company's debentures have an il/AA rating with stable outlook from S&P Maalot Ltd. and an Aa3.il rating with stable outlook from Midroog Ltd.

For information about the Company's rating history in the last two years, see the Company's immediate reports of May 12, 2021, November 30, 2021, and May 10, 2022 (S&P Maalot Ltd.), and May 2, 2021, December 1, 2021, and May 15, 2022 (Midroog Ltd.), included herein by way of reference.

For further information see also section 4 of the Board of Directors' Report.

2.13.7 Company assessment for raising financing in the coming year (2023) and raising sources

In 2023, the Company is expected to repay an amount of NIS 1.2 billion on account of the principal and interest on its loans, including debentures.

The Company raises capital from time to time to finance its cash flow. The financing options at the Company's disposal are raising debt by means of loans from banks and institutions and by issuing debentures (private or marketable).

2.13.8 Liens and collateral

For information about liens and collateral of the Company see Note 19 to the 2022 Financial Statements.

2.14 Taxation

For information about taxation, including carryforward losses for tax purposes of DBS see Note 7 to the 2022 Financial Statements.

On December 11, 2022, the Company received a letter from the Israel Tax Authority, which, at the Company's request, extends the validity of the tax ruling in an agreement that includes preliminary approval of the Israel Tax Authority for tax purposes for the merger of DBS with and into the Company, in accordance with Section 103b of the Income Tax Ordinance (the "Tax Ruling") for one year, meaning until December 31, 2023. It should be noted that the letter includes a statement similar to that in the extension letter from the previous year, according to which, due to the fact that there were no material developments regarding cancellation of the structural separation between the Company and DBS between the date of the Tax Ruling and the date the extension was granted, and due to the long time that has elapsed since the Tax Ruling was issued, and after reviewing all of the Company's claims on the subject, the Israel Tax Authority will consider not extending the validity of the Tax Ruling beyond December 31, 2023, provided that there are no material developments in 2023 regarding cancellation of the structural separation between the Company and DBS. The Company believes that it is entitled to an extension of the Israel Tax Authority's approval in accordance with the terms of the Tax Ruling, and in any event, even if the validity of the Tax Ruling is not extended, this does not prevent the Company from applying to the Israel Tax Authority at any relevant time in the future for a new tax ruling in place of the Tax Ruling. It is further noted that the Company is continuing to work with the regulatory entities to cancel the structural separation.

2.15 Environmental risks and means for their management

2.15.1 General

Some of the Company's facilities, such as broadcasting, wireless communications, or high-voltage facilities[23] are sources of electromagnetic radiation which are included in the definition of "radiation sources" in the Non-Ionizing Radiation Law.

2.15.2 Non-Ionizing Radiation Law

The law regulates the handling, establishment, operation, and supervision of radiation sources. Among other requirements, the law stipulates that the establishment and operation of a radiation source require a permit; sets punitive provisions and severe responsibility of a company, employees, and officers that breach the provisions of the law; imposes recording and reporting obligations on a permit-holder, and grants supervisory powers mainly to the Supervisor of Non-ionizing Radiation at the Ministry of Environmental Protection (in this section: the “Supervisor"), including regarding the terms of the permit, cancellation of the permit, and removal of a radiation source.

The Company has operating permits from the Supervisor for the communication facilities and broadcasting sites it operates. The Company also took the measures required to obtain radiation permits for the high voltage facilities on its properties. As at the reporting date, the Company has radiation permits for 13 high voltage facilities, all of which have an establishment and operation permit or valid category approval.

It should be noted that the Supervisor requires building permits as a condition for the continued validity of the operating permits for communications facilities (including broadcasting facilities), as well as compliance with additional conditions, including for wireless access installations which have category approval granted to the Company by the Supervisor. See also section 2.16.11.

The law includes a punitive section with a stipulation that the construction or operation of a radiation source contrary to any of the terms of the permit and the construction or operation of a radiation source without a permit, after receiving a written warning from the Commissioner, are strict liability offenses.

2.15.3 Permits

For information about the permits for broadcasting facilities required under the Planning and Construction Law, see section 2.16.11.

2.15.4 Company policy for radiation risk management

The Company applies a work procedure for the construction, operation and measurement of sources of non-ionizing radiation, and an appropriate compliance procedure that was approved by its board of directors. The Company has assigned an officer to oversee implementation of the compliance procedure. Periodic reports on the status of Sources of Radiation are submitted to the CEO and to the board of directors.

2.16 Restrictions and control of the Company's operations

The Company is subject to systems of laws that regulate and limit its business operations. The Ministry of Communications is the main body overseeing the Company's operations as a communications company and is permitted to issue instructions on various subjects.

2.16.1 Control of Company rates

The Company’s rates are subject to arrangements under section 5 and sections 15 to 17 of the Communications Law and under the domestic carrier license as set out below in this section.

The Company's rates are subject to regulatory intervention (even if they are not set in the regulations), and from time to time, the Company is exposed to significant changes in its rate structure and level. Control of the rates makes or could make it difficult for the Company to provide an appropriate and competitive response to market changes and to offer competitive

[23] The establishment and operation of these facilities require an establishment permit and an operating permit in accordance with the Non-Ionizing Radiation Law. The establishment of high-voltage facilities (transformers) in Company sites is aimed at providing energy for use by the Company’s facilities.

prices at short notice. Furthermore, the restrictions on granting discounts limit the Company's participation in certain tenders. Following the transition to maximum prices instead of fixed prices for the Company's services set out in the regulations (mainly telephony) and the removal of marginal services from the regulations starting from April 1, 2022, the Company has greater flexibility for these services.

Below are the main control arrangements over the Company's prices:

2.16.1.1 Rates set out in the regulations under Section 15 of the Communications Law – Under the Communications Law, the Minister of Communications, with the consent of the Minister of Finance, may set payments (including maximum or minimum payments) for the services of a license holder. The payment can also be set on the basis of (1) cost, based on the calculation method instructed by the Minister plus a reasonable profit; or (2) benchmark points arising from one of the following: payment for services provided by the license holder; payment for comparative services; payments in other countries for such services.

Up to April 1, 2022, the rates for the Company's controlled services (telephony and others) were set in the regulations as fixed rates that were updated in accordance with a linkage formula less an efficiency factor, so that on average, the Company's controlled rates erode in real terms.

On April 1, 2022, the amendments to the Payment Regulations and the Company's license came into effect; the fixed rates were canceled and were replaced by maximum rates, so that the maximum payments for telephone line usage fees and outgoing call rates (for a subscriber with three lines or less) were gradually reduced on two dates – April 1, 2022 and July 1, 2023; and regulations stipulating the adjustment mechanism were canceled.

A. The following is a breakdown of the rates according to the dates set out above (NIS):

Two stages	**Service**	**Maximum rate**	
		Before VAT	**Including VAT**
April 1, 2022 to July 1, 2023	Monthly fixed fee for telephony line	29.91	35
	Rate for call minutes to fixed-line networks[24]	Off peak – 0.035 Peak – 0.0857	Off peak – 0.041 Peak – 0.100
	Rate for a call minute to mobile networks[25]	0.1139 up to June 14, 2023 From June 15, 2023 to June 30, 2023: 0.088	0.1327 up to June 14, 2023 From June 15, 2023 to June 30, 2023: 0.103
Starting from July 1, 2023	Monthly fixed fee for telephony line	20.82	24.36
	Rate for call minutes to fixed-line networks[26]	0.0142	0.017
	Rate for a call minute to mobile networks[27]	0.0525 (up to June 14, 2024, when interconnect fees to the MRT network will be reduced)	0.06143 (up to June 14, 2024, when interconnect fees to the MRT network will be reduced)

B. With the transition to a maximum payment mechanism, the alternative payment packages marketed by the Company under Section 15A of the Communications Law will be canceled. However, up to July 1, 2023, for existing subscribers of these packages, the maximum payment will be the maximum payment of subscribers who, shortly before the amendment came into effect, paid for a group of services according to an alternative payment package, under the terms set out in that alternative payment package or

[24] Includes an interconnect fee to fixed-line destinations

[25] Includes an interconnect fee to mobile networks

[26] Includes an interconnect fee to fixed-line destinations

[27] Includes an interconnect fee to mobile networks

according to the Payments Regulations subsequent to the amendment, whichever is lower. Additionally, the Company is permitted to market telephony service packages that include a telephone line and call minutes, at rates that it sets in accordance with Section 17 of the Communications Law, provided that the payments in these packages are lower than the payments arising from the maximum rates to be determined.

C. The Ministry of Communications believes (as dated in the decision of the Minister of Communications on December 30, 2021) that such a change in rates is expected to reduce the telephony expenses of subscribers in the Company's individual fixed-line segment and reduce the annual expenses of fixed-line telephony consumers in the Company by NIS 370 million from July 1, 2023 onwards (including VAT). The decision of the Minister of Communications also stipulates that in view of the expected technological changes, particularly the transition to advanced networks, the decrease in the number of fixed-line telephony subscribers, and changes in competition, if any, the Minister of Communications intends to recommend that in 2025, professionals in the Ministry of Communications should assess the need for continuing the control of rates in the Company's fixed-line telephony service.

The Company believes that the reduction in the rates according to the decision are expected to have a material adverse effect on the financial results. However, the Company believes that the decrease in its revenues is expected to be lower than that estimated by the Ministry of Communications.

According to the Company's estimates, if the number of telephony lines and call minutes on the Company's network remain at their level as at the date of the decision, the reduction in the rates would be expected to result in a decrease in the Company's revenues in 2022 of NIS 70 million; a decrease in the Company’s revenues in 2023 of NIS 150 million; and from 2024 onwards, a decrease in the Company's revenues of NIS 200 million per year. However, in view of the ongoing downward trend in the number of the Company's telephone lines and the number of call minutes, which resulted in an erosion of the Company's telephony revenues,[28] the effect of the decision alone on the Company's revenues is expected to be more limited compared with the above.

Some of the information in this section is forward-looking information as defined in the Israel Securities Law, based on estimates, assumptions, and expectations, including demands for the Company's services and the conduct of the communication operators, and any other information about future events or future matters that may or may not materialize and are not under the Company’s control. Forward-looking information is by nature uncertain, accordingly, the information may not materialize or it may materialize in a way that is different, even substantially, than described above, depending on the materialization of the estimates.

2.16.1.2 Rates set out in the Regulations under Section 5 of the Communications Law – The Ministers of Communications and Finance are authorized (under Section 5 to the Communications Law) to set interconnect fees or payment for a license holder’s use of the telecommunication facilities of another license holder, and to issue instructions in this regard (including for related arrangements), among other things, based on the parameters set out in section 2.16.1.1. For the reduction plan of interconnection fees as stipulated in the Interconnection Regulations, see section 1.7.7.1.

2.16.1.3 Rates set out under Section 15 of the Communications Law – The Company may request a reasonable payment for a service for which a payment is not set or for which a maximum or minimum payment is set in accordance with Sections 5 or 15 of the Communications Law. Under the Company's license, the Company will offer these rates to interested customers throughout the country and regarding an advanced network in the service area set out in Appendix K-1, without discrimination and at a uniform rate according to the types of services.

[28] Except in 2020, which was affected by the Covid-19 pandemic.

The Minister of Communications may instruct the Company to notify him of any payment the Company intends to request as set out above and of any change in the payment before providing the service or implementing the change. If the Minister of Communications determines that the Company intends to request an unreasonable payment or a payment that raises a concern of harm to competition, the Minister may determine (for a period not exceeding one year) the maximum payment that the Company may request for the service or may order the separation of payment for the service from the payment for the bundle of services. The Minister may assess whether the payment is unreasonable, among other things, based on the parameters in section 2.16.1.1(1) above and may assess the payment based on the provisions in section 2.16.1.1(2) above. Under the license, the Company is required to notify the Ministry of Communications of the rate it sets 14 days in advance.

2.16.1.4 On December 20, 2022, the Ministry of Communications published the contents of a hearing regarding the format for assessing margin squeeze by owners of fixed-line communication infrastructure.[29] Among other things, it is proposed that the margin squeeze test will be applied to a retail product based on an advanced network of authorized suppliers with significant market power (including the Company). The proposal describes the method for calculating prices underlying the test and proposes that the retail margin component is calculated as a 25% increment on the wholesale costs, or alternatively, as a 20% reduction from the retail price to the end customer. It is proposed that the test is used as an independent assessment, instead of establishing a rigid framework including reports and advance approvals for each marketing proposal. Failure to comply with the margin squeeze test will lead, among other things, to the exercise of the powers of the Minister of Communications under Section 17(C) of the Communications Law and to a reduction of the wholesale payment for a BSA in a way that will bring it within the limits of the proposed test for one year. it should be noted that today as well, the Company performs an independent assessment of the failure to reduce margins in a BSA, so that if the hearing applies to the Company in format that was published, it is not expected to have a material effect on its business.[30]

Some of the information in this section is forward-looking information as defined in the Israel Securities Law, based on the Company's estimates for the final decisions following the hearing and their effects. Actual estimates may be different depending on the variables set out above.

2.16.1.5 For rates of wholesale services and new pricing for all wholesale rates, see section 2.16.4 and for margin reduction see section 2.16.4.2.

2.16.2 The Company's domestic carrier license

The Company operates, among other things, under the domestic carrier license[31]. The main topics covered in the license are:

2.16.2.1 Scope of license, the services the Company must provide, and the duty of universal service

The Company is required to provide its services to all on equal terms for each type of service, irrespective of location or unique cost. The license is unlimited in time; the Minister may modify or cancel the license or make it contingent; the license and any part of it cannot be transferred, no charge can be imposed on it,

[29] According to the contents of the hearing, it replaces two earlier hearings (in 2014 and 2017) in which no final decision was made due to difficulties of implementation. Margin squeeze exists when an infrastructure owner holding market power and providing wholesale services to its competitors narrows the margin between its retail rate for the consumer and the wholesale rate for its competitors, impairing the economic viability of the competitors' purchase of wholesale inputs from it and marketing retail services to the consumer on their basis.

[30] In this context, it should be noted that according to the test of the Ministry of Communications to check the margin reduction between HOT's retail and wholesale rates (including on a traditional coax network), the retail rate should be 25% more than the wholesale rate and the wholesale rate should be 20% less than retail rate. The retail rate included infrastructure and provider, and did not include the international component.

[31] A copy of the domestic carrier license appears on the Ministry of Communications website at www.moc.gov.il.

nor can it be subject to attachment. For information about the addition of wholesale services to the Company's license see section 1.7.6. For information about the obligation for deployment and universal service regarding the advanced infrastructure (fiber) see section 2.7.2.

2.16.2.2 Structural separation principles

For a description of the structural separation principles applicable to the Company see section 1.7.3.

2.16.2.3 Rates

For a description of the main provisions for rates see section 2.16.1.

2.16.2.4 Marketing joint service bundles

For information about the provisions in the domestic carrier license that allow the Company to apply for permission to market joint service bundles subject to restrictions, see section 1.7.3.2.

2.16.2.5 Operations of Company networks and service standards

The Company is required to maintain and operate the network and provide its services at all times, including in emergencies, in an orderly and proper manner according to the technical and service quality requirements, and to take steps to improve its services. The license includes an appendix for "the level of service for the subscriber". The Company submitted its proposals for amendment of the appendix to the Ministry, adapting it to the current state of affairs and the licenses of other operators, however, as at the reporting date, the amendment report has not yet been published. For information about the amendment to the license regarding the response of the call centers see section 1.7.7.3.A).

2.16.2.6 Interconnect and use

Provisions were prescribed for the duty of interconnect to another public switching network and the option of use by another license holder (including wholesale service); the duty to provide infrastructure services to another authorized provider on reasonable and equal terms; and to refrain from preferring a license holder that is a company with an interest.

2.16.2.7 Security arrangements

Provisions have been made for the operation of the Company's network in times of emergency, including the obligation to operate it in a manner that prevents its collapse in emergencies.

The Company is required to provide telecommunication services and set up and maintain the terminal equipment infrastructure for the security forces in Israel and abroad, as provided in its agreements with the security forces. Furthermore, the Company provides special services to the security forces. The Company will take action to ensure that each purchase and installation of hardware in its telecommunication installations, except for terminal equipment, will be made in full compliance with instructions given to the Company according to Section 13 of the Communications Law.

The Company is required to appoint a security officer and to comply fully with the security instructions contained in the appendix to the license. For information about the provisions of the license regarding preparation for cyber defense management, see section 1.7.10.

2.16.2.8 Supervision and reporting

Extensive reporting duties to the Ministry of Communications are imposed on the Company. In addition, the Director General at the Ministry of Communications (as defined in the Company's license) is granted the authority to enter facilities and offices used by the Company and to seize documents. On August 1, 2019, the Company’s general license was amended reducing and consolidating the reporting obligations.

2.16.2.9 Miscellaneous

A. The domestic carrier license includes restrictions on the acquisition, maintenance, and transfer of means of control under the Communications Order (see section 2.16.3) and on cross-ownership, which include mainly a ban on crossholding by entities with an interest in another material domestic carrier[32] as set out in the license, and restrictions on crossholding by holders of domestic carrier licenses or general licenses in the same operating segment.

B. The Company submitted a bank guarantee of NIS 15 million to the Director General of the Ministry of Communications as collateral for fulfillment of the terms of the license and for indemnifying the state for any loss it incurs due to their violation by the Company.

C. The Director General at the Ministry of Communications is authorized to impose a fine for violation of any of the terms of the license (for further information see also section 1.7.7.5).

D. In a calendar year, the Company may invest up to 25% of its annual revenue in operations not intended for providing its services (the revenues of the subsidiaries are not considered Company revenues for this purpose).

E. License to provide services in Judea and Samaria – On October 26, 2020, the Company was issued a general license to provide domestic fixed-line telecommunication services in Judea and Samaria (prior to this, the service was included in the Company's general license). The introductory letter attached to the license states that the license refers to the general license issued to the Company by the competent authorities in the Ministry of Communications, with the necessary adjustments for the area, and that it reflects the existing situation in the infrastructure owned by the Company and for which it is responsible. Accordingly, no material change is expected in how the Company operates in Judea and Samaria compared with before the license was issued (however, it is noted that in principle, the license allows the Company to streamline the service in the area by using technicians of the entire Group, subject to approval of a relevant procedure to be formulated by the Company and submitted to the Communications and Postal Services Officer for approval).

F. On May 16, 2022, the Company received a call for proposals published by the Ministry of Communications for the provision of communications services to the business sector, in which the Ministry is calling on companies in the communication market that provide communications services to the medium-large business sector, to describe their operations in the sector and the barriers to expanding their operations. This is to advance regulation that will increase competition in the sector. According to the call for public comments, the medium-large business customer market is characterized by a significant economy of scale and significant barriers to entry and expansion that also limit the long-standing players. In addition, the Company's market share in the sector and the rate of change in these market shares indicate a low level of competition in the sector that affects prices and the level of services received by businesses in Israel, and therefore, the Ministry is taking steps to assess the state of competition and barriers in the sector and is asking for the opinions of the players. On June 20, 2022, the Company submitted its reference to the call for public comments, according to which the communication sector for large and medium-sized businesses is a competitive market with no barriers to entry and expansion and no market failures, and in such circumstances regulatory intervention is not required.

For information about the wholesale market and wholesale service portfolios see section 2.16.4.

For information about the amendment to the Company’s license regarding determining obligations for deployment on an advanced network see section 2.16.5.

[32] A domestic carrier with a market share of 25% or more.

2.16.3 The Communications Order

The Company was declared a provider of telecommunication services under the Communications Order. By virtue of this declaration, the Company is required to provide certain types of services and is not permitted to discontinue or narrow them. These services include basic telephone service, infrastructure service, transmission service and data communication service including interconnect, and other services listed in the addendum to the Order.

Key additional provisions in the Communication Order (for information about the proposed amendments to the Communication Order regarding the control in the Company, see section 1.1.2):

2.16.3.1 Restrictions on the transfer and acquisition of means of control in a company, which include a ban on holding 5% or more of means of control of a certain kind without the prior written approval of the Prime Minister and the Minister of Communications (the “Ministers").

2.16.3.2 Transfer or acquisition of control in a company requires the approval of the Ministers ("Control Permit"). The Control Permit will set out the minimum rate of holding in each of the means of control in the Company by the holder of the Control Permit, and the transfer of shares or issuance of shares by a company, as a result of which the percentage of the holding of the holder of the Control Permit falls below the minimum percentage, is prohibited without the prior approval of the Ministers, subject to permitted exceptions (including an issuance to the public under a prospectus, or sale or private placement to institutional investors).[33] For information about the Amendment to the Communications Order regarding the Control Permit see section 1.1.2.

2.16.3.3 Holdings not approved as aforesaid will be considered "exceptional holdings", and the Order states that exercise of a right by power of exceptional holdings will not be valid. and the Order states that exercise of a right by power of exceptional holdings will not be valid. The Order also contains provisions authorizing the Ministers and the company to apply to the courts with an application for the enforced sale of exceptional holdings.

2.16.3.4 A duty to report to the Ministers upon demand is imposed on the Company, on any information on matters relating to provision of an essential service.

2.16.3.5 At least 75% of the members of the board of directors of the Company must be Israeli citizens and residents who have security clearance and security compatibility as determined by the General Security Service. The chairman of the board of directors, external directors, CEO, Deputy CEO, and other officers in the Company as listed in the Order, must be Israeli citizens and residents and have security clearance relevant to their functions.

2.16.3.6 "Israeli" requirements are set out for the controlling shareholder in the Company: for an individual – an Israeli Entity (as defined in the Order); for a company – incorporated in Israel, its core business is in Israel, and an Israeli Entity (as defined in the Order) holds at least 19% of the means of control in it, or at least 19% of the voting rights at the general meeting and rights to appoint directors who are controlling shareholders and has the right to appoint at least one fifth of the number of directors in the Company and its subsidiaries, and no less than one director in each, appointed by it, provided that the rate of holdings in the Company, directly or indirectly, do not at any time fall below 3% of any type of means of control of the Company.

On July 8, 2020, an amendment to some of the Communications Regulations was published in the Official Gazette, set out the Israeli requirement and adding the option to replace the Israeli requirement with a provision under Section 13 of the Communications Law, which would impose alternative provisions to the Israeli requirement on the relevant license holder.

[33] For information about the minimum rate of holding in the Control Permit of B Communications Group, see section 8 in Chapter D to this Periodic Report.

2.16.3.7 The approval of the Ministers is required for granting rights in certain assets of the Company (switches, cable network, transmission network and databases, and banks). In addition, granting rights in means of control in the Company's subsidiaries, including allotment of more than 25% of the shares in the subsidiary, requires the approval of the Ministers.

2.16.3.8 Certain actions of the Company require the approval of the Minister of Communications, among them voluntary liquidation, a settlement or arrangement between the Company and its creditors, a reorganization or restructuring in the Company, a merger and split of the Company.

2.16.4 Wholesale market

In recent years, the Company provides services under a wholesale market model, under which the obligation to sell wholesale services to other communications operators was imposed on owners of nationwide fixed-line access infrastructure (the Company and HOT).

The regulatory provisions regarding the wholesale market, as well as its implementation and development in the reporting period, affect a material part of the Group's operations.

2.16.4.1 <u>Policy document</u>

The wholesale services were established pursuant to the policy document dated May 2, 2012 in which the Minister of Communications adopted the main recommendations of the committee appointed to review and revise the structure of Bezeq's rates and to set wholesale service rates in the communications industry (the Hayek Committee).

Further to the policy document, at the end of 2014, the Ministry of Communications established service portfolios setting out the format for providing the services by the infrastructure owners. The maximum rates that the Company may charge for these services were set by the Minister of Communications, with the approval of the Minister of Finance, in the Use Regulations for that year. On June 26, 2017, prices for the wholesale services of HOT were published.

2.16.4.2 <u>BSA service</u>

The Company started providing the service on February 17, 2015. This service allows service providers that do not own infrastructure to offer their customers end-to-end internet services, including the Company's internet connectivity services and infrastructure services.[34] The service is provided on the Company's traditional network (copper) and on the fiber network. Since the service was launched, hundreds of thousands of customers have switched services through these service providers. For further information see sections 1.5.4.1 and 2.1.3.

The service portfolio, which included BSA fiber service in February 2022, imposes on the infrastructure owners, including the Company, the requirement for periodic publications with API automation and on their website about the deployment of an advanced network (this requirement applies to the Company and to the IBC). In addition, the Company also is required to publish detailed statistical information about a wide range of parameters on an internal interface between the operators. On June 20, 2021, the Ministry added a requirement to the reporting regulations for detailed periodic information about accessibility and connection to fiber optics, according to uniform parameters and regarding the number of fiber optic subscribers, divided into statistical areas. This requirement applied to providers deploying fiber.

<u>Prices for BSA service on the copper network</u>

[34] It should be noted that in the early days of the service, the Ministry's supervision of the Company resulted in fines amounting to NIS 8.5 million, which the Company paid. Subsequently, after receiving a request for disclosure of documents under Section 198A of the Companies Law regarding the financial sanction, and after the Company's board of directors rejected an application to file a derivative claim against Company officers and determined that under the circumstances, the Company does not have solid grounds for a claim against officers and against other office holders that served in the relevant periods, and that legal proceedings in the matter will not be beneficial to the Company, in February 2022, the plaintiff filed a motion to certify a derivative claim against Company officers (all but one are former officers) in the amount of the financial sanction plus interest and linkage differences.

The Use Regulations set maximum rates for the service, which were revised between 2017 and 2022 in accordance with the demand forecast index based on formulas established by the Minister in his notices regarding the Use Regulations. For 2017 and 2018, the revision according to the demand forecast index was applied retroactively and included a graded offset mechanism.

The Amendment to the Use Regulations of February 15, 2022 stipulates the obligation to deploy in an incentive area (where the license or the administrative order of the domestic carrier includes a requirement to deploy an advanced network under Section 14D(f) of the Law) for BSA service over fiber in the incentive areas. The maximum payment that a company deploying lines in the incentive area is permitted to demand from another licensed provider for broadband access service on a nationwide connection level is the same as the payment that Bezeq is permitted to demand, and it does not include installation and repair of malfunctions at the subscriber's home; a company deploying lines in the incentive area may charge a reasonable rate for this, which will be set, and it will also be required to meet the margin reduction test.

The amendment for the 2022 reporting year increased prices for BSA on copper weighted compared with the price in 2021. The effect on the Company's revenues as a result is immaterial. On December 21, 2022, the Ministry of Communications announced that in 2023, the same methodology used in the past will be applied for the demand forecast index to revise the Company's BSA service rates on the copper network. As explained in the hearing preceding the decision, this is because, among other things, the Ministry of Communications is working to determine revised payments for wholesale use in accordance with the regulations (for further information see section 2.16.4.5). On December 26, 2022, an amendment to the demand forecast index was announced.

Rates for BSA on fiber infrastructure ("BSA Fiber")

The Use Regulations set the maximum rates for accessibility and data transfer services at a cumulative speed of up to 550 Mbps and over 550 Mbps and up to 1,100 Mbps. The rates are adjusted once a year on January 1, starting in 2021, according to changes in the CPI. According to the recommendation of the professional staff at the Ministry, which was the basis for the decision regarding the rates, the rates will remain in effect for three years and will then be replaced by a fixed rate). The Company is entitled to demand a reasonable payment for the initial installation service of internal wiring[35] to the premises of the subscriber. In accordance with the Telecommunications Law, internal wiring installed to provide telecommunication service on an advanced network will be owned solely by the party whose premises the wiring serves.

For information about the indefeasible right of use (IRU) for BSA Fiber service (wholesale market) provided by the Company to Partner and the reduction in the prices for individual fiber lines under the BSA service as a result , see section 2.6.2.1.

2.16.4.3 Wholesale service use of passive infrastructure

The Use of Physical Infrastructures service portfolio came into effect on July 31, 2015 and accordingly, the Company allows providers without infrastructure to use the Company’s physical available-for-transfer communication cable infrastructure and the available dark fiber on the Company's available optical cable at the maximum prices in the usage regulations. Later, the requirement to allow use of the Company's passive infrastructures (with the exception of dark fiber and optical wavelength service) was also expanded for infrastructure owners – IBC and HOT. At the same time, licensed domestic carriers were required to allow other licensed domestic carriers to use their passive infrastructure.[36]

[35] Internal wiring is part of the telecommunication network installed in the premises of a person and in common premises and is intended to serve the premises of that person alone.

[36] Other than passive infrastructure of a licensed domestic carrier held by IEC and which it requires for its operations as a licensed critical service provider.

Subsequently, a service portfolio was established for "mutual use" of passive infrastructure, canceling the requirement imposed in the original service portfolio on an operator using the infrastructure of the infrastructure owner to establish a passive infrastructure facility adjacent to the Company's passive infrastructure. The mutual service portfolio does not include provisions for leasing of dark fiber and an optic wavelength service, which remain in the original service portfolio, used only for holders of a unique general domestic carrier license.

In addition, in accordance with the decision of the Minister of Communications of February 2022, holders of special broadband infrastructure licenses were permitted to use the Company's passive infrastructure in the incentive areas.

Expanding the option to use the Company's passive infrastructure may increase the extent of damage caused to the Company's infrastructure by operators and the difficulty of monitoring use. On the other hand, the use of the Company's passive infrastructure by the holders of special licenses involves a fee to the Company (although reduced; for further information see this section below).

For information about the provisions of the Competition Authority regarding passive infrastructure and the Company's appeal see section 2.16.9.5. For information about a motion for certification as a class action and two demands to exercise rights before filing a derivative claim on this matter see section 2.18.1H.

Service prices

The rates for use of the Company's passive infrastructure and dark fiber are also fixed in the Use Regulations. In accordance with Section 14 D(i) of the Communications Law, in regulations published on July 21, 2022, the Minister set a reduced rate for use of the Company's passive infrastructure (including dark fiber) in the incentive areas, and in the area beyond the incentive area,[37] which is about one quarter of the rate in the Company's connection areas for infrastructure access service and more than one third for dark fiber service. In accordance with the Minister's decision that was attached to the amended regulations (together with an economic opinion) in the new pricing process for all wholesale rates planned for 2022, the controlled rates will also be reviewed. It was further determined that the reduced rates will also apply in the deployment areas that the Company chose at a later stage, for one year.

2.16.4.4 Wholesale telephony service

This service allows service providers that do not own infrastructure to offer their customers telephony service at wholesale rates using the Company's network. Up to August 2018, the temporary arrangement remained in effect, allowing the Company to provide the service in a resale format, meaning a format in which the service provider purchases a line and call minutes from the Company and receives a range of services (including technician services) from the Company. In accordance with decision of the Acting Minister of Communications at that time, according to which the Company will provide telephony services in a resale format for one year from July 31, 2017, at prices set by him (higher than the wholesale prices due to the service content). This decision is the result of a petition filed by the Company with the Supreme Court, among others, against the decision of the Minister of Communications of November 14, 2014 regarding provision of wholesale telephony services in the service portfolio format starting from May 17, 2015. The petition included claims that the service would be impossible to implement in the service portfolio format and is unjustified. From August 2018, in accordance with the announcement of the Ministry of Communications, the Company is required to provide the service in a wholesale format, meaning a service format in which the service is provided through the Company's switch, but the call also goes through the service provider's switch, both as an isolated service and as a supplementary service to the BSA service. Since August 2018, the Company has been prepared to provide resale services at wholesale prices (without technical services), although with this service, the call does not pass through the service provider's switch, and since the beginning

[37] An area that is not an incentive area and is not one of the Company's deployment areas. The reduced payments for services in these areas will come into effect after determining regulation regarding identification of usage in these areas.

of 2019, the Company has been prepared to provide a wholesale telephony service that passes through the service provider's switch, based on the both former telecommunication subscriber switch and another component outside the switch, and since 2020, on the new switch that complies with the requirements of the Ministry of Communications for the service format (for further information see also sections 2.1.8, 2.7.2 and 2.16.4). Following discussions that were held, among others, in the Ministry of Communications, it has become apparent that the ISP providers are not set up to operate according to the service portfolio format.

On May 27, 2020, the Company received a letter from the Ministry of Communications, accepting the Company's position regarding the interpretation of the service portfolio and determining that the services related to the telephony service according to the service portfolio will be provided through the service provider's switch and the Company will not be required to offer the related services through the switch it operates (except where they cannot be provided using the service provider's switch).[38]

There was no actual demand nor were there any customers at all (except for very few and for tests) for the wholesale telephony service in all the formats described above.

2.16.4.5 Pricing of wholesale market services

On September 6, 2022, the Company received a letter from the Director General of the Ministry of Communications, which includes notification of the introduction of a pricing process for wholesale market services adjustment and request for information (the "Notice"). Attached to the Notice was a request for information from Axon Partners Group, which the Ministry chose to provide consulting services to assist in the construction of a cost model that will serve as a basis for the adjusted rates for the wholesale market. According to the Notice, the work process will proceed according to the following stages: (1) Collection of information from license holders; (2) construction of the economic model based on pricing methodology, formulating an updated list of wholesale services, and setting maximum payments for wholesale services based on the model to be published for a hearing (according to the Notice, the hearing on the cost model is expected to be published in the first quarter of 2023); (3) the resolution at the hearing and insertion of an amendment to the Use Regulations. The Company submits data and information as required, and at this stage, it is unable to assess the future results and consequences of the hearing.

2.16.5 Advanced network – fiber

2.16.5.1 On December 24, 2020, an amendment to the Communications Law was published for regulation of the deployment of an "advanced network". Under the amended law, the Company may choose the statistical regions in the country[39] for deployment of the advanced network (which is not based on its copper network) and provide an internet access service on it.

The Company is not required to deploy the advanced network nationwide, only in all the statistical areas it chose, no later than March 14, 2027 (six years from the date set out in the Company's license).

After setting out the requirement in the Company's license to provide service in its selected areas (the service areas), as set out above, the Company may deploy an advanced network that is not based on its copper access network and provide telecommunication service on this network, but not to the entire general public all over Israel and fixed-line telecommunication providers other than the Company (such as HOT) may deploy an advanced network (that is not based on its copper access network) and provide telecommunication services on this network that is

[38] The Ministry's letter states that the Ministry's decision does not express an opinion on the Company's compliance with the provisions of the service portfolio regarding the telephony service, and it does not prevent the Ministry from control and enforcement on this matter.

[39] "Statistical area" – a continuous area formed from a geo-statistical division, as instructed by the Minister under Section 14F of the Communications Law; the division into statistical areas is based on the Central Bureau of Statistics.

not offered to the general public in Israel and at the very least, not even in the service area. The Minister may set conditions for deployment and for provision of the service in licenses or in a general permit. In the Company's licenses or in the licenses of another fixed-line telecommunication provider, the Minister may permit a service on their copper network that was upgraded to an advanced network, which is not offered universally throughout the country and at the very least, not even in the service area, if he concludes that this can contribute to competition and the level of service.

The amendment to the Law sets out incentives for deployment in statistical areas other than the deployment areas chosen by the company (the "Incentive Areas"), including mainly a reduced rate for use of the Company's passive infrastructure in the Incentive Areas and an incentive fund set up under the management of the Accountant General in the Ministry of Finance to encourage deployment, with mandatory annual contributions by obligated entities, including the Company, at a rate of 0.5% of the annual revenue of the obligated entities. The Minister of Communications, with the agreement of the Minister of Finance and approval of the Economic Committee, may change this rate.

Amounts from the incentive fund will be allocated under tenders. Under the tender terms, the tender committee may establish threshold conditions for participation in the tender, including the condition that a participant in the tender must be a license holder.

The sole criterion for selecting winners in the tenders will be the proportion between the number of households in the incentive areas in the participants' bids and the amounts from the incentive fund to be allocated under the tenders. No weight will be given to the geographical location of the incentive areas in the participants' bids or to the characteristics of the households in the incentive areas.

The license or the administrative order of the tender winner will include an obligation to deploy an advanced network in a service area that includes the incentive areas won by it, including an obligation to provide ISP service on the network to anyone who asks for it, within the timeframes to be specified in the license. The establishment of such an obligation in Judea and Samaria will be subject to the statutory provisions applying in Judea and Samaria.

The Company and a related corporation are prohibited from participating in the tender for allocations from the incentive fund, or from deploying an advanced network and providing services on it in the incentive areas, until five years after the date of the deployment obligation in the license for the winner of the tender.

The Minister may permit the Company, at its request, to deploy an advanced network and provide services on it in incentive areas for which allocations have not yet been made from the incentive fund, provided the proportion of households in the areas to be included in their application does not exceed 10% of the households in the areas included in the statistical areas selected by the Company. The Company exercised this option and chose another 151 statistical areas. For further information see section 2.16.5.2.

The above restrictions do not detract from the ability of the Company or a related corporation to deploy an advanced network in an incentive area to provide a telecommunication service to a business subscriber, or to provide a service to a business subscriber on an advanced network that was deployed.

The amended Law further stipulates that ownership of the internal wiring in an advanced network will belong to the subscriber whose premises the wiring serves. A licensed provider may demand reasonable payment for installation.

2.16.5.2 On June 15, 2021, the Company's license was amended and, among other things, an appendix was added with a list of statistical areas selected by the Company, covering 76% of the population in Israel, with an estimated 80% of households. The license also includes milestones for completion of deployment of the advanced network, as follows: Completion of deployment to buildings in which the cumulative percentage of households is 60% of all households in the service area (all the statistical areas chosen by the Company) – no later than two years after the effective date (March 14, 2021) [40]; 80% – no later than three years after the effective date; 95% – no later than five years after the effective date; completion of deployment to all the buildings in the service area no later than six years after the effective date.

On October 3, 2022, the Minister of Communications approved the Company's application to deploy an advanced network and to provide telecommunication service over additional statistical areas, over and above the areas listed in the Company's current license, and to amend the Company's license accordingly. This refers to deployment in another 151 areas with 60 thousand households. According to the decision of the Minister of Communications, 82.5% of households are in the Company's areas of deployment and this refers to an additional 2.3%, bringing the revised rate of households in the Company's areas of deployment to 84.7%.

2.16.5.3 On October 13, 2021, the Ministry of Communications published a tender "for expanding a license for the deployment of an advanced network and to receive financial grants to encourage the deployment of advanced fixed-line networks in economically unprofitable areas", meaning, in the incentive areas. Subsequently, on March 7, 2022, a Ministry notice was published on the Ministry of Communications website including the names of the areas in which communications companies that won the tender will deploy an advanced fiber-based network. According to the Notice, the winning areas make up 60% of the incentive areas and the winning companies in the tender will be given one year and three months after the amendment to their license to complete deployment obligations and provide services to all interested customers in these areas. On February 1, 2023, the Ministry of Communications announced that the Inter-Ministerial Tenders Committee published the results of the second tender for deployment in the remaining incentive areas (published on October 26, 2022), in an outline including mandatory full deployment of fiber optics. It should be noted that the service provided by winners in the incentive areas could result in greater competition with the Company's services on the traditional (copper) infrastructure in these areas.

2.16.5.4 When providing ISP services using fiber optics to a residential building (Fiber to the Home – FTTH) for private subscribers, providers are not permitted to offer subscribers different terms or a different rate, based on the infrastructure offered (independent or wholesale). The type of infrastructure offered will be a reasonable feature that justifies the differentiation between different groups of subscribers for ISP services that are not provided through fiber optics to a residential building. The type of infrastructure (independent or wholesale) will not be used as a feature allowing different rates for internet over fiber.

2.16.5.5 <u>Deploying fiber in residential buildings</u>

Regarding the deployment of fiber in new residential buildings, on June 8, 2021, an amendment to the Planning and Construction Regulations (Application for a Permit, its Conditions and Fees) was published. In addition, under the Economic Plan Law (Legislative Amendments for Implementing Economic Policy for the 2021 and 2022 Budget Year), 2021, which was approved on November 4, 2021 (the "Economic Arrangements Law"), the provisions of the Communications Law regarding the conditions for deploying an advanced network in an apartment building, even without the consent of the majority of apartment owners, was approved.

2.16.6 Authorities for real estate

Under the provisions of Section 4(F) of the Communications Law, the Minister of Communications granted the Company certain powers related to real estate, as set out in Chapter F of the Law.

The Law distinguishes between land owned by the state, the Development Authority, the Jewish National Fund, a local authority or a company lawfully established and owned by one of them, and a road ("Public Land"), and other land ("Private Land"). Regarding Public Land,

[40] The date when the Company began to provide ISP services on the advanced network for a fee.

the Company and any person authorized by it, can enter it to perform network deployment and maintenance works and to provide telecommunication services, provided that the deployment according to the provisions of the Planning and Construction Law. The amendment to the Communications Law and the Planning and Construction Law cancels the requirement for the approval of the local Planning and Construction Committee, such that certain actions do not require a building permit if performed by a license holder that was granted powers under Chapter F of the Communications Law, if performed according to an approved plan.

A network on Private Land will be deployed according to the provisions of the Planning and Construction Law and requires the consent of the landowner, the long-term lessee, or the protected tenant, as the case may be.

Under the provisions of the Telecommunications Regulations (Installation, Operation and Maintenance), 1985, if the Company believes that providing a telecommunication service to an applicant requires the installation of a telecommunication device on the applicant's premises (or on shared premises), the Company may request that the applicant, as a prerequisite for providing the requested service, allocates a suitable place on the premises for installation of the device, for the sole use of the Company, and it may use the device to provide service to other applicants as well.

Under the provisions of the Planning and Construction Regulations (Application for a Permit, its Terms and Fees), 1970, an applicant for a permit to construct a residential building is required to install infrastructures for telephony, television, and internet services so that the customer is free to choose the provider. At the same time, the Company's license was amended (as well as the licenses of HOT Telecom and DBS), so that if the Company uses the internal wiring (part of the access network installed in residences and in apartments for the sole use of these residences) to provide its services, it is required to provide maintenance services for the wiring installed by the permit applicant, without this granting it any proprietary rights in the internal wiring. For information about the draft amendment to these regulations for the requirement to install fiber infrastructure, see section 2.16.5.

2.16.7 Immunities and exceptions to liability

The Minister of Communications granted the Company certain immunities from liability for from damages listed in Chapter Nine of the Communications Law, in accordance with his authority to grant immunity to a general license-holder.

In addition, Section 13 of the Communications Law contains exceptions to criminal and civil liability for an act done in fulfillment of a directive to provide services to the security forces in that section.

2.16.8 Regulations and rules under the Communications Law

As at the publication date of the Periodic Report, regulations in two additional key areas apply to the Company: (1) discontinuation, delay, or restriction of telecommunication operations and services; (2) installation, operation, and maintenance.

2.16.9 Economic competition laws

2.16.9.1 The Competition Commissioner (in this section: the “Commissioner") declared the Company a monopoly in the following areas:

A. Basic telephony services, provision of communications infrastructure services, and transfer and transmission of broadcasting services to the public.[41]

B. Provision of high-speed access services through the access network to the subscriber[42].

C. Provision of high-speed access services for ISPs through a central public telecommunication network.

[41] Declaration of July 30, 1995

[42] On November 10, 2004, the Commissioner split the declaration dated December 11, 2000 on ISP infrastructure into two separate declarations (Declarations B and C).

The Commissioner's declaration of the Company as a monopoly constitutes alleged evidence of its content in any legal proceeding, including criminal proceedings.

2.16.9.2 The Company has adopted an internal compliance procedure containing internal rules, guidelines and an internal reporting and control system, the purpose of which is to ensure that the operations of the Company and its employees are carried out in accordance with the provisions of the Economic Competition Law.

2.16.9.3 According to the conditions of the Competition Authority's approval dated March 26, 2014 of the merger (as defined in the Economic Competition Law) between the Company and DBS, the following restrictions apply to the Company and DBS:[43]

A. The Company and any person authorized by it (in this section: "Bezeq") will not impose any restriction on consumption of fixed-line internet infrastructure services stemming from the customer's accumulated browsing volume, and will not cause the option granted to a customer to use any service or application provided over the internet to be restricted or blocked.

B. Bezeq will deduct amounts for provision of multi-channel television services from the internet provider payments for connection to the Company's network.

C. Bezeq will sell and provide internet infrastructure services and television services under equal terms to all Bezeq customers (the sale of internet infrastructure services as part of a service bundle will not be considered sale under unequal terms).

D. Bezeq and DBS will cancel all exclusive arrangement regarding non-original productions and will not be party to such exclusive arrangements (except with regard to a third party who is the broadcast license owner at the date of the decision). In addition, for two years from approval of the merger (which have passed in the meanwhile), Bezeq will not prevent any entity (other than a holder of a broadcast license at the date of the decision) from purchasing rights in original productions (this does not apply to new productions).

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

2.16.9.4 As part of the approval of the merger of the Company and Pelephone on August 26, 2004 (as subsequently amended), restrictive terms were imposed, mainly prohibiting discrimination in favor of Pelephone in the supply of a product in which the Company is a monopoly, prohibiting the bundling of the supply of certain products by any of the companies when purchasing products or services from the other, and restrictions on certain joint operations.

2.16.9.5 On March 7, 2018, the Company received notification from the Competition Authority, according to which under her authority under Section 43(A)(5) of the Economic Competition Law, the Competition Commissioner is considering

[43] It should be noted that the merger agreement between the Company and DBS on December 25, 2016, according to which all the operations of DBS will be merged with and into the Company, with the main purpose of streamlining the activities and operations of the Company and DBS, was not completed due to failure to fulfill the preconditions for the merger, primarily cancellation of the structural separation in the Group, meaning, the Company's obligation to maintain structural separation between itself and its subsidiaries, as set out in the Company's domestic carrier license.

determining that the Company abused its position in contravention of Section 29A(a) and Section 29A(b)(3) of the Economic Competition Law, and imposing financial sanctions on the Company and the former CEO of the Company for alleged breach of Section 29 of the Law and the provisions of the abovementioned sections. According to the Notice, the Competition Authority has evidence indicating that the Company allegedly made use of its market strength arising from its control of the passive infrastructure and it places obstacles in the way of new players who wish to use the Company's passive infrastructure to install communications networks that will be used to compete with the Company in providing communications services to consumers, in a way that is likely to deter them and even prevent them from setting up an independent fixed-line communications network or at least to delay them and limit the scope of the network. According to the Notice, the Company's actions raise concerns of harm to the end consumer. The alleged acts of violation by the Company are the blocking of access to private areas and demanding the cutting of fibers.

Further to the hearing on the matter in which the Company and its former CEO presented arguments and evidence that there had been no fault in their actions and they had not breached the Competition Law, on September 4, 2019, the Company received the Competition Commissioner's ruling (the "Ruling") on the abuse of the Company's position in contravention of Section 29A of the Economic Competition Law and a demand for payment, under Section 50H of the Law, for NIS 30 million from the Company and NIS 500 thousand from the former CEO of the Company. On May 7, 2020, the Company filed an appeal against the Ruling. The Competition Commissioner filed a response to the appeal that was submitted to the Company on December 23, 2020. The Company's response to the Commissioner's response was filed on February 28, 2022. For information about a motion for certification of a class action and demands to exercise rights prior to filing a derivative claim following this ruling, see section 2.18.1(H).

2.16.10 The Telegraph Ordinance

The Government deals with the shortage of radio frequencies for public use in Israel (among other reasons, due to the allocation of a large number of frequencies for security purposes), by limiting the number of licenses granted for the use of frequencies, and providing incentives for efficient use of frequencies.

The Telegraph Ordinance regulates the use of the electromagnetic spectrum, and also applies to the Company's use of radio frequencies as part of its infrastructure. Under the Telegraph Ordinance, the set-up and operation of a system that uses radio frequencies is subject to a license, and the use of radio frequencies is subject to the designation and allocation of a suitable frequency. The Telegraph Ordinance imposes license fees and fees for the designation and allocation of frequencies.

2.16.11 Setting up communications facilities

The National Outline Plan for communications, NOP 36 (within the Green Line) and NOP 56 (in the Administered Territories), were designed to regulate the deployment and set up of communication facilities in a way that will ensure coverage for transmitting and receiving radio, television, and wireless communications, while avoiding radiation hazards and minimizing damage to the environment and the landscape, and also to simplify and streamline the processes involved in setting up the facilities.

The Company has installed and is installing broadcasting facilities and wireless communication facilities for providing broadcasting services to its customers, and uses such communication facilities, mainly for providing services to areas that are not connected to the fixed-line communications infrastructure (remote areas or new towns).

2.16.11.1 <u>NOP 36 – Communications installations within the Green Line</u>

NOP 36 was divided into two parts according to classification of broadcasting facilities according to the technical variables and physical dimensions of the facilities, which ultimately affect the determination of safety ranges for protection against radiation and the how prominent the facilities are on the landscape. Part A of the NOP, which was approved by the government and is in effect, addresses guidelines for the installation of very small and small broadcasting facilities, while part B, which has not been brought for government approval and is not in effect, addresses guidelines for setting up large broadcasting facilities. As a result, there are currently no special guidelines regarding the Company's large broadcasting facilities, most of which were established by the State before the Company was established.

The Company obtained building permits for most of the small broadcasting facilities in accordance with NOP 36A. From time to time, additional broadcasting facilities are required that require building permits in accordance with NOP 36A. The Company believes that it is not required to obtain building permits for very small facilities, due to the exemption under the Planning and Construction Law and the Communications Law for "wireless access facilities" (which include very small broadcasting facilities).

2.16.11.2 NOP 56 – Communication facilities in the Administered Territories

NOP 56 regulates the establishment and licensing of communication facilities in the Administered Territories. The plan includes transitional provisions for facilities installed under a permit for small installations.

The plan also includes a requirement for a communications license and the consent of the Commissioner of Government Property at the Civil Administration.

The Company has arranged for the licensing of the vast majority of the facilities in the Administered Territories held by the Company (there are a few other sites for which the licensing has not been arranged). The Company has also arranged the licensing of the facilities on customer premises with the Communications Officer in the Civil Administration according to a demand sent by the Officer to the Company in November 2016.

2.16.11.3 Radiation permits

For information about radiation permits for the communications and broadcasting facilities see section 2.15.

Exemption from a permit to add antennas to existing lawful broadcasting facilities

The addition of an antenna to an existing, lawful broadcasting facility is exempt from a permit, subject to meeting a combination of conditions and exclusions, which are set out in the Planning and Building (Exempt from a Permit) Regulations. The Company is taking the required steps to add antennas to its broadcasting facilities according to the mechanism set out in these regulations.

2.16.12 Consumer legislation

For information about the consumer legislation applicable to the Company see section 1.7.7.4.

2.17 Material agreements

The following is a brief description of substantial agreements outside the ordinary course of the Company's business, which were signed in the Reporting Period or which were in effect:

2.17.1 Deeds of trust for the Company's Debentures (Series 9, 10, 11, 12, 13, and 14)/

For further information see also the description in Note 13 to the 2022 Financial Statements and section 4 of the Directors Report.

2.17.2 Real estate

2.17.2.1 Asset transfer agreement between the Company and the State, January 31, 1984

An agreement between the State and the Company, under which the Company was granted the State's rights in assets which the Ministry of Communications used for providing telecommunication services, and the Company assumes the rights of the State in those assets and for the obligations and liabilities relating to those rights immediately prior to implementation of the agreement. Moreover, under this agreement, the State's rights, powers, obligations and duties, as well as the contracts and transactions that were in force for telecommunication services immediately prior to application of the agreement, were transferred to the Company.

2.17.2.2 Settlement agreement of May 15, 2003 between the Company and the state and the Israel Land Authority, regarding rights related to real estate

For further information see also section 2.7.4.3.

2.17.2.3 Agreement between the Company and the Postal Authority (today Israel Postal Company) of June 30, 2004

An agreement between the Company and the Postal Authority to define and regulate the rights of the Company and the Postal Authority in their joint assets. The agreement listed the joint assets and defined the part of each party in them. It was determined that each of the parties will have exclusive rights in its parts, except for the rights in common property, building rights, or rights specifically determined otherwise. The agreement determines, among other things, a mechanism of right of refusal if a party wishes to make a sale transaction and a priority right for a rental transaction. For a number of additional properties, the party holding the full exclusive rights in them will be one party named in the agreement.

2.17.3 Employment agreements

2.17.3.1 Special collective agreement of December 2006

For information about this agreement and its amendments see section 2.9.4.

2.17.3.2 Voluntary retirement arrangements

On April 24, 2014, the Company and Menora Mivtachim Insurance Ltd. ("Menora") signed an agreement regulating pension payments for the early retirement of Company employees and provision for the payment of old-age and survivors' pensions to employees who retire from the Company under the special collective retirement agreement signed by the Company, the employee representatives, and the Histadrut New Federation of Labor on February 12, 2014. The Supervisor of Insurance approved the policy and it came into effect on March 31, 2016. Accordingly, from May 1, 2016, Menora issues policies for retiring employees, and the annuities and related payments are paid on the basis of these policies. The agreement is valid (after three extensions) until the end of 2024.

2.17.4 IRU agreement between the Company and Partner

For information about the indefeasible right of use (IRU) for BSA Fiber (wholesale market) provided by the Company to Partner, see section 2.6.2.1.

2.18 Legal proceedings

The Company's reporting policy is based on considerations of quality and of amount. The Company decided that the quantitative materiality threshold for events affecting the net profit will have an effect of 5% or more on the Company's average adjusted net profit (as defined in section 1.6), according to the Company's consolidated annual statements in the last three years (2020-2022). Accordingly, in the absence of relevant qualitative considerations, this section describes legal proceedings involving NIS 75 million or more,[44] before tax, and legal proceedings in which the amount claimed is not stated in the statement of claim, except in the case of a claim which ostensibly does not reach the above qualitative threshold (unless the Company believes the claim has other aspects or implications beyond its monetary amount).[45] In regard to class actions, it is noted that submission of class actions in Israel does not involve payment of a free deriving from the amount of the claim. Accordingly, the amount of a claim in claims of this type may be significantly higher than the scope of true exposure for those claims.

[44] To assess whether the claim is within the threshold, the amounts were linked to the CPI. The amounts noted in this section are the original amounts (without linkage differentials). Regarding the threshold, where there are similar proceedings against a number of Group companies, the amount of the claim might be assessed cumulatively for all the proceedings together. It is further clarified that if certain proceedings relate largely to the same legal or factual issues, or it is known that such issues are reviewed or considered together, then to set the threshold of quantitative materiality as set out in these sections, the amount involved in all of these proceedings together was assessed.

[45] In view of the revised materiality threshold, as from the approval date of this Periodic Report, legal proceedings described in the Periodic Report for 2021, which do not reach the current materiality threshold, are not described: section 2.18.1(J) (the section number in the Periodic Report for 2021).

2.18.1 Pending legal proceedings

	Date	Parties	Court	Type of action	Description	Amount of claim (NIS millions)
A.	January 2015	Shareholder v. the Company and former Company officers	District Court (Tel Aviv Economic Department)	Motion for certification of a class action	Claim for compensation of shareholders for losses, allegedly due to the “failure of the Company to submit reports to the TASE and for concealing material information from investors” regarding “the reduction of interconnect fees” and “the wholesale market reform”. On August 27, 2018, the Economic Department of the Tel Aviv District Court handed down a ruling certifying the action as a class action (the “Certification Ruling”). On December 1, 2019, the Economic Department of the Tel Aviv District Court handed down a judgment on the rehearing held at the request of the Company and the defendant officers, regarding the ruling to certify the claim as a class action and it was determined as follows: 1. On the matter of reduction of interconnect fees – The court accepted the motion insofar as it addresses claims related to reports on the reduction of interconnect fees, after concluding that that the plaintiff had not provided evidence, not even ostensibly, of any damage due to the reduction of interconnect fees, and therefore there was no cause to certify claim as a class action on these grounds. 2. On the matter of the wholesale market reform – The court dismissed the motion regarding the defendant’s’ arguments for reporting on the wholesale market reform. However, the court narrowed the definition of the class of plaintiffs for these grounds. On July 12, 2020, an amended statement of claim was filed, including amendments in accordance with the judgment on the rehearing, in which the total amount of the claim was also amended to NIS 687 million On November 14, 2022, following the mediation in the case, the parties filed a settlement agreement for the court's approval, according to which the D&O insurance company will pay the plaintiffs, at no cost to the Company and the defendant officers, a total amount of NIS 75 million (including compensation and legal fees). On February 8, 2023, the court handed down a judgment approving the settlement agreement. Under accounting standards, the Company's financial statements for the first quarter of 2022 (the period in which negotiations were held), included a provision in the amount of the settlement, and on the other hand, due to full insurance coverage, an indemnity asset in the amount of the provision was recognized in the financial statements, with no effect on the Company's results. Following the judgment, the provision and the indemnification asset will be canceled in the reports for the first quarter of 2023.	687

	Date	Parties	Court	Type of action	Description	Amount of claim (NIS millions)
B.	March 2015	Shareholder v. the Company and former Company officers	District Court (Tel Aviv – Economic Department)	Motion for certification of a derivative claim together with a statement of derivative claim.	A motion against the Company and against Shaul Elovitch, the Company's controlling shareholder and chairman of the board of directors, and against Company directors serving on the relevant dates who voted in favor of the Company's transaction underlying the motion as set out below (the "Respondents"). According to the allegations in the motion, the Company decided, through the Respondents, to enter into a transaction to acquire the entire holdings and shareholders loans of Eurocom DBS (a company indirectly controlled by the Company's controlling shareholder) in DBS in consideration for NIS 680 million in cash and contingent considerations of up to another NIS 370 million. The plaintiff alleged that the consideration for the transaction was excessive and the decisions of the Respondents to enter into the transaction caused the Company great damage after they were in breach of their duty of care and fiduciary duties towards the Company and were negligent in their positions. The plaintiff also alleged that the Company's controlling shareholder violated his duty of fairness and that the Company was in breach of its duty of disclosure and reporting regarding the commitment of the trustee of the holdings of Eurocom DBS in DBS to sell the holdings as from the end of March 2015. In view of the aforesaid, the plaintiff filed a motion with the court for certification of a derivative claim on behalf of the Company against the Respondents for the damage allegedly incurred by the Company as a result of the Respondent's decisions with respect to the transaction, in the amount of NIS 502 million. On March 7, 2017, the court approved the filing of a revised motion by the plaintiff that includes additional claims relating, among other things, to the independence of the parties advising the Company, alleged faults in the work of the audit committee, board of directors, and the general meeting, and alleged faults arising from representation of Eurocom by parties serving as directors in the Company. In view of the investigation by the Israel Securities Authority, among other things, regarding the agreement underlying the claim and the position of the Israel Securities Authority that the procedure should by stayed, the court ruled to stay the proceedings in this case. On January 17, 2021, the Attorney General announced that he would appear in the proceeding (in the matter of the stay of proceedings, not on the merits of the case). Further to the Attorney General's request, at this stage, the proceeding is stayed until July 20, 2023, in view of the investigation of the Israel Securities Authorities and the indictments filed as a result (see section 1.1.5).	502

	Date	Parties	Court	Type of action	Description	Amount of claim (NIS millions)
C.	November 2015 and March 2018	Customer v. the Company	Central District Court	Two claims together with motions for certification of class actions	The motion of November 2015 – It was alleged that the Company abused its monopolistic position, among other things, by "preventing and blocking competition in general and effective competition in the communications market in Israel" and acted to delay and thwart the wholesale market reform, resulting in damage to the Israeli public and unreasonable profits earned solely due to the abuse of its power as a monopoly. According to the plaintiffs' allegations, the damage caused by the Company to the communication market in Israel is reflected in the Company's excessive and unreasonable profits and they seek damages of NIS 800 million, which they allege is based on 10% of the Company's surplus operating income arising from abuse of its monopolistic power. Accordingly, the plaintiffs set the amount of the claim at NIS 556 million, after the amount was reduced in another action (which in the meantime ended in withdrawal). In December 2017, the court approved the inclusion of an immediate report published by the Company on October 22, 2017, as evidence in the case, in which the Company reported on a final oversight report issued by the Ministry of Communications regarding implementation of the wholesale telephony service and notice of the Ministry's intention to impose a financial sanction in this matter. In December 2018, the Ministry of Communications imposed a financial sanction of NIS 11 million on the Company. On March 3, 2019, the Company informed the court that in the view of the expected changes to the judicial panel if the motion for certification is accepted, it agrees to the court's proposal to certify the motion as a class action without a reasoned ruling being handed down in this case by the court, while reserving all its arguments for the actual claim. It should be noted that in the notice, the Company updated the court that on February 25, 2019 it filed an administrative petition against the above decision of the Director General of the Ministry of Communications of December 2018. Subsequently, on March 5, 2019, the court accepted the motion to certify the claim as a class action and clarified that all arguments of the parties are reserved for hearing of the actual claim and that the evidence and investigations that were heard as part of the motion for certification will be part of the evidence in the class action. In view of the criminal proceeding ("Case 4000") related to this proceeding, on November 1, 2021, the Attorney General at that time announced his involvement in the proceeding and requested an order to stay the proceedings in this proceeding. In the latest request, the Attorney General requested a continuation of the stay of proceedings until July 20, 2023.	Motion 556 of November 2015 and Motion 258 of March 2018

	Date	Parties	Court	Type of action	Description	Amount of claim (NIS millions)
C.	(cont.)				The motion of March 2018 – A similar motion to the motion of November 2015 filed by the same plaintiffs for the period from the date of filing the November 2015 motion through to the end of 2017, in view of the plaintiffs' allegation that the Company did not cease the actions alleged against it in the previous motion and in view of the allegation added to the tort, in addition to abuse of the Company's power, also "acts of corruption and unlawful operations and foreign and wrongful purposes of the Director General of the Ministry of Communications". According to the plaintiffs, the damage caused by the Company to the telecommunication market in Israel is reflected in the excess and unreasonable profitability of the Company. On May 31, 2018, the Company filed a motion for stay of proceedings in view of the investigation of the ISA (see section 1.1.5). In view of the investigation of the ISA and the subsequent indictments, the court approved a motion by the Attorney General to continue the stay of proceedings in the case until July 20, 2023. In September 2019, the plaintiffs filed a motion to file a new motion for certification of a class action (a motion that was filed against the Company in September 2019, further to a ruling by the Competition Commissioner on September 4, 2019, regarding abuse of the Company's position – see the description in subsection H below) with the court in which this proceeding is being heard and to strike out that motion on the grounds that it is a similar, later motion. Additionally, on October 23, 2019, the Company was served with a motion by the plaintiffs in the motion for certification to instruct an amendment to the motion for certification by adding respondents (directors and senior executives from the relevant period, some of whom are currently serving in the Company) and to include additional evidence in the motion for certification. On October 30, 2019, the court gave notice that in view of its decision on the stay of proceedings in the case, it does not see fit at this time to instruct that the motion to amend the motion for certification should be submitted for the Company's response and that when the stay of proceedings in this case comes to an end, the plaintiffs must request appropriate instructions.	

	Date	Parties	Court	Type of action	Description	Amount of claim (NIS millions)
D.	June 2017	Shareholders of the Company v. the Company, the chairman of the Company's board of directors and former members of the Company's board of directors, and companies in Eurocom Group (the first motion against the former CEO of the Company and the former CEO and CFO of DBS as well)	Tel Aviv District Court (Economic Department)	Two motions for certification as class actions	The motions refer to the transaction in 2015 in which the Company acquired from Eurocom DBS (a company that was under the control of the controlling owners of the Company at the time) the remaining DBS shares held by it (in this section: the "Transaction"): The first motion was filed on behalf of anyone who acquired Company shares between February 11, 2015 and June 19, 2017 (excluding the respondents and/or those acting on their behalf and/or connected with them). In the motion it is argued that the report concerning the Transaction was misleading and/or deficient, and on account of which due to the opening of a public investigation into the Transaction by the ISA, the public has become aware of details concerning the Transaction and its implementation, which led to a drop in the Company's share price in the days following the disclosure and analysis of the new information. The plaintiff argues that the defendants acted in contravention of the Israel Securities Law and in contravention of additional laws, and caused holders of the Company's securities heavy financial losses, amounting to millions of shekels if not more. The second motion was filed on behalf of three sub-classes – anyone who acquired (1) shares of the Company; (2) shares of B Communications; and (3) shares of Internet Gold - Golden Lines Ltd. on the TASE between May 21, 2015 and June 19, 2017. The plaintiff argues that the public that invested in the aforementioned shares was seriously misled, and this was uncovered in the public investigation into the Transaction by the ISA on June 20, 2017, in that the increase in the cash flow of DBS as reported in the Company's financial statements was allegedly artificially inflated, thereby misleading reasonable investors relying on the cash flow data of DBS to estimate its worth, which led to over-valuation of these companies. The plaintiff also claims additional damage incurred by the classes of shareholders in B Communications and Internet Gold. In accordance with a procedural arrangement approved earlier by the court, the petitioners agreed in the aforementioned motions to administer the motions jointly and they will file a consolidated motion. At the request of the Attorney General (who in 2017 announced his appearance in the proceeding in the matter of the stay of proceedings and not on the merits of the case), the proceeding is stayed at this stage until July 20, 2023 , due to the investigation by the ISA and the related indictments that were filed (see section 1.1.5).	1,240 in the first motion and 568 in the second motion

	Date	Parties	Court	Type of action	Description	Amount of claim (NIS millions)
E.	June - August 2017 and June 2018	Shareholders of the Company v. the Company and DBS	Tel Aviv District Court	Various motion for discovery prior to filing a motion for certification of a derivative claim under Section 198A of the Companies Law	An amended and consolidated motion filed following the court's decision of April 15, 2018 regarding the consolidation of four motions filed in the same matter. In the motion, the court is petitioned to instruct the Company (and DBS as the case may be) to furnish the plaintiffs with certain documents regarding the interested party transaction between DBS and Spacecom from 2013 as amended at the beginning of 2017 (in this section: the "DBS – Spacecom Transaction")[46]. On January 17, 2021, the Attorney General announced that he would appear in the proceeding (in the matter of the stay of proceedings, not on the merits of the case). Further to the Attorney General's request, at this stage, the proceeding is stayed until July 20, 2023, in view of the investigation of the Israel Securities Authorities and the indictments filed as a result (see section 1.1.5).	

[46] It should be noted that on July 23, 2017, a motion for certification of a class action in the amount of NIS 37 million was filed at the Tel Aviv District Court (Economic Department) against Spacecom, its controlling owners and officers, and against the Company's CEO and secretary on the dates relevant to the claim in connection with the DBS-Spacecom transaction. The proceedings in this motion are also stayed, at this stage, until July 20, 2023.

	Date	Parties	Court	Type of action	Description	Amount of claim (NIS millions)
F.	February 2018	Shareholders of the Company v. the Company as a formal respondent, and v. the Company's directors at the dates relevant to the motion and against the controlling shareholders of the Company, indirectly, at the dates relevant to the motion, Shaul Elovitch and Yosef Elovitch (the "Respondents").	Tel Aviv District Court – Economic Department	Motion for certification of a derivative claim	In the motion, it was alleged that the assessment agreement between the Company and the Tax Authority, which was signed on September 15, 2016 (the "Assessment Agreement"), according to which the Company paid the Tax Authority taxes in the amount of NIS 462 million for financing income from loans to DBS, when on the other hand, it was agreed, among other things, that the losses of DBS for the financing expenses for the shareholders' loans of the Company to DBS will be recognized in full for the Company after the merger between the Company and DBS. The plaintiffs claim that after signing the Assessment Agreement, the Company paid a total amount of NIS 660 million. Of this, a total amount of NIS 462 million was paid to the Tax Authority as stated, and an amount of NIS 198 million was paid to the controlling shareholders of the Company as contingent consideration (the "Contingent Consideration") set out in the agreement for the acquisition of all the holdings and shareholder loans of Eurocom DBS, a company indirectly owned by the Company's controlling shareholder, in DBS (the "DBS Transaction"). According to the plaintiffs, the Company's execution of the Assessment Agreement constituted an exceptional transaction of a public company in which the controlling shareholder has a personal interest, and it was unlawfully executed, since it was contrary to the Company's interests and because the approvals required by law to enter into the transaction were not obtained. According to the plaintiffs, the damage incurred by the Company as a result of the Assessment Agreement is between a minimum of NIS 65 million (if the Company is permitted to offset the losses of DBS for the financing expenses) and a maximum of NIS 219 million (if the Company is not permitted to offset all of the losses of DBS for financing expenses). The plaintiffs claim that the respondents who are directors breached, among other things, their duty of caution and fiduciary obligations (and regarding the respondents who are controlling shareholders of the Company, also their duty of fairness), and accordingly, the plaintiffs filed a motion for certification of a derivative claim on behalf of the Company against the respondents, and petitioned the court to order them to compensate the Company for the damage allegedly incurred by it due to the breach of their obligations towards the Company. On January 17, 2021, the Attorney General announced his appearance in the proceeding (in the matter of the stay of proceedings and not on the merits of the case) and following the requires of the Attorney General, the proceeding is stayed at this stage until July 20, 2023 , due to the investigation by the ISA and the related indictments that were filed (see section 1.1.5).	65 minimum 219 minimum

	Date	Parties	Court	Type of action	Description	Amount of claim (NIS millions)
G.	June 2018	Shareholder v. the Company, DBS, Shaul Elovitch, and Or Elovitch	Tel Aviv District Court (Economic Department)	A motion for discovery and review of documents under Section 198A of the Companies Law	The court is petitioned to order the Company, DBS, and the former controlling shareholder of the Company, Shaul Elovitch, and his son, Or Elovitch (jointly below: "Shaul and Or Elovitch"), to submit to the plaintiff, as a shareholder in the Company, various documents for review before filing a motion for certification of a derivative claim on behalf of the Company. According to the plaintiff, B Communications and Shaul and Or Elovitch breached their duties of loyalty and fairness towards the Company in the sale of 115 million Company shares on February 2, 2016 by B Communications, when B Communications and Shaul and Or Elovitch used inside information about the Company, and at a value significantly higher than the real value of the shares. The plaintiff claims that this sale generated unlawful profits for B Communications in the amount of NIS 313 million. The inside information that was allegedly used is, among other things, that the financial statements of DBS and the Company supposedly did not reflect the Company's de facto financial position, but rather a "free cash flow" that was allegedly inflated to increase the consideration in the transaction for the Company's acquisition of the shares of Eurocom Communications in DBS (the "yes Transaction"). It should be noted that there is another motion for certification of a derivative claim against the Company in connection with the yes Transaction (see section 2.18.1B). In this motion, the petitioner alleges that despite the fact that this motion is based in part on the same factual background, it is different from the existing proceedings in this matter. On January 17, 2021, the Attorney General announced that he would appear in the proceeding (in the matter of the stay of proceedings, not on the merits of the case). At the request of the ISA, at this stage, the proceeding is stayed until July 20, 2023, in view of the investigation of the ISA and the indictments filed as a result (see section 1.1.5).	

	Date	Parties	Court	Type of action	Description	Amount of claim (NIS millions)
H.	(1) September 2019	Customers v. the Company	Tel Aviv District Court	Motion for certification of a class action	A motion filed following the Competition Commissioner's ruling of September 4, 2019 regarding abuse of the Company's position (the "Ruling") (for further information see section 2.16.9.5), claiming that the acts and omissions of the Company as described in the Ruling (blocking the passage of the Company's competitor from the Company's infrastructure to the access segment to the building, and refusing to thread cables using the continuous method, and stipulating deployment using an inferior, expensive, and problematic threading method, without any real justification) caused monetary damage to consumers. The definition of the class on whose behalf the class action will be filed is anyone who purchased fixed-line communications services in Israel between July 2015 and March 2018, regardless of whether or not they purchased these communication services from the Company. Damage was claimed for loss of the reduced rate in the communication bundles from which the class members would have benefited were it not for the Company's alleged actions or failures. For information about the motion to file this motion and to strike it out on the grounds that it is a similar later motion filed by plaintiffs in another motion for certification of a class action in March 2018 – see subsection C. On June 25, 2020, the court ruled that at the conclusion of the stay of proceedings in the motion for certification of a class action in March 2018, the parties will petition for appropriate instructions.	400
	(2) March 2020	Shareholders v. the Company	Haifa District Court	Consolidated motion for discovery of documents prior to a motion for certification of a derivative claim	Two motions (which were consolidated) were filed for discovery under Section 198A of the Companies Law to review the motion for certification of a derivative claim regarding the exercise of the Company's rights against officers in connection with the ruling/ It was alleged that the findings and violations in the ruling confer on the Company grounds for a claim against the Company's officers and that the Company is entitled to compensation from the officers for the damages that is has incurred and will incur. On September 8, 2020, the Attorney General announced that he would appear in the proceeding, and concurrently submitted his position that any decision on the filing of an appeal against the ruling which the plaintiffs claim establishes the damage caused to the Company, could render a derivative action unnecessary if the ruling is not final. On April 4, 2021, the plaintiffs accepted the court's proposal to stay the proceeding until the Company's claims committee completes its work and the Company's board of directors makes a decision following the committee's recommendations. Subsequently, on October 13, 2021, the Company's board of directors resolved to adopt the recommendation of the claims committee of October 7, 2021, according to which, under the circumstances, the Company does not have solid grounds for a claim against officers and against other office holders who served in the relevant periods, and that legal proceedings in the matter will not be beneficial to the Company. The committee came to this conclusion after assessing the significance, benefits, damages, costs, and profits involved in such legal proceedings, and concluded conducting them would harm the Company. The Company filed a notice on the matter with the court.	

	Date	Parties	Court	Type of action	Description	Amount of claim (NIS millions)
I.	January 2021	Shareholders of the company v. the Company and others	Tel Aviv District Court – Economic Department	Motion for certification of a class action	A consolidated motion (filed instead of two similar motions on the same matter that were struck out) against the Company, B Communications, and another 90 respondents, including former and present officers of the Company, B Communications, and Bezeq International, as well as the independent auditors' firm (the "Respondents"). According to the motion, the plaintiffs and the class members (as set out below) allegedly incurred damages due to the acts and omissions of the Respondents in contravention of the provisions of the law, among other things, by including misleading information in the financial statements of the Company and B Communications, and by failing to disclose to investors material information that they ostensibly were required to disclose by law, regarding the report of the Company and B Communications of November 9, 2020, according to which the financial statements of Bezeq International contain discrepancies amounting to hundreds of millions of NIS.[47] The classes are defined in the motion as: (a) anyone who acquired Company shares between March 9, 2003 (the publication date of the 2002 annual financial statements) and November 9, 2020, and who held them on November 9, 2020, with the exception of the Respondents or parties on their behalf; and (b) anyone who purchased shares of B Communications on the TASE between October 25, 2009 and November 9, 2020, and who held them on November 9, 2020, with the exception of the Respondents or parties on their behalf. According to the economic opinion that was attached to the motion, following the publication of the immediate report of November 9, 2020 by the Company and B Communications, the price of the Company's share fell by 5.26%-5.40% (it should be noted that it is further alleged in the motion that, based on another opinion that was attached to it, compared with the Company's benchmark indexes, the damage incurred by the Company's shareholders is greater than the decrease in the share value, reaching 7%), and the price of B Communications share fell by 9.07%-9.36%. Accordingly, it is contended that the damage caused to the petitioners is equal to the amount obtained from multiplying the number of shares held by the class members by the rate of decrease in the shares of the Company and B Communications. The case is in mediation	"More than NIS 2.5 million) for the purpose of material jurisdiction")
J.	April 2021	Customer v. the Company	Central District Court	Motion for certification of a class action	It was alleged that the Company caused monetary and non-monetary damages to the class members who paid an increased amount for a higher speed than they were actually able to use, following a modem upgrade that was intended to allow them to browse at that speed, and for harassment, inconvenience, mental distress, and breach of autonomy. According to the motion, the class of plaintiffs should include anyone using the Company's internet infrastructure in the seven years prior to filing the motion for certification and up to the date of its certification as a class action, and who paid for a certain range of speeds, while the infrastructure in their home is capable of providing only a lower range of speeds.	* The amount of the class action cannot be estimated. It was noted that these are damages amounting to millions of NIS under the authority of the court.

2.18.2 Legal proceedings which ended in the reporting period or by the publication date of the report

	Date	Parties	Instance	Type of proceeding	Description	Original amount of the claim (NIS millions)
A	November 2020	Shareholders of the Company against the Company and Bezeq International	Jerusalem District Court	A motion for discovery and review of documents before filing a derivative claim	A motion for discovery and review of documents prior to filing a derivative claim petitioning for an order for discovery and review of documents by the respondents for asset balances in the financial statements of Bezeq International, following the Company's immediate report of November 9, 2020 – On March 25, 2022, the court approved an agreed motion for the plaintiffs to withdraw from the motion for discovery and review of documents by way of its dismissal.	
B.	May 2021	Customers v. the Company	Tel Aviv District Court	Motion for certification of a class action	A motion for certification of a class action filed replacing a similar motion filed in May 2020 and which came to an end, alleging that the Company misled customers who joined the B114 internet advertising service for businesses (the "Service") to think that the cost of the Service depends on actual use up to the billing limit, whereas in fact the Company charged its customers the amount of the billing limit even if in practice there was less use – On March 23, 2022, a ruling was handed down dismissing the motion for certification and determining that the plaintiffs did not provide any evidentiary or factual basis, not even minimal , that could demonstrate grounds for the case.	* The total amount of the claim was not noted.

	Date	Parties	Instance	Type of proceeding	Description	Original amount of the claim (NIS millions)
C.	August 2021	Customer v. the Company	Tel Aviv District Court	Motion for certification of a class action	It was argued that during the Covid-19 crisis, the Company charged its telephony customers amounts exceeding the amounts set and approved by the Ministry of Communications under arrangements established due to the increase in the use of landlines during the Covid-19 pandemic, which were in effect for two periods (March 1, 2020 to June 14, 2020 and September 21, 2020 to June 30, 2021) – On June 21, 2022, a judgment was handed down certifying an agreed motion to withdraw from the motion for certification of a class action after it was clarified that the Company fully compensated its customers who were overcharged in the amount of NIS 2.5 million. The judgment includes payment of compensation, fees, and expenses in the total amount of NIS 500 thousand.	* The total amount of damage was estimated at more than NIS 2.5 million.

2.19 Business goals and strategies

2.19.1 Forward-looking information

The following review of Company strategy includes forward-looking information as defined in the Israel Securities Law, and involves assessments about future developments in the economy in general relating to customer behavior and needs, the pace of adoption of new services, technological changes, regulatory policy, marketing strategies of competitors, and the effectiveness of the Company's marketing strategy.

The Company's strategy and the business objectives arising from it are based on internal research, secondary sources of information, and primarily – the reports of research companies, publications about the operations undertaken by similar communications operators in Israel and other countries, and the work of consultants who assist the Company.

Nevertheless, it is far from certain whether the strategy and the main operations described here will actually be implemented or implemented in the way described. The circumstances that could lead to non-implementation of the strategy or even its failure, lie in the general condition of the economy, frequent technological changes, regulatory constraints, the formation of a sustainable business model for new services that the Company intends to provide, and a superior marketing strategy by competitors, and significant difficulties that may prevent the implementation of the strategy, such as organizational and environmental difficulties. In addition, changes in the composition of the Company's board of directors or in the ownership of the Company that will result in a change in the composition of the board of directors could result in a change in its strategy and its business objectives.

2.19.2 Strategy summary and intentions for the future

2.19.2.1 <u>Vision and purpose</u>

The Company's aims to be the leading communications company in Israel, providing a wide range of communications services and solutions to private and business customers.

The Company is working to maintain its competitive position and to continue being the customer's first choice for internet, ICT, and telephony, and to this end, has set several goals:

A. Maintaining leadership in an environment of intensifying competition (a leader in service and reinforcement of perceived values – innovative products, reliability, price perception) and in this context, leading the fiber optic market

B. Encouraging the acquisition of new customers and reinforcing customer loyalty

C. Creating new sources of income by launching new, innovative services and products

D. Ongoing adaptation of the organization to the competitive and technological environment and operational excellence.

2.19.2.2 <u>Means</u>

To implement this strategy and achieve these objectives, the Company operates a wide range of advanced communications networks operating on broad nationwide deployment of infrastructures, allowing it to provide the most advanced communications services in the world. The Company is taking steps to upgrade and develop the communication networks it operates, including the fiber infrastructure through wide fiber deployment. The Company also strives to constantly expand and improve the range of products and services it offers and it operates a service system, including technical and commercial centers and an extensive system of service and installation technicians.

2.19.3 Main projects planned or in progress

For information about the deployment of the Company's fiber optic network see section 2.7.2.

2.20 Risk factors

There are risk factors arising from the macroeconomic environment, the unique characteristics of the industry in which the Company operates, and Company-specific risk factors that are likely to have significant implications on the Company and that affect, among other things, its status, results, credit rating and debt repayment capacity, as follows:

2.20.1 Competition

Competition in domestic fixed-line communication has intensified in recent years, both in the deployment of independent communication networks (see section 2.6) and in the services provided using the wholesale market, through which communication groups and other communication operators (holding a special or end-to-end license as well as authorized providers) compete with the Company for the sale of end-to-end internet service bundles, based on the Company's infrastructure at prices set by the regulator (see sections 1.7.6 and 2.16.4). A large number of customers receive wholesale internet services provided on the Company's network, while the Company has no relations with such customers. This has led to churn of some of the Company's customers and lowering of prices for part of the Company's services and to a rise in the costs of acquiring new customers and retaining existing ones. The companies that are currently competing with the Company or that are likely to compete with it in the future benefit from greater business flexibility than that of the Company, including the ability to cooperate with subsidiaries and related companies and to market service bundles together with them (see sections 1.7.3 and 1.7.6). The ability of competitors to offer packages with flexible rates compared with the restrictions preventing the Company from doing the same as at the reporting date, impairs the Company's ability to compete.

2.20.2 Government supervision and regulation

The Company is subject to government control and regulation relating, among other things, to the licensing of operations, setting permitted operating segments, setting prices, operation, competition, payment of royalties and depositing funds in the incentive fund, the duty to provide universal service, the option for holding its shares, relations between the Company and its subsidiaries, and a ban on discontinuing or limiting its services (which could require the Company to provide services under circumstances which are not economically worthwhile) – for further information see section 2.16. This control and regulation result at times in government intervention that the Company believes impedes its business operations. In this context, the Company is exposed to various sanctions by the Ministry of Communications, including financial sanctions (see section 1.7.7.5).

In addition, the Minister of Communications may revoke, limit or suspend, as the case may be, the Company's license according to terms set out in the Communications Law, and it is authorized to change the terms of the Company's license, intervene in existing prices and marketing offers, and give the Company instructions. Significant changes in the regulatory principles applicable to communications in general and to the Company in particular, could require the Company to amend its strategic plans and impair its ability to plan its business operations for the long term. For potential changes due to the wholesale market reform, see section 2.16.4. For possible restrictions on the renewal of licenses and allocation of new licenses under the Market Concentration Law see section 1.7.7.6.

2.20.3 Price control

The Company's prices for a central part of its services (including interconnect fees and price for use of the Company's infrastructure and network) are subject to government control and intervention. The Minister of Communications is authorized to intervene in existing prices and marketing offers and impose instructions on the Company (see section 2.16.1). On average, the Company's controlled prices erode in real terms. Significant changes in controlled prices, if implemented, could have a materially adverse effect on the Company's business and results. For information about control and revision of the Company's controlled prices, see sections 2.16.1 (including about the ruling in the hearing on setting maximum rates for the Company's retail telephony services) and section 2.16.4. In addition, the restrictions imposed on the Company for marketing alternative payment packages may make it difficult for the Company to provide an appropriate competitive solution to market changes and are reflected opposite in companies competing with the Company on the basis of its infrastructure in the sale of end-to-end internet service packages using the Company's wholesale BSA services. In the context of implementation of a wholesale market, the Ministry of Communications adjusts the terms and rates of the wholesale services according to which the Company sells its services to license holders. The adjustment of the rates results in lower prices in a manner that may impair the Company's revenues and profits (for information about the wholesale market see section 2.16.4).

2.20.4 Streamlining processes and labor relations

Implementation of human resources and organization plans (including retirement plans and restructuring) involves coordination with the employees and at significant costs, including compensation for early retirement. The processes for implementation of such plans could result in unrest in labor relations and may impair the Company operating activities – see also sections 2.9.3 and 2.17.3.

In addition, as described in section 1.8, the Company, like the other Group companies, is implementing streamlining processes that include a move to new offices, restructuring, and retrenching, alongside management of infrastructure and other significant projects. The streamlining processes, by nature, include the risk of loss of knowledge, employee churn, and shifting of management focus.

2.20.5 Restrictions on relations between the Company and companies in Bezeq Group – separation

The Company's domestic carrier license prohibits favoring the Group's main companies over their competitors. Separation between the managements of the Company and those companies is required, as well as separation between the business, financial, and marketing systems, the assets and employees, which result in duplication, high overheads, and difficulties in managing strategy at the Group level. In addition, the Company is limited in its ability to offer joint service bundles with those companies (see section 1.7.3).

For information about the possibility that the Group will be granted a permit to provide service bundles that may not be unbundled and that the structural separation will be cancelled in the future, and other possible changes due to the wholesale market, see sections 1.7.3 and 2.16.4.

2.20.6 Legal proceedings

The Company is a party to legal proceedings, including class actions, which could result in it being ordered to pay significant sums, most of which cannot be estimated, and therefore, no provisions have been made in the Company's financial statements for most of them. In addition, the Company's insurance policies are confined to defined cover limits and to certain causes, and might not cover claims for certain types of damages. In recent years, there are numerous class actions against large commercial companies. By their very nature, class actions may reach substantial amounts. In addition, since the Company provides communication infrastructures as well as billing services to other licensees, other class actions against the license holders are also likely to also involve the Company as a party to such proceedings. For a description of the legal proceedings see section 2.18.

2.20.7 Exposure to changes in exchange rates, inflation, and interest rates

The Company measures exposure to changes in exchange rates and inflation based on the surplus or deficit of assets against liabilities and also based on the type of linkage. The Company's exposure to inflationary changes is high and its exposure to changes in currency exchange rates against the shekel is low. The Company hedges against part of its inflation and foreign currency exposure. The Company is also exposed to changes in the interest rates in relation to its borrowings. For further information see also Note 30 to the 2022 Financial Statements and section 1.6 of the Board of Directors' Report. In view of the rising rate of inflation in 2022, the Company adjusted the extent of the effect of this risk factor.

2.20.8 Electromagnetic radiation and licensing of broadcasting facilities

The subject of the electromagnetic radiation emitted from broadcast facilities is regulated mainly in the Non-Ionizing Radiation Law (see sections 2.15 and 2.16.11). The Company is working to obtain permits to set up and operate its various broadcasting installations; however, the difficulties it faces in this area, including difficulties arising from the change in policy by relevant entities and amendments to statutes and standards, could have an adverse effect on the infrastructure of these installations and on the regular provision of services using them, and as a result, on the Company's revenues from these services. The Company's third-party liability policy does not currently cover liability for electromagnetic radiation.

2.20.9 Frequent technological changes

In the communications sector, there are frequent technological changes and shortening of the economic life of new technologies – see section 2.1.4. This requires heavy investments in numerous resources in upgrading the Company's technology, lowering of entry barriers for new competitors, an increase in depreciation rates, and in certain cases, redundancy of technologies and networks owned by the Company, the cost of investment in which is still recorded on its financial statements. The introduction of innovative technology that is not used by the Company or that the Company is prevented from using may impair its competitive position.

2.20.10 Dependence on macro-factors and on levels of business operations in the economy

Stability in the financial market and the strength of global economies have recently been subject to high volatility. The Company estimates that if the local economy slides into a slowdown and a deterioration in business operations, including due to external or internal events, including upheavals in the global economy, and political-security uncertainty, then its business results may be impaired, among other things, due to impairment in the Company's revenues (including revenues from investees) or due to an increase in the Group's financing costs.

2.20.11 Failure of the Company's systems and cyber risks

The Company provides services using various systems that include exchanges; transmission, data communication and access networks; cables; computer systems, and others (the "Systems"). The Systems have critical importance in operating the Company's business and fulfill a vital function in its ability to perform its operations successfully. Hacking, interference, damage, or collapse of the Systems may impair the Company's business. Some of the Systems are backed up, but nevertheless, damage to some or all of these Systems, whether due to a technical fault (including in the event of termination of a contract with a supplier on which the Company relies for support of the Systems), a natural disaster (such as earthquake or fire), damage to physical infrastructure by communications service providers using them, or malicious damage (including through cyber attacks as set out below), could cause extreme difficulties and beyond in providing service, including if the Company is unable to repair the systems.

The Company faces a risk of activity intended to harm the use of a computer or the computer material stored in it ("Cyber Attack"). A Cyber Attack may result in disruption in business, theft of information/funds, damage to reputation, damage to systems, causing substantial damage to the Company's operations. As a leading communications company that provides diverse communications services in various segments, the Company is a target for Cyber Attack, which it addresses.

The Company is an entity overseen by Israel National Cyber Directorate and is obligated to comply with stringent information security standards. The Company is also subject to rules in this matter under its licenses. In this regard, the Company implements a protection policy that includes the most advanced security systems in the world, which combine effective security with the operational requirements of the Company and layers of security to protect its infrastructures and Systems, which are designed to prevent and reduce possible malicious or unintentional use of data of the Company's network by an internal or outside entity, and the possibility of an outside party taking control of and managing network components or abusing information about the Company's infrastructures and networks in any manner. In this context, adequate resources are invested, including technological resources for the purchase of information security solutions and products and resources for information security standards, and various actions are performed, including testing system alerts and logs, a periodic risk survey, drills according to an annual plan, and routine work in accordance with appropriate procedures. The Company received three ISO standards: (ISO 27001, ISO 27017, and ISO 27018) related to information security (standards that define and test the principles of establishing, managing, and maintaining information security in the organization) and in the implementation of the requirements of the standards, the Company ensures the availability, integrity, reliability, and confidentiality of its databases.

The cyber risk management policy is approved by the Company's IT security steering committee with the participation of the Company's CEO and VP of Technologies and Network. The director of the information and cyber protection division is responsible for implementing the policy in the Company.

The Company overseas implementation of its protection policy, including testing its level of effectiveness and the Company's readiness, as part of which, the Company conducts periodic tests and drills at different frequencies for different scenarios (including through external companies specializing in this field). In addition, the Company's board of directors is involved in and oversees cyber risk management in the Company, as part of the Company's overall risk management policy. The Company believes that the risk management policy for addressing and reducing cyber risk is effective.

Notwithstanding the Company's investments in means to reduce these risks, it is unable to guarantee that these efforts will succeed in preventing harm and/or interference that could also be significant in the Systems and the information related to them.

2.20.12 Impairment of subsidiaries

In accordance with accounting standards, the Company prepares valuations of its subsidiaries to test for periodic impairment of goodwill and assets regarding which there are indications of impairment. Taking note of the business position of the subsidiaries and the discrepancy, if any, between the carrying amount in the Company's financial statements and the recoverable amount as a cash-generating unit, any impairment in the subsidiaries' operations could result in recognition of an impairment loss (write-off) in the Company's financial statements. Additionally, a significant change in circumstances that leads to a change in estimates could occur due to a high-intensity isolated event and/or as the result of a sequence of small changes that occur over time, which have a significant cumulative effect in the long term and/or due to a change in estimates (even on a small scale) regarding the long term. Valuations rely on assumptions which are correct as at the reporting date, and these assumptions that might not materialize or could partially materialize and different perspectives affect, with varying degrees of intensity, the value of the operation, and assumptions for the long term have a relatively large weight compared with assumptions for the short term. These assumptions are sensitive to values in the representative year, the discounting interest rate, and the permanent growth rate. For further information see also Note 10 to the 2022 Financial Statements and section 3.1 to the Board of Directors' Report.

2.20.13 Pandemic

The outbreak of diseases and pandemic in general (for example, the outbreak of Covid-19 in 2020) may affect the Company's business operations, depending on the extent and severity of the outbreak and national and global measures that will be taken as a result. These consequences may be reflected, among other things, in damage to the Company's activities and its customer service system as well as damage to the supply chain. Events of this type are variable events that are not under the Company's control, and their consequences are subject, among other things, to the decisions of countries and authorities in Israel and other countries, which may affect the Company accordingly. For further information see also section 2.20.10.

2.20.14 Damage by natural disasters, war, disaster

Damage to the Company's infrastructure and services due to natural disasters, including earthquakes, and due to war or disaster, may have an adverse effect on the Company's business and results.

It should be noted that a significant part of the Group's operations (consolidated) are in its subsidiaries. The risk factors of these companies and the assessment of their management in relation to the risk factors are described in sections 3.19, 4.14, and 5.18 and they are also relevant to the Group's operations and results.

The following table rates the effects of the risk factors described above on the Company's activities, in the estimation of its management. It should be noted that this assessment of the extent of the impact of a risk factor reflects its extent assuming it materializes, and does not assess or give weight to the likelihood of its materialization. The order in which the risk factors appear above and below is not necessarily according to the rate of risk.

Summary of risk factors – Domestic fixed-line communications[48]

	Effect of the risk factor on the Company operations		
	Major	**Moderate**	**Minor**
Macro risks			
Exposure to changes in exchange rates, inflation, and interest rates		X	
Dependence on macro-factors and on levels of business operations in the economy		X	
Pandemic		X[49]	
Damage by natural disasters, war, disaster	X		
Sector-specific risks			
Competition	X		
Government supervision and regulation	X		
Price control	X		
Electromagnetic radiation / licensing of broadcasting facilities			X
Frequent technological changes		X	
Company-specific risks			
Exposure in legal proceedings		X	
Streamlining processes and labor relations		X	
Restrictions on relations between the Company and companies in Bezeq Group	X		
Failure of the Company's systems and cyber risks	X		
Impairment of subsidiaries			X

The information included in this section 2.20 and the Company's assessments of the effect of the risk factors on the Company's operations and business is forward-looking information as defined in the Israel Securities Law. The information and assessments rely on data published by the Ministry of Communications, the Company's assessments of the market situation, its competitive structure, and possible developments in this market and in the Israeli economy. Actual results may differ significantly from these assessments if a change occurs in one of the factors taken into account in the assessments.

48 It should be clarified that the Group companies' assessments of the impact of the risk factors in the table (in this section and in sections 3.19, 4.14, and 5.18) did not estimate the probability of materialization of the risk factor but instead, the impact of the risk factor on the relevant company should it materialize. It should be further noted that the Group companies estimate the probability of the scenarios of some of the risk factors mentioned in these sections for certain internal needs of their own, but there is no orderly estimate at the Group level of all the risks listed in the summary tables in these sections. Furthermore, in general, the extent of the risk of risk factor on the Company's operations also depends, in some cases, on the scope and duration of materialization of the risk, therefore it may differ from that indicated.

49 The extent of the impact of this risk factor on the Company's operations was classified as moderate, assuming that the event will be limited in scope and time. Otherwise, the extent of the impact may be major.

3. Pelephone – Mobile Radio-Telephony (MRT) (Cellular Telephony)

3.1 General information about the operating segment

3.1.1 Pelephone's operating segment

Pelephone provides cellular communications services, and sale and repair of terminal equipment. Pelephone's services are described more fully in section 3.2. Pelephone is wholly owned by the Company.

3.1.2 Major legislative and regulatory restrictions specific to the operating sector

3.1.2.1 Communications and mobile radio telephony (MRT) license laws

Pelephone's operations are regulated and controlled under the Communications Law and subsequent regulations, the Telegraph Ordinance, and the mobile telephone license that it holds. The mobile license prescribes conditions and guidelines that apply to Pelephone's activities, (for details, see section 3.14.2).

3.1.2.2 Tariff control

The interconnect fees (supplementary call and text message (SMS) fees collected by Pelephone from other operators) are fixed in the Interconnect Regulations. The other rates fall under certain regulatory control as regulated under the mobile telephony license and the Communications Law (see sections 3.14.1 and 3.14.2).

3.1.2.3 Environmental laws and planning and construction laws

The set-up and operation of a wireless communication infrastructure, including cellular communications, is subject to the provisions of the Non-Ionizing Radiation Law and the required Ministry of Environmental Protection permits, and the provisions of planning and construction laws (see section 3.13.1).

3.1.3 Changes in the volume of activity

For financial information about the scope of Pelephone's operations, see sections 1.5.4.2 and 3.3.

3.1.3.1 Revenue from services

The mobile radio telephony segment is extremely competitive. Competition in this sector has led to high subscriber churn between the cellular operators with consistent erosion of the prices of base packages together with continued increase of browsing volumes included in the packages that has caused in recent years further significant erosion of the average revenue per user (ARPU) (see section 3.6). The growth in number of postpaid subscribers (subscribers who receive services for monthly payment) in recent years partly compensated for the price erosion. In 2022 (similar to 2021), the downward trend in churn volume between companies continued compared to recent years. Furthermore, in 2022, the recovery in revenue from roaming services continued returning to the usual scope following the decrease that occurred in 2020 due to the effects of the COVID pandemic on travel and visits abroad (see section 3.19.1.2). Moreover, at the end of 2020, companies in the market began to offer packages with higher browsing volume, allowing subscribers to browse using 5G technology, and at higher prices than 4G packages.

3.1.3.2 Revenues from sales of terminal equipment and electronic equipment

The terminal equipment market is also intensely competitive among the cellular operators and the numerous stores that sell parallel import terminal equipment. In 2022, the fierce competition in this area continued. To minimize impairment of revenues caused, among other things, due to changes in exchange rates, Pelephone increased the range of equipment it sells and also sells non-cellular electronic equipment.

A significant part of the terminal equipment is sold in installments. The decrease in terminal equipment sales over the years has led to a decrease in trade receivables as well as a decline in trade payables to terminal equipment suppliers.

3.1.4 Market developments and changes in customer characteristics

The cellular market growth rate is lower due to penetration rate saturation[50]. The penetration rate as at September 30, 2022 was 120%.

3.1.5 Technological developments that may have material effect on the operating segment

The cellular telecommunications market is dynamic with frequent technological developments in all areas of operation (handsets, telecommunications network technologies and value added services).

Technology developments and the desire to widen the range and quality of services offered to the customer, require the cellular operators to periodically upgrade their network technologies. Cellular networks in Israel currently operate using mainly GSM, UMTS and LTE technologies, and in 2020 they began using the New Radio technology based on non-standalone architecture (5G). Pelephone is also preparing to upgrade its core 5G network to standalone architecture.

As at the reporting date, Pelephone's LTE network is deployed throughout most of the country and Pelephone is continuing to expand the network to improve coverage over 700 MHz frequencies and 2600 MHz to improve performance, and in addition to launching the 5G network over 3500 MHz frequencies, which is being executed according to a systematic deployment plan.

Furthermore, Pelephone operates additional network 5G features, including carrier aggregation and massive MIMO.

Pelephone offers IMS technology based services[51]: Voice over WiFi as an improved solution for indoor coverage (without the need to use the cellular frequencies) and Voice over LTE that enables 4G based voice calls (using the data range). Both these capacities improve voice call quality and allow freeing up of 3G frequency resources (traditionally used for calls) to increase additional capacity used for data services that have been accelerating over the years. In addition, Voice over LTE services allow call continuity with Voice over WiFi. In other words, transparent switching of the call (without disconnecting) from Voice over WiFi (without using the cellular range) to Voice over LTE (over the cellular network), and vice versa.

Pelephone constantly monitors and reviews new technologies that come onto the market and the need to upgrade its existing network technologies, based on the competition in the market and the financial viability of the investment in such technologies.

Expanding capacities and speeds with the LTE (4G) and New Radio (5G) technologies and the development of next cellular generations depends on the allocation of frequencies. For further information, see section 3.8.2.

After winning the frequencies tender, Pelephone operates frequencies in the 700 MHz and 2600 MHZ ranges with the 4G technology, and at some of the sites, it also uses the 5G technology over the 3500 MHZ frequency (see section 3.8.2.4).

Embedded SIM (eSIM) technology - a technology that enables a mobile device to connect to a network via an embedded SIM that cannot be removed, unlike the traditional SIM cards that can be removed and swapped between devices. The eSIM technology enables flexible and easier use for operating and managing a number of lines on one device, simpler and faster switching between operators without the need for a new physical SIM card, and better accessibility to roaming packages of various operators ("primary" line solutions). The technology also allows adding other devices to the cellular line ("secondary" solution) such as smart watches and bands. In view of the market trends, it is assumed that eSIM solutions as part of the primary line package will become more common.

[50] Penetration rate - the ratio between the number of subscribers in the market and the total population of Israel (excluding foreign workers and Palestinians, although they are included in the number of subscribers).

[51] IP Multimedia Sub System - IMS - is a core network system that is used, among other things, for switching IP calls (for example: Voice over LTE, Voice over Wifi). These two services are currently provided as an integrated cover solution for inside homes and to reduce traffic on the 3G network. The infrastructure will be used for additional services such as One Number, Rich Call Services, and others.

3.1.6 Critical success factors

3.1.6.1 Nationwide deployment of an advanced high-quality cellular network, regular maintenance of the high standard network and regular substantial investments in cellular infrastructure for both high quality country-wide coverage and for providing customers with the most advanced services using cutting edge infrastructures and technologies (also see section 3.7.1).

3.1.6.2 Subscriber base growth.

3.1.6.3 Growth in the number of 5G subscribers with larger browsing volumes.

3.1.6.4 Ability to offer competitive prices.

3.1.6.5 Extensive and varied distribution channels

3.1.6.6 Diverse range of service channels, including digital channels, allowing effective and quality support and service to a large range of customers.

3.1.6.7 Adapting the cost structure and streamlining operations allowing Pelephone to confront the increased competition.

3.1.6.8 A Brand that represents a high quality, reliable and state-or-the-art network.

3.1.6.9 Top-notch and skilled work force.

3.1.7 Main entry and exit barriers[52]

3.1.7.1 Main entry barriers to the operating segment are:

A. Market penetration rate saturation (see section 3.1.4).

B. The need for a mobile telephony (MRT) license for operators that have frequencies (MVNO operators may operate under a permit only), allocation of frequencies that involve vast costs due to, among other things, the shortage of these resources (see section 3.8.2.1) and regulatory supervision (see section 3.14.2).

C. The need for significant financial resources for carrying out large-scale investments in infrastructures, which are affected by frequent technological developments (also see section 3.7.1.2).

D. The difficulty involved in setting up radio sites due to regulatory restrictions and public opposition.

3.1.7.2 Main exit barriers are:

A. The large investments required and the time needed to recoup them.

B. The commitment to provide customers with services pursuant to the terms of the MRT license and agreements made in accordance with those terms.

3.1.8 Structure of competition in the sector and changes occurring in it

3.1.8.1 General

The cellular communications market in Israel is extremely competitive, which is reflected in the high subscriber churn between operators in recent years, substantial erosion of rates and profit margins.

As at the reporting date, there are five operators with MRT license in the cellular telecommunications market in Israel (Pelephone, Cellcom, Partner, HOT Mobile and XFone) and a few MVNO operators with MRT licenses for hosting on another network (virtual operators).

3.1.8.2 Infrastructure sharing

Infrastructure sharing allows consolidation of the cellular operators' sites and substantially reduces the operating and maintenance costs of the radio sites of each operator. To the best of Pelephone's knowledge, as at the reporting date, infrastructure sharing on the market are as follows:

[52] Some of the foregoing entry and exit barriers also apply partially and to a limited extent to the virtual operators.

A. Partner and Hot Mobile operate under shared radio segment infrastructure through a joint company.

B. Cellcom (which holds Golan Telecom) and XFone operate under an infrastructure sharing arrangement in the 4G radio segment through a joint corporation and purchase of other domestic roaming services.

3.1.8.3 Virtual operators - MVNO

To date, several MVNO licenses have been granted to virtual operators. Only a few MVNO licenses are active on the market.

For additional information about the structure of competition, see section 3.6.

3.1.8.4 Hearing with regard to private networks

Further to a call for public comments published by the Ministry of Communications regarding the matter of private networks, on August 14, 2022, the Ministry of Communications announced a hearing, calling for public comments on the Ministry’s intention to allocate a 26-GHz frequency band (and a 2100-MHz narrowband) for use by non-cellular entities or general fixed-line telephony service operators, for providing private network service (on a project or local basis). Pelephone submitted its position for the hearing. The implications will be clarified in the decision of the Ministry of Communications in the hearing.

3.2 Services and Products

3.2.1 Services

Description of the services Pelephone provides for its subscribers:

3.2.1.1 Package services that include:

A. **Basic telephony services (VOICE)** – basic voice services, call completion and auxiliary services such as call waiting, follow-me, voice mailbox, voice conference call and caller ID, among others.

B. **Browsing and data communication services** - internet browsing services using 3G, 4G and 5G compatible terminal equipment.

C. **SMS and MMS messaging service** – a service for sending and receiving text (SMS) messages and multimedia (video/voice/text) messages.

3.2.1.2 **Added value services** - Pelephone offers its customers added value and supplementary services such as Pelephone cloud backup services, antivirus and cyber security services.

3.2.1.3 **Roaming Services** - Pelephone provides its customers with broad roaming coverage in some 190 countries worldwide. Pelephone also provides incoming roaming services for the customers of foreign operators staying in Israel.

3.2.1.4 **Private cellular network via LTE (Long Term Evolution) or 5G technology** - Pelephone offers its business customers installation and maintenance of a private cellular network in the customer’s premises. A private network provides the business customer various advantages, such as: business continuity, bandwidth management between the customer’s users, low latency, connection to IOT devices, contribution to the security of the customer’s networks and systems, among others.

3.2.1.5 **Terminal equipment servicing and repair services** – Pelephone offers expanded repair and extended warranty services for a monthly fee entitling the customer to mobile handset repair and warranty services, or for a one-time payment at the time of repair.

Pelephone provides part of these services under hosting agreements to holders of MRT licenses on other networks that use Pelephone’s network to provide services to their customers.

3.2.1.6 Additional Services

A. IOT (Internet Of Things) services - Pelephone offers its customers advanced IOT solutions such as smart building networks with command and control systems, among others.

B. PTT (Push to Talk) services - Pelephone offers its business customers the most advanced PTT services worldwide enabling fast and secure organizational communications at the push of a button.

3.2.2 Products

Terminal equipment - Pelephone offers various types of mobile phones, PTT devices, tablets, laptops, modems, smart watches, electronic products and supported accessories such as speakers and headphones.

3.3 Revenue from products and services

Breakdown of Pelephone's revenues from products and services (in NIS millions):

Products and services	2022	2021	2020
Revenue from services	1,791	1,642	1,591
Percentage of Pelephone's total revenue	74.7 %	71.7%	72.8%
Revenue from products (terminal equipment)	608	647	595
Percentage of Pelephone's total revenue	25.3 %	28.3%	27.2%
Total revenue	**2,399**	**2,289**	**2,186**

3.4 Trade receivables

Breakdown of revenue from customers (in NIS million):

Products and services	2022	2021	2020
Revenue from private customers	1,416	1,361	1,194
Revenue from business customers (*)	983	928	992
Total revenue	**2,399**	**2,289**	**2,186**

(*) Revenue from business customers includes revenue from hosting agreements (enabling provision of mobile telephony services of another licenses provider via Bezeq's network), mainly from Rami Levy.

At the end of 2022, Pelephone had 2.6 million subscribers, including 2.2 million postpaid subscribers (receiving service for monthly fee) and 0.4 million prepaid subscribers (advance payment for services).

Pelephone markets bundles with an increased browsing volume that are also adapted for 5G requirements, and as of publication date of the report, Pelephone has 813 thousand subscribers for such bundles.

3.5 Marketing, distribution and service

Pelephone's distribution network includes 250 points of sale at which it is possible to join Pelephone's services. The point of sale network is diverse and includes stores and stalls operated by Pelephone, retail chains that market Pelephone products and 20 customer service and sales centers deployed around the country that engage in sales, repair of devices and customer retention. Furthermore, Pelephone operates an internal and external telemarketing network. As a rule, these marketers are paid a commission on sales.

Pelephone's subscriber service network includes diverse online channels, including Pelephone's website, self-service apps and call centers.

3.6 Competition

3.6.1 General

In recent years, the Ministry of Communications has adopted regulatory measures that are intended to increase competition in the cellular communications market. The proliferation of cellular operators in the market led to fierce competition in recent years, which is reflected in the high subscriber churn between operators and decline in prices of cellular packages, resulting in erosion of rates and profit margins, on the private customer market as well as the business customer market.

To compensate for the erosion of package prices, Pelephone adopted a strategy for increasing the number of subscribers together with streamlining measures and adjusted cost structure (see section 3.17).

Breakdown, to the best of Pelephone's knowledge, of the number of subscribers of Pelephone and of its competitors in 2021 and 2022 (thousands of subscribers, approximate).

		Pelephone	Cellcom (including Golan Telecom) (3)	Partner (3)	HOT Mobile (2)	MVNO and Other Operators (1)	Total subscribers in market
As at December 31, 2021	No. of subscribers	2,576	3,246	3,019	1,674	791	11,306
	Market share	22.6 %	28.8%	26.8%	14.8%	7.0%	
As at September 30, 2022	No. of subscribers	2,675	3,455	3,048	1,763	826	11,767
	Market share	22.8 %	29.3%	25.9%	15%	7.0%	

(1) Most of the MVNOs and other operators (including, among others, XFone) are private companies which do not publish figures regarding the number of their subscribers and these figures are based on Pelephone’s estimates, using subscriber intercompany migration figures.

(2) Hot Mobile's subscriber data for the third quarter of 2022 is based on an estimate, using data in reports published by Altice, the controlling shareholder of Hot, to the best of Pelephone's knowledge.

(3) The number of subscribers as at September 30, 2022, are based on the public reports issued by Cellcom and Partner.

3.6.2 Infrastructure sharing agreements and providing right of use of networks

For further information concerning the existing infrastructure sharing agreements in the market as at the reporting date, see section 3.1.8.2. As aforesaid, infrastructure sharing allows consolidation of the cellular operators' sites and substantially reduces the operating and maintenance costs of the radio sites of each operator.

Pelephone is not party to a radio network sharing agreement, due to the Ministry of Communications’ network sharing policy dated April 17, 2014, therefore it does not benefit from the savings of a shared radio network, but on the other hand it has exclusive control of its cellular network, maintenance of its technological channel and the scope of its investments.

3.6.3 Positive and negative factors that affect Pelephone's competitive status

3.6.3.1 Positive factors

A. An extensively deployed high quality cellular network.

B. Its positioning as an advanced high-speed cellular network, particularly due to the progress in deployment of the 5G network.

C. The diverse and widespread distribution system operates through call centers and numerous points of sale that are operated by Pelephone, external resellers and through leading retail outlets.

D. A broad service network and diverse customer service interfaces, including digital channels, enables a high level of service.

E. Robust equity structure and positive cash flow.

3.6.3.2 Negative factors

A. As a subsidiary of the Company, Pelephone is subject to regulatory restrictions for entering other areas of operation and expanding the service bundles it can offer its customers, which do not apply to its competitors.

B. Restrictions on joint activities with the Company, including the marketing of joint service bundles.

C. The establishment, operating and maintenance costs of Pelephone's cellular networks are expected to be much higher compared with the competitors that operate through radio segment infrastructure sharing.

With regard to negative factors, see also section 1.7.2.

3.7 Property, plant and equipment

Pelephone's property, plant and equipment include its core network infrastructure equipment, radio sites, electronic equipment, computers, motor vehicles, terminal equipment, office furniture and equipment and leasehold improvements.

3.7.1 Infrastructure

3.7.1.1 Pelephone currently operates communications networks using three main technologies:

A. 5G – new radio technology that uses an ultra-broadband spectrum (100 MHz at Pelephone), enabling higher capacity and higher broadband speeds for the user. Later on, the technology will enable IOT applications of a significantly larger scale than at present and at very high level of performance.

B. 4G - LTE technology based on GSM standards. The advantages of this technology are larger data communication capacity and faster upload and download rates than the 3G technologies. All the terminal devices that support this technology also support the 3G technologies and the transition between the technologies is seamless.

C. 3G – UMTS technology based on GSM standard. This technology is globally widespread, and enables subscriber identification and services to be provided through a SIM card, which can be moved from one handset to another. The hearing held by the Ministry regarding future shut down of the mobile telephony networks that operate using old technologies (2G and 3G networks) adopted an outline plan for shutting down of these networks, which is expected to lead to their shutting down on December 31, 2025 (or earlier, at the request of each operator with regard to its networks and on condition that they comply with the conditions that were set). The outline plan includes, among other things, milestones for discontinuing the import of handsets that do not support new technologies, informing the public, and discontinuation of connecting such devices to the network. It should be noted that Pelephone previously shut down its 2G network. Based on the foregoing decision, Pelephone is preparing for the shutdown of its 3G network in accordance with the timetables established in the decision.

As at the reporting date, the infrastructures for Pelephone's networks are mainly based on two switch farms, which are connected to more than 2,500 sites.

3.7.1.2 Network launches

In recent years Pelephone has invested in deploying its 4G and 5G networks, including the integration of new technologies such as Massive, Beam Forming, Quam 256 and MIMO technologies, and Carrier Aggregation on the access network and IMS on the network core (see section 3.1.5).

As part of this, since 2020, Pelephone has expanded the access network (by activating additional frequencies in the 700 MHz and 2600 MHz range at over a thousand sites, and in the 3500 MHz range at 500 sites, by installing and operating antennas and transmission reception equipment within these frequency ranges at various sites. It should be noted that of these, in the 700 MHz range, the goal is nationwide deployment.

Pelephone's outline plan for deployment and application of advanced 5G data communication services requires vast investments and is currently integrated into existing infrastructures and systems, and operation of these advanced services will be based on the 5G technology that Pelephone continues to deploy as aforesaid, and will down the line be based on a new dedicated 5G core network (see sections 3.1.5 and 3.8.2.4).

In addition, as part of its ongoing investment, over the coming decade Pelephone will be required to invest for establishing new broadcasting sites, among other things to comply with the terms of its MRT license.

Pelephone's foregoing estimates concerning the scope of investments required are forward-looking information, as this term is defined in the Securities Law, and are based on Pelephone's forecasts and assessments, in part, regarding the speed of expanding and updating the network. Consequently, the information may not be fully or partially realized or may be realized in a different manner than that estimated, if these forecasts and estimates are not realized, or will be realized differently than expected.

3.7.2 Premises used by Pelephone

Pelephone does not own land, and leases premises from others, including the Company, for its operations. Below is a description of the main premises used by Pelephone:

3.7.2.1 The premises Pelephone uses for setting up its communications sites and network centers, as referred to in section 3.7.1, are located throughout the country and are leased for varying periods (in many cases, for 5 years with an option to extend for a further 5 years). With regard to licensing of the sites, see section 3.14.3.

3.7.2.2 Until December 31, 2019, Pelephone's permit agreement with the Israel Land Authority (ILA) for the use of ILA land for installing and operating telecommunication sites that regulates, among other things, permit fees for such use was valid until December 31, 2019. On January 19, 2022, the Israel Land Council announced its decision to extend the umbrella agreement from December 31, 2019 through December 30, 2024, with various amendments.

3.7.2.3 Pelephone's head office is located in Petah Tikvah.

3.7.2.4 For its sales and service operations, Pelephone leases 50 service centers and points of sale throughout the country.

3.7.2.5 Pelephone has other lease agreements for warehouses (including its main logistics center where the central laboratory for repairing customer devices is located), offices, call centers, and two switch farms that it uses for its operations.

3.8 Intangible assets

3.8.1 Licenses

For information about Pelephone's MRT license and its license to operate in the Administered Territories, see section 3.14.2.

3.8.2 Frequency usage rights

3.8.2.1 <u>Frequency shortage</u>

There is a shortage of frequencies for public use in Israel (among other things, because of the designation of numerous frequencies for security uses). As a result, the government limits the number of licenses granted for using frequencies.

3.8.2.2 Pelephone's inventory of frequencies

Under its MRT license and the Wireless Telegraph Ordinance, Pelephone has rights of use of frequencies in the 850 MHz[53] and 2100 MHz spectrums for operating its UMTS/HSPA network, and in the 1800 MHz, 700 MHz and 2600 MHz spectrums for operating its LTE technology network (see also section 3.1.5) and in the 3500 MHz spectrum for operating the 5G technology network. In 2017 Pelephone returned two 1 mega bandwidth frequencies in the 850 MHz spectrum to the national pool of frequencies and towards the end of April 2017 it received a temporary allocation of 5 mega bandwidth on the 1800 MHz spectrum. This allocation is limited in use and is for a fixed period.

The Ministry of Communications temporarily reallocated this band to Pelephone until December 31, 2024 under conditions and restrictions, to allow Pelephone to prepare for the expected changes involved in switching frequencies in the first giga spectrum (see section 3.8.2.3).

Pelephone intends deploying the 800 MHz spectrum frequencies assigned to it, replacing the 850 MHz frequencies (see section 3.8.2.3) (to intensify LTE network deployment) towards the end of 2023, and to activate these frequencies in 2024.

3.8.2.3 Switching frequencies in the first giga spectrum

In July 2018, the Ministry of Communications informed Pelephone that it plans to adapt the cellular frequencies in Israel to European standards and to the region in which the State of Israel is located, so that Pelephone and another cellular operator will be required to switch the frequencies allocated to them in the 850 MHz spectrum to others in the first giga spectrum. On February 5, 2020, the Ministry of Communications informed Pelephone of its intention to execute the plan to replace the 850 MHz frequencies that Pelephone uses in view of the electromagnetic interference caused to neighboring countries due to non-compatibility of the allocation of cellular frequencies in Israel to frequency commissioning based on European standards and to the region in which the State of Israel is located. According to the plan, Pelephone will receive 800 MHz frequencies in place of the 850 MHz frequencies, where in the first stage and for dealing with the foregoing interferences, the number of 850 MHz frequencies used by Pelephone will be reduced to 5 MHz (instead of the current 10 MHz), as of May 31, 2020. Pelephone submitted, at the request of the Ministry of communications, its position on a number of issues, and on March 17, 2020, the Ministry announced its final decision regarding implementation of the outline according to its notice dated February 5, 2020.

On June 1, 2020, Pelephone returned frequencies of 5 mega bandwidth in the 850 MHz spectrum to the Ministry of Communications, so that the number of frequencies in the 850 MHz spectrum it held decreased from 10 MHz to 5 MHz On November 26, 2020, the Ministry of Communications allowed Pelephone to reuse 2X10 MHz in the 850 MHz spectrum, until March 31, 2021 On December 31, 2021, Pelephone ceased using one of the two 850 frequencies of 5 MHz bandwidths and continued using a single 5 MHz bandwidth in the frequency. On June 27, 2021, the Ministry of Communications decided to extend the allocation of frequencies in the 850 MHz and 2100 MHz spectrums held by Pelephone until December 31, 2030 (it is clarified that the foregoing extension of the 850 MHz frequency was subject to the foregoing description concerning the replacement of frequencies in the first giga spectrum).

3.8.2.4 Tender for mobile radio telephony services over advanced bandwidths (the “Tender”)

On August 12, 2020, Pelephone won an allocation of frequencies, further to its participation in a tender for mobile radio telephony services over advanced 5G bandwidths. Highlights of the Tender:

[53] Pelephone has the option to demand a 5 mega allocation in the 800 MHz spectrum due to the freeing of the 850 MHz frequencies.

The Tender includes provisions concerning network coverage and quality requirements that will be formalized as part of an amendment to the MRT licenses of the existing operators (see amendments to Pelephone's license below).

The Tender includes the option of receiving the following incentives:

A. Option of a discount on frequency fees in the first four years subject to the approval of the Ministries of Communications and of Finance;

B. Option of receiving a performance-based bonus for deployment of 5G sites pursuant to the conditions set out in the Tender (such as compliance with scope of deployment, time schedules, duration and timing of deployment compared to others, and additional conditions as set out in the Tender). This bonus was received in 2022.

For further information, see also section 3.19.2.1. For information about exposure to disruptions in the frequency ranges used by Pelephone, see section 3.19.3.9.

Below are the conditions awarded to Pelephone in foregoing allocation of frequencies:

A. 10 mega in the 700 MHz spectrum (for 15 years); of 20 mega in the 2600 MHz spectrum (for 10 years); and 100 mega in the 3500 MHz spectrum (for 10 years). The license period does not change under the Tender and can be renewed according to the terms of the license (the "Frequencies Allocation"). It is noted that the frequencies that Pelephone won are for the exclusive use of the Pelephone network, which gives it a competitive edge. It is further noted that companies that do not own existing networks did not win the Tender.

B. Pelephone's win in the Frequencies Allocation involved a total cost of NIS 88 million, which it paid in September 2022. In this context it is noted that the Tender further provided that it is possible to receive incentives as set out above and including a performance based bonus for deployment of 5G sites pursuant to the conditions set out the Tender that could reach, for all the winners, up to a total amount of NIS 200 million. On October 27, 2021, the Ministry of Communications announced that Pelephone is entitled to this bonus in the amount of NIS 74 million, and the bonus was received in 2022. The revised regulations also provided lower frequencies fees for 2600 MHz and 3500 MHz frequencies, and in addition a performance based annual discount on the total amount of frequencies fees that Pelephone would be required to pay over the next four years (the discount is subject to the Company's compliance with regulated annual engineering targets, which will be reviewed by the Ministry of Communications each year).

On October 1, 2020, Pelephone's license was amended in accordance with the results of the Tender (shortly before, Pelephone was assigned the frequencies that it had won, as aforesaid). Following the amendment of the license, Pelephone began operating the frequencies awarded to it in the Tender at the broadcasting sites that it had upgraded.

The foregoing Frequencies Allocation supports growth in the 4G broadband browsing volume and will enable 5G services to be offered in the future at much higher bandwidth speeds than the current speeds, which will enable, among other things, expansion of the range of advanced uses of the cellular network, such as smart cities, IOT services, low-latency mission-critical services, private networks, among others, all in order to provide a competitive solution in the market. This will involve ongoing investments.

In this regard, see also Note 10 to the 2022 Financial Statements.

Further to the non-binding memorandum of principles issued by the Ministry of Communications on August 14, 2022 concerning the ongoing tender for 5G mobile telephony services and the need to improve and consolidate the existing 5G capacities and solutions of the current cellular networks, on December 7, 2022, the Ministry issued 5G tender documents in the 26 GHz spectrum under which 25 bandwidths of 100 MHz each (total of 2500 MHz) are to be divided between the existing cellular carriers (existing cellular networks), where each network is eligible to win up to 1200 MHz (of the 2500 MHz). The structure of the tender includes the compliance with preconditions stage and a dynamic division stage (the date of which is yet to be set). The minimum price per bandwidth will also be fixed later. Pelephone is studying the tender documents and their conditions and at this stage neither it and/or the Company is able to estimate its outcome.

3.8.3 Trademarks

Pelephone has a number of registered trademarks. Its primary trademark is "Pelephone".

3.8.4 Software, computer systems and databases

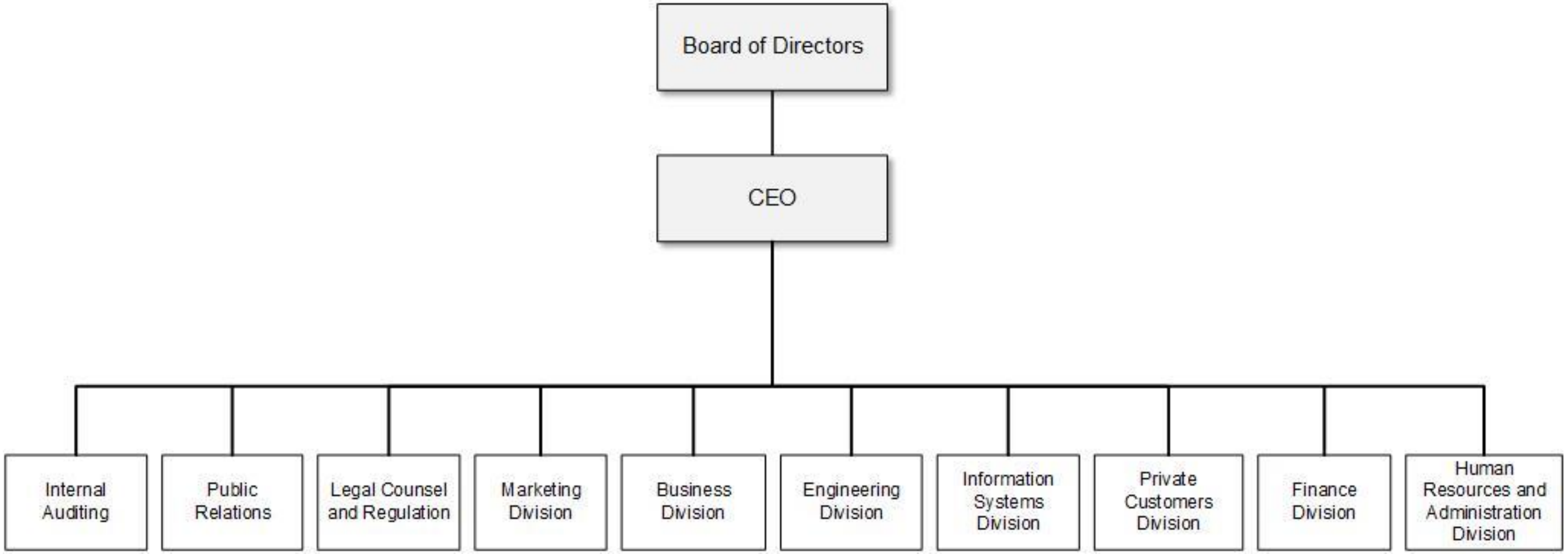
Pelephone uses software and computer systems, some under purchased licenses and others which were developed by Pelephone's IT department. Many of these licenses are limited in time, and are periodically renewed. The primary systems used by Pelephone are Oracle Applications' ERP system and Amdocs's customer management and billing system.

Pelephone is also upgrading its CRM (customer relations management) system on the state-of-the-art Salesforce cloud platform, together with DBS. Pelephone is dependent on the Salesforce system and services, due to their importance for managing its customer relations. System malfunctions or discontinuation of the services by this provider are expected to cause operational difficulties until the matter is rectified or the system/provider is replaced, which could take a long time.

3.9 Human resources

3.9.1 Organizational structure

Pelephone's organizational structure as at the reporting date:



As part of implementing the synergy with the Group's subsidiaries, Pelephone’s CEO, Ilan Sigal, also serves as CEO of DBS. Most of Pelephone’s current VPs also serve as VPs at DBS.

3.9.2 Headcount and Positions

Breakdown of the number of employees at Pelephone, based on organizational structure.

Department	Number of employees	
	December 31, 2022	December 31, 2021
Management and HQ	194	192
Business and Private Customers Divisions	1,128	1,190
Engineering and information systems	382	386
Total	**1,704**	**1,768**

The number of employees in the above table includes those employed in part time positions. The total number of positions[54] at Pelephone as at December 31, 2022 was 1,529.

3.9.3 Terms of employment

The majority of Pelephone's employees are employed under monthly or annual contracts, based on the professions and positions in which they are employed. Most of the service and sales employees are shift workers who work part time and are employed on an hourly basis. The rest of Pelephone's employees are employed under global monthly agreements. The main difference between the monthly and hourly agreements and the global monthly agreements is the structure of salaries.

3.9.4 Collective agreement

Labor relations at Pelephone are regulated under a collective agreement signed between Pelephone and the New Histadrut Labor Federation - Cellular, Internet and High-tech Workers Union (the “Labor Union”) and Pelephone employees’ committee. The agreement applies to all Pelephone employees, with the exclusion of senior managers and certain employees in predefined positions, who are employed under personal agreements.

On November 13, 2019, the parties signed a renewal of the existing collective agreement, which includes streamlining and synergy measures, for the period until June 30, 2022 ("Agreement”).

Under the Agreement, Pelephone may, among other things, terminate the employment of 210 permanent employees over the Agreement period, some of whom by way of voluntary early retirement. Furthermore, the agreement allows Pelephone to terminate the employment of an additional 190 part-time employees, this in addition to not hiring employees to replace those whose employment was terminated. The Agreement also includes granting of a one-time bonus to employees who will not be included in the retirement plan.

On December 6, 2022, Pelephone signed the renewal of the existing collective agreement with the Labor Union and representatives of its employees for a period commencing December 6, 2022 through December 31, 2025 (the “Agreement” and “Term of the Agreement”, respectively), with new terms. Under the Agreement, wage increases and bonuses will be granted, ancillary benefits will be improved, and the labor dispute declared by the Labor Union and employees’ representatives will be lifted (other than the one issue described in section 3.9.5), thereby maintaining labor stability throughout the Term of the Agreement with regard to the issues regulated therein. Pelephone’s total estimated cost of the agreement, including voluntary early retirement of employees whose retirement has been approved amounts to NIS 71 million.

Pelephone’s estimates regarding the estimated cost of the agreement are forward-looking information, as defined in the Securities Law, which are based, among other things, on its assumptions regarding the manner and scope of implementation of the retirement plan and other conditions as set out in the agreement. These estimates may not materialize, or may materialize differently from those anticipated, among others, depending on the manner and scope of implementation of the agreement and of the retirement plan, taking into consideration Pelephone’s needs and its ability to realize its plans and meet the additional conditions set out in the agreement.

In this regard, also see Note 16 to the 2022 Financial Statements.

[54] The number of "positions" at Pelephone is calculated as: total monthly work hours divided by the standard monthly work hours.

3.9.5 Labor Disputes

On January 31, 2018 Pelephone was notified by the New Histadrut Labor Federation - Cellular, Internet and High-Tech Workers Union (the "Histadrut Notice"), that it was announcing a labor dispute pursuant to the Settlement of Labor Disputes Law, 1957. According to the Histadrut Notice, the matter under dispute is the demand by the employees for consultation and negotiations regarding the sale of the controlling interest in the Company to new controlling shareholders and the arrangement of their rights thereunder.

On December 6, 2022, a collective agreement was signed, that includes renewal of the Term of the Agreement from date of signing through to December 31, 2025. Under the Agreement, all open labor disputes were lifted with the exclusion of the issue of the appointment of a representative of the employees to the Pelephone board of directors, with regard to which the Agreement provides that the issue will be negotiated later.

3.10 Trade payables

3.10.1 Suppliers of terminal equipment

Pelephone purchases some of the terminal equipment and accessories from various vendors in Israel and imports others independently. In addition, Pelephone purchases terminal equipment and accessories by way of consignment purchase with the right to return terminal equipment to the suppliers. The agreements with some of the vendors are based on framework agreements that regulate, among other things, the vendor's technical support for the terminal equipment it supplies, availability of spare parts and repair turnaround, as well as the vendor's product warranty. Most of these agreements do not include a purchase commitment on Pelephone's part, purchases are made on a regular basis by means of purchase orders based on Pelephone's needs.

In the event of termination of an engagement with a supplier of certain terminal equipment, Pelephone can increase quantities of terminal equipment purchased from other suppliers or purchase terminal equipment from a new supplier.

Pelephone's material suppliers are Apple, with which it has an agreement with commitments for defined purchase targets and is in effect until March 2024, and Samsung, with which Pelephone does not have an agreement committing to purchase a minimum annual quantity, and purchases are made on the basis of orders that Pelephone places from time to time.

The rate of Pelephone's purchases from each Apple and Samsung in 2022 came to 13.3% and 11.6% (respectively) of Pelephone's total purchases from all suppliers[55]. The division of terminal equipment purchases among suppliers does not create significant dependency on any one supplier or equipment model.

It should be noted that the global shortage of chips that has caused, among other things, shortages and difficulties in the delivery of terminal equipment from the Company's main suppliers.

3.10.2 Infrastructure suppliers

The cellular infrastructure equipment for the UMTS, LTE and 5G networks is supplied by LM Ericsson Israel Ltd. ("Ericsson"). Ericsson is also a material supplier of Pelephone in the microwave transmission segment. Pelephone has long-term agreements with Ericsson for maintenance, support and upgrading of software for the UMTS network and an agreement for the purchase of 4G (LTE) and 5G equipment with Ericsson, and in its opinion, it may become dependent on Ericsson regarding support for this network and its expansion. In addition, the cellular network uses transmission, for which the Company is Pelephone's main supplier.

Pelephone has a multi-year transmission agreement with the Company that includes use and maintenance.

[55] All Pelephone suppliers, including vendors who are not suppliers of terminal equipment and electronic devices. The rate of purchases from Apple and Samsung out of the total purchases of Bezeq Group from all its suppliers as at the reporting date is 4.81% and 4.2% (respectively).

3.11 Working capital

3.11.1 Credit policy

Credit in device sales transactions – Pelephone grants most of its customers who purchase mobile handsets an option to spread payment up to 36 equal installments. To reduce its possible exposure from providing its customers credit, Pelephone acts in accordance with a credit policy that is reviewed from time to time. Pelephone also examines the financial stability of its customers (based on parameters that it sets).

Credit in monthly billing for cellular services – Pelephone customers are billed once a month in billing cycles on different days throughout the month, for cellular service consumption during the previous month.

From most of its suppliers, Pelephone receives credit for periods ranging from 30 days to EOM + 92 days.

Breakdown of average customer and supplier credit in 2022:

	Credit In NIS millions	Average credit days
Customers for sales of terminal equipment (*)	505	259
Customers for services (*)	200	35
Suppliers	245	44

(*) Net of doubtful debts.

3.12 Taxation

See Note 7 to the 2022 Financial Statements.

3.13 Environmental risks and means for their management

3.13.1 Statutory provisions relating to the environment applicable to Pelephone's operations

The broadcasting sites used by Pelephone are "radiation sources" as defined in the Non-Ionizing Radiation Law. The erection and operation of these sites, excluding those listed in the addendum to the law, requires a radiation permit.

The law prescribes a two-step licensing mechanism for obtaining a radiation source operating permit under which the applicant first applies for a permit to construct a radiation source ("the Erection Permit"), which will be in effect for no more than three months and may be extended by the Commissioner for up to nine months, then for a permit to operate the radiation source ("the Operating Permit"), which will be in effect for five years or as otherwise determined by the Minister for Environmental Protection.

With regard to the Erection Permit, by law provides that the permit is contingent upon assessment of the maximum radiation levels to which human beings and the environment are expected to be exposed from the radiation source when in operation, including in the event of a malfunction, and the required measures for limiting the levels of exposure of human beings and the environment to the expected radiation from the radiation source when operating, including implementation of technological means that are in use ("the Limiting Measures").

With regard to the Operating Permit, the law provides that the permit is contingent upon application of the Limiting Measures and to measuring the levels of exposure of human beings and the environment to the radiation generated while the radiation source is operating. The law further provides that the Operating Permit is contingent upon presentation of a licenses under the Communications Law and in certain cases, also of a construction permit pursuant to the Building and Planning Law.

The law includes a punitive chapter under which, inter alia, the construction or operation of a source of radiation in contravention of the provisions of the permit and the construction or operation of a source of radiation without a permit, after having been warned in writing by the Commissioner, are strict liability offenses.

It should be noted that regulation of the maximum permissible human exposure levels to radiation from a source of radiation and the safety ranges from communication broadcasting installations, including a limit on the placing of radiation masts on roof terraces, is still making its way through the Knesset's interior Committee for Environmental Quality, as part of a proposed amendment to the regulations under the Non-Ionizing Radiation Law, which was accompanied by disagreements between the government ministries.

In January 2009, the Radiation Supervisor at the Ministry of Environmental Protection published guidelines regarding safety ranges and maximum permitted exposure levels with respect to radio frequency radiation, including from cellular antennae.

It is also noted that the Ministry of Environmental Protection operates continuously to supervise and monitor the broadcasting sites to check that they comply with the provisions of the Law.

Cellular services are provided through a cellular phone which emits non-ionizing radiation (also known as electromagnetic radiation). Consumer Protection Regulations (Information regarding Non-Ionizing Radiation from a Cellular Telephone) 2002, specify the maximum permitted radiation level for a cellular phone which is measured in units of Specific Absorption Rate (SAR) and requires that Pelephone informs its customers accordingly. To the best of Pelephone knowledge, all the cellular phones that it markets comply with the relevant SAR standards. See section 3.19.2.5.

3.13.2 Pelephone's environmental risk management policy

Pelephone conducts periodic radiation tests to ascertain its compliance with permitted operating and international standards. These tests are outsourced and carried out by companies authorized by the Ministry of Environmental Protection. Pelephone applies an internal enforcement procedure for monitoring implementation of the provisions of the Non-Ionizing Radiation Law, under the supervision of a senior manager. The purpose of the procedure is to assimilate the provisions of the law and limit the possibility of violation.

3.13.3 Transparency for consumers

Pelephone is subject to laws that prescribe duty to publicize and inform customers regarding the radiation sources that it operates and regarding radiation from the mobile handsets that it supplies. Pelephone publishes information on its website regarding the SAR levels emitted from mobile phones and Ministry of Health regulations regarding preventive caution to be taken when using mobile phones.

3.14 Restrictions on and control of Pelephone's operations

3.14.1 Statutory limitations

3.14.1.1 Communications Law

The cellular services provided by Pelephone are subject to the provisions of the Communications Law and its regulations. For details of the cellular permit granted to Pelephone under the Communications Law, see section 3.14.2.

The law authorizes the Director General of the Ministry of Communications to impose financial sanctions for violations of the provisions of the law and of orders and directives issued thereunder, and for violation of the terms of the license.

3.14.1.2 Wireless Telegraph Ordinance

The Telegraph Ordinance regulates the use of the electromagnetic spectrum, and applies, inter alia, to the Pelephone's use of radio frequencies, as part of its infrastructure. Setting up and operating a system using radio frequencies is subject, under the Telegraph Ordinance, to receiving a license, and the use of radio frequencies is subject to designation and allocation of a suitable frequency. The Telegraph Ordinance imposes license fees and fees for designation and allocation of frequencies. The Ordinance authorizes the Ministry of Communications to impose monetary sanctions due to various violations of its provisions.

For the allocation of radio frequencies to Pelephone, see section 3.8.2.

3.14.1.3 The Non Ionizing Radiation Law

With regard to installations that emit electromagnetic radiation see section 3.13.

3.14.1.4 Consumer Legislation and Privacy and Information Security Laws

Pelephone's operations are subject to the Consumer Protection Law, and the Protection of Privacy and Information Security Laws, which regulates the obligations of an operator vis-à-vis consumers (see section 1.7.7.4).

3.14.1.5 Change in interconnect fees (call completion fees)

Interconnect rates are fixed by the regulator. For further information, see section 1.7.7.1.

3.14.2 Pelephone's MRT licenses

3.14.2.1 General

Pelephone's MRT license and its general license for providing cellular services in Judea and Samaria are valid until September 9, 2032[56].

Breakdown of the primary provisions of Pelephone's MRT license:

A. Under certain circumstances, the Minister may modify the terms of the license, restrict or suspend it, and in certain instances even revoke it.

B. The license is non-transferable and contains restrictions on the acquisition or transfer (including by way of a charge), directly or indirectly, of control or of 10% or more of any means of control in Pelephone, including a pledge on said means of control, unless the Minister has given prior consent.

C. Pelephone is obliged to provide interconnect services to all other operators at equal terms and it must refrain from any discrimination in carrying out such interconnect service.

D. Pelephone is required to refrain from granting infrastructure service priority to an affiliate licensee company (as defined in the license) over another licensee.

E. The license sets out the mobile telephony services that Pelephone may provide and stipulates that it is not permitted to provide additional mobile telephony services that are not set in the license.

F. Pelephone may not sell, lease or mortgage any of the assets used for the implementation of the license without the consent of the Minister of Communications, other than certain exceptions as set out in the license.

G. In times of emergency, whoever is statutorily competent shall have the authority to issue Pelephone with certain instructions on its mode of operation and/or manner of provision of services (see section 3.19.2.9).

H. The license stipulates the types of payments Pelephone may bill its subscribers for with regard to cellular services, and the reports it is required to submit to the Ministry of Communications. The license also determines the Minister’s power to intervene in tariffs, in certain cases.

I. The license obligates Pelephone to a minimum standard of service.

J. To secure Pelephone's undertakings and to compensate and indemnify the State of Israel for any damage that may be caused by acts committed by Pelephone, Pelephone provided the Ministry of Communications bank guarantees in a total amount of NIS 69 million.

3.14.2.2 Ministry of Communications decision regarding amendments to the license

The Ministry periodically updates the Company’s license on various issues as part of hearings it conducts.

3.14.3 Site construction licensing

Pelephone’s cellular service is provided, inter alia, through cellular sites deployed throughout Israel in accordance with engineering requirements. The constant need to upgrade and

[56] The content of Pelephone's MRT license is published on the Ministry of Communications website at www.moc.gov.il The provisions of the MRT license, with certain changes, apply to the Judea and Samaria license.

improve the quality of cellular services necessitates setting up cellular sites, configuration changes and changes in existing deployment of antennae.

Pelephone uses two main types of broadcasting sites along two tracks: macro sites that require a building permit from the Planning and Construction committees (in this regard see the comments below to NOP 36A) and installations that are exempt from a building permit under the Communications Law and the Building and Planning Law (the "Exemption Provision"). wireless access installations ("Access installations") with regard to which regulations were issued in 2018 that regulate the self-licensing track based on compliance with the provisions of NOP 36/A and enables self-licensing for the establishment of certain broadcasting facilities. On January 1, 2022, a series of legislative amendments came into effect under the Arrangements Law, which defined the cellular infrastructure as national infrastructure and created the self-licensing track for certain cellular antennae and for adjustments in the various broadcasting facilities instead of establishing new access installations, as described below.

Pelephone's ability to maintain and preserve the quality of its cellular services as well as its coverage is based partly on its ability to construct cellular sites and install information equipment, including broadcasting sites. The difficulties encountered by Pelephone in obtaining the permits and approvals required may have an adverse effect on the existing infrastructure, network performance and on the construction of the additional cellular sites required by the network. There are also difficulties for deployment in Judea and Samaria, where a special system of laws applies.

Inability to resolve these issues in a timely manner is liable to prevent the achievement of the service quality targets laid down in the MRT license.

Pelephone, similar to the other cellular carriers in Israel, established part of the cellular sits around the country on land administered by the Israel Land Authority. This, among other things, under an umbrella agreement from 2013 that ended on December 31, 2019. Following lengthy negotiations, on November 23, 2022 a new umbrella agreement was signed, that will be in effect until December 31, 2024, with certain changes compared to the original umbrella agreement.

3.14.3.1 Building permits for erecting a cellular broadcasting facility under NOP 36A:

Licensing for the construction of cellular broadcasting sites that require building permits is governed under NOP 36A, which came into force in 2002.

The licensing procedure under NOP 36A requires, among other things, that the following permits be obtained: a) an erection and operating permit from the Ministry of Environmental Protection, as set out in section 3.13.1; b) approval of the Civilian Aviation Administration in certain cases; c) IDF approval.

In addition, by law, as a condition for obtaining a permit for erecting a cellular communications broadcasting facility a deed of indemnity must be submitted to the local committee for impairment compensation claims. As at the reporting date, Pelephone has deposited 650 such indemnity notes with various local councils.

Notwithstanding the current format of NOP 36A, Pelephone (and to the best of its knowledge, also its competitors) encounter difficulties in obtaining some of the required permits, and in particular permits from planning and construction authorities.

3.14.3.2 Facilities exempt from building permits:

The second track under which Pelephone sets up broadcasting sites is the access installations track. Access installations were required to obtain individual radiation permits, but were exempt from building permits provided that they were erected in accordance with the conditions set out in the exemption provision (Section 266C(a) of the Planning and Construction Law (Installation of Wireless Access Facility for Cellular Communications) 2018, and its regulations. Nonetheless, due to the amendment of the Planning and Construction Law under the Arrangements Law and the new self-licensing track established thereunder (see below), the access installations track has become superfluous.

As at the reporting date, Pelephone operates 451 wireless access installations.

It should be noted that in specific enforcement proceedings, that are adopted from time to time, additional arguments arise as to the manner in which the exemption may be used, including compliance with the regulating standards. If Pelephone facilities fail to comply with the conditions set out in the Regulations, there is a risk, with regard to those facilities, due to the need to dismantle or adjust these facilities.

The Planning and Construction Law was amended under the Arrangements Law that came into effect on January 1, 2022, including the lifting of regulatory barriers with regard to the construction of sites. The amendment mainly grants an exemption from licensing procedures for erecting and using installations of up to 6 meters on the roof of a building, an exemption for replacing a transmission installation, an exemption for adding an antenna to a transmission installation that was erected in accordance with the Planning and Construction Law and an exemption for replacing masts of up to a height of 18 meters. The amendment to the Planning and Construction Law also includes a new classification of "transmission installations for communications using the cellular method", as defined in Section 202B of the Planning and Construction Law, as a "national infrastructure", and a new classification of NOP 36A as a "detailed national master plan for national infrastructure". The amendment to the Planning and Construction Law also includes arrangements to facilitate the replacement of antennae, addition of an antenna to existing sites, and the strengthening of masts. All according to technical and practical condition set out in the amendment. These installations will continue to comply with all the conditions of NOP36 and the expanded guidelines of the local planning committees, where the practical implications of the amendment is the self-licensing track option - in other words, the execution of a self-licensing and control process in the foregoing instances and retroactive submission of documents to the Planning and Construction Committee after completing erection of the sites. At the same time as this amendment, the definition of a “Wireless Access Facilities” in Section 27A of the Communications Law was also amended. Under this amendment, the sentence “"transmission installations for communications using the cellular method is defined in Section 266C2 of the Planning and Construction Law as a wireless access facility” was removed. This means that the wireless access facilities that were established with exemption from a permit, continue to be legal, but it is no longer possible to establish new cellular sites by way of the "access facilities" track, as set out above.

The inter-ministerial committee report that served as the foundation for the amendments to the Arrangements Law, also recommended revising NOP 36A that came into effect twenty years ago.

At this stage, it is not possible to estimate the expected outcome of these amendments.

On November 14, 2021, Pelephone signed a framework agreement to expand the collaboration for the installation of passive infrastructure on cellular sites shared with Cellcom and PHI Networks (2015) Limited Partnership. In August 2022, the Ministry of Communications approved this agreement. This agreement may boost the construction of shared cellular sites.

3.14.3.3 <u>Conclusion:</u>

A few sites constructed years ago still lack approvals from the Civil Aviation Administration and the IDF, even though applications for such approvals were submitted a long time ago. Furthermore, there are administrative or other delays in some of the building and planning committees for issuing building permits for sites. Consequently, Pelephone operates several broadcasting sites that have not yet been granted the requisite building permits.

Construction of a broadcasting site without a building permit constitutes a breach of the law and in some cases it has led to the issuing of demolition orders of sites or the filing of indictments or instigation of civil proceedings against Pelephone and some of its officers.

As at the reporting date Pelephone has succeeded in most of the above cases in refraining from demolition or delaying implementation of the demolition orders as part of arrangements made with the planning and building authorities in order to attempt to regulate the missing licensing. These understandings did not require admission of guilt and/or conviction of Pelephone's officers. Notwithstanding, there is no certainty that this situation will continue in future, or that there will be no further cases where demolition orders will be issued and indictments will be filed because of building permits, including against officers.

Like other cellular operators in Israel, Pelephone might be required to dismantle broadcasting sites before the requisite approvals and permits have been obtained, on the dates stipulated in the law. Pelephone uses permit-exempt access installations to provide coverage and capacity in densely populated areas. If legal grounds are established requiring the simultaneous demolition of sites in a given geographic area, service in that area may deteriorate until alternative broadcasting sites can be established.

3.14.4 Economic Competition Law

The terms of the merger between Pelephone and the Company include various restrictions regarding cooperation between the companies (see section 2.16.9.4).

3.15 Material Agreements

3.15.1 For information about the agreements with Ericsson, see section 3.10.2.

3.15.2 In July 2016, an agreement was signed between Pelephone and the Ministry of Finance Accountant General (the "Accountant General"), under which Pelephone will provide mobile telephony services to State employees for an estimated 100,000 subscribers for three years. Under the agreement, Pelephone provides devices to some of the Accountant General subscribers, in accordance with the provisions of the agreement.

The State decided to exercise its option to extend the agreement and it was extended until May 2, 2023.

3.15.3 For information about the agreement with the Israel Land Authority, see section 3.7.2.2.

3.15.4 With regard to the collective agreement between Pelephone and the Labor Union and the Pelephone employees’ committee**,** see section 3.9.4.

3.16 Legal proceedings[57]

Legal claims have been filed against Pelephone as part of the normal course of its business, including motions for certification as class action suits.

3.16.1 Pending legal proceedings

Breakdown of proceedings for claims in material amounts and claims which could have material implications for Pelephone's operations:

	Date:	Parties	Court	Type of Action	Details	Amount of claim NIS million
A.	May 2012	Customer v. Pelephone	District (Tel Aviv)	Financial class action suit	The claimant alleges that Pelephone does not inform customers wishing to join its services using a handset that was not purchased from Pelephone, that if the handset does not support the 850 MHz frequency, they will only get partial reception over one frequency rather than two. In March 2014, the court certified the claim as a class action, and this subsequent to Pelephone announcing its agreement (for reasons of efficiency) to conduct the claim as a class action, while retaining its arguments. The proceeding was divided into two stages (first stage is clarification the responsibility and quantification of damages, if necessary, will be the second stage). On January 20, 2019, a ruling was handed in the case that Pelephone is responsible as alleged in the claim, on grounds of misleading conduct under the Consumer Protection Law and on grounds of bad faith in conducting negotiations, and this, with regard to the period up to the date of the certification of the claim as a class action (March 2014). In accordance with the ruling and a previous decision in the case, the next stage in the hearing of the case will be the question of the alleged damage.	124
B.	July 2014	Customer v. Pelephone and other mobile telephony companies and defendants.	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The claimants allege that Pelephone, together with three other mobile telephony companies, registered subscribers for content services without obtaining their consent and in contravention of the law, and thereby creating a "platform" for iQtech Group to unlawfully charge tens of thousands of people for content services.	100 with regard to the mobile telephony companies and 300 against all the defendants.
C.	April 2017	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The plaintiff alleges that the Defendant changed, unilaterally and without consent, the terms of the agreement between it and the plaintiff, and others like her, by allowing continued internet use once the internet usage limit was reached, instead of blocking it, despite Pelephone's announcement on this matter.	80

[57] For information concerning reporting policies and materiality, see section 2.18

	Date:	Parties	Court	Type of Action	Details	Amount of claim NIS million
D.	October 2017	Customer v. Pelephone, Partner and Partner	Central District	A financial claim filed with a motion to certify it as a class action.	The plaintiff claims that the defendants unlawfully use their customers' location data, thus violating the agreements with them, the operating licenses and various laws, including the Protection of Privacy Law, 1981.	850
E.	April 2019	Customer v. Pelephone, Bezeq International and 6 other companies	Central District Court	A financial claim filed with a motion to certify it as a class action.	The claimants claim that the respondents fail to inform their customers regarding the possible risks in using the internet and of the option for joining their free content screening service, contrary to the provisions of the Communications Law. Furthermore, the respondents provide screening services against abusive websites and content that they claim is not sufficiently effective. According to the claimants, this constitutes, among other things, a violation of the provisions of the Consumer Protection Law, violation of their duties under the Torts Ordinance, breach of contract and unjust and unjustified enrichment.	The amount of the claim is not stated, but is estimated in the tens of millions of shekels.
F.	January 2023		Haifa District Court	A financial claim filed with a motion to certify it as a class action.	The claimant claims that there is no price marking on products sold by Pelephone, contrary to the provisions of the Consumer Protection Law and the Consumer Protection Regulations (Various Rules for Publishing Prices of Products and Services), 1991.	Over NIS 2.5 million Could not be estimated accurately.

3.16.2 Legal proceedings that ended during the Reporting Period

	Date of filing of the action	Parties	Court	Type of Action	Details	Amount of the original claim NIS million
A.	November 2013	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The claimants allege that Pelephone does not grant the same perks to all its customers, thereby distinguishing between those customers that they allege Pelephone considers to be highly valuable and others, which they claim is in breach of Pelephone's license and the law. In December 2019 a judgment was handed dismissing the claim without awarding costs. An appeal was filed against the judgment (in consolidation with the petition in subsection B), which was dismissed on July 7, 2022.	300
B.	May 2015	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The claimants allege that Pelephone does not offer "Walla Mobile" tracks to all its existing customers and those who join are subscribers who want to transfer to a different track, and that this in in violation of the provisions of the license that obligates equality, and thereby it misleads its customers. The claim proceedings were consolidated with another claim due to the similarity between the proceedings. In December 2019, a judgment was handed dismissing the claim without awarding costs. An appeal was filed against the judgment, which was dismissed on July 7, 2022.	The amount of the claim is not stated, but the application is estimated to be in millions of shekels.

	Date of filing of the action	Parties	Court	Type of Action	Details	Amount of the original claim NIS million
C.	October 2016	Customer v. Pelephone, Partner and Cellcom	District (Lod)	A financial claim filed with a motion to certify it as a class action.	The claimants allege that the defendants do not allow their subscribers to make full use of their overseas package and this through discriminatory terms under which the package can be used for a very short period (between one week to one month only) and that at the end of that period, the unused balance of the package expires and no reimbursement is given. On April 5, 2020, a judgment was handed dismissing the petition. The appellants' appeal of the dismissal of the motion for certification was dismissed on April 26, 2022.	The amount of the claim is not stated, but is estimated in the tens of millions of shekels.
D.	April 2018	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The claimant's claim that Pelephone markets and sells its customers obligated repair services for unreasonable periods and without the agreement including the option to cancel the transaction during the commitment period and/or to transfer the service to another mobile device. A judgment was handed on July 21, 2022, confirming the settlement arrangement that mainly adds certain changes to the obligated repair service and awards the relevant customers benefits amounting to a total of NIS 640 thousand.	The amount of the claim is not specified.
E.	January 2020	Customer v. Pelephone	District (Tel Aviv)	A financial claim filed with a motion to certify it as a class action.	The claimant claims that Pelephone forces each customer that purchases from it, through the website or app on the mobile telephone, an overseas communications package - including calls and/or internet use, to agree to receive advertising notifications. On November 27, 2022, the Court handed a decision to dismiss the motion.	The amount of the claim is not specified.

3.17 Business strategy and goals

Pelephone's strategic goals are to continue increasing its customer base by promoting a range of integrated communication packages and customer solutions, to promote 5G based services, to continue development of network innovations and technologies, to provide excellent service and improve its cost structure.

3.18 Anticipated developments in the coming year

In 2023, a number of factors are expected to affect Pelephone’s activities, the main ones being:

3.18.1 To continue competition and to increase added value for the customer.

Pelephone predicts that competition in 2023 will focus on increasing value and internet browsing volume for its customers.

3.18.2 Cellular network and product innovations

In 2023 Pelephone is expected to continue promoting services and products that will enable increase in revenues and boost its image advantage over the competitors: Private networks, cyber and IOT services and continued focus on launching large device while implementing the 5G network deployment.

3.18.3 Increase in Pelephone subscribers' consumption of services

Pelephone expects that as a result of the increased browsing volume offered to its customers and the increase in marketing 5G based service packages, the upward trend of online data communications consumption will continue.

3.18.4 Digital transformation

In 2023 Pelephone is expected to continue to develop and expand its online service and sales channels.

3.18.5 5G Network

In 2023, Pelephone is expected to continue deployment of the 5G network, building an independent core network and to further promote marketing and sales of services based on this technology.

Pelephone's expectations and assessments of developments during the year to come are forward-looking information as defined in the Securities Law. These expectations and assessments are based, inter alia, on the state of competition in the cellular sector, the existing regulatory situation and the manner in which innovative changes are implemented in regulation. These assessments may not materialize or may materialize in a manner materially different from that described, depending, inter alia, on the structure of competition in the market, changes in consumption habits of cellular customers, technological and regulatory developments in the sector.

3.19 Discussion of risk factors

Risk factors deriving from the macro-economic environment, the unique qualities of the sector in which Pelephone operates, and risk factors specific to Pelephone.

3.19.1 Macroeconomic risks

3.19.1.1 <u>Exposure to exchange rate fluctuations and inflation.</u>

Pelephone is exposed to exchange rate risks as most of its terminal equipment, accessories, spare parts and infrastructure equipment are purchased in USD, whereas Pelephone's revenues are in NIS. Erosion of the NIS against the USD may affect Pelephone's profitability if it is unable to adjust selling prices (mainly of terminal equipment) at short notice. Furthermore, changes in the CPI could impact the rental costs of sites.

3.19.1.2 <u>The Pandemic and Supply Chain</u>

The outbreak of diseases and pandemics in general (such as the outbreak of Covid in 2020) may have consequences on Pelephone’s business activities based on the scope and severity of the spread, and the national and global measures that will be adopted as a result. Such consequences could be reflected by, among others, damage caused to Pelephone, and its customer service and supply chain. Events of this type are variable events that are out of Pelephone's control and their outcome are subject to, among other things, decisions of governments and authorities in Israel and worldwide, which could affect the Company.

3.19.1.3 Damage due force majeure, war, disaster

Any damage to the switching and/or server farms (including damage to multiple sites, such as due to an earthquake) that are used by Pelephone for its core activities could have an adverse effect on Pelephone's business and its results.

3.19.2 Sector-specific risks

3.19.2.1 Investments in infrastructures and technological changes

The cellular market in Israel and globally requires substantial capital investments for the deployment of infrastructure. The frequent technological changes in infrastructure and terminal equipment and the fierce competition in various market segments impose a heavy financial burden on the companies operating in the market, requiring them to update their infrastructure technology from time to time.

3.19.2.2 Competition

The cellular market in Israel is highly saturated and fiercely competitive with a large number of operators, and is exposed to risks resulting from technological and regulatory developments. The costs of establishing, maintaining and operating a MRT network pro rata to the number of subscribers is expected to be higher for Pelephone due to the fact that it does not operate under a network sharing model. The terminal equipment market is also intensely competitive among the cellular carriers and the numerous stores that sell parallel import terminal equipment.

3.19.2.3 Customer credit

A significant portion of terminal equipment sales are credit-based. Most of this credit, which is not covered by either insurance or sureties, is exposed to risk. It is noted that the credit is spread among a large number of customers and Pelephone's collection mechanisms are efficient and competent.

3.19.2.4 Regulatory developments

The industry in which Pelephone operates is subject to legislation and standardization relating to issues such as increasing competition, setting tariffs, environmental quality, liability for and ways of repairing products, regulation of interconnect rates, among others. Regulatory intervention in the industry may materially impact Pelephone's structure of competition and operating costs.

3.19.2.5 Electromagnetic radiation

Pelephone operates thousands of broadcasting facilities and sells terminal equipment that emits electromagnetic radiation (see section 3.13). Pelephone adopts measures to ensure that the levels of radiation emitted by these broadcasting facilities and terminal equipment do not exceed the radiation levels permitted in the Ministry of Environmental Protection guidelines (the levels adopted are based on international standards). Even though Pelephone acts in accordance with the Ministry of Environmental Protection guidelines, if health risks are found to exist or if the broadcasting sites or terminal equipment are found to emit radiation levels exceeding the permitted radiation standards, thereby constituting a health hazard, this may have an adverse effect due to reduced consumption of Pelephone's services, difficulty in renting sites, compensation claims for physical and property damages in substantial amounts and attempts to exercise the deeds of indemnity deposited with the planning authorities with respect to section 197 of the Building and Planning Law. Pelephone's third-party liability policies do not currently cover electromagnetic radiation.

3.19.2.6 Site licensing

Establishing and operating cellular antenna require building permits from the various planning and building committees, a process that involves, inter alia, obtaining a number of approvals from government entities and regulatory bodies. For further information about the difficulties Pelephone encounters when erecting and licensing sites, see section 3.14.3. These difficulties may adversely affect the quality of the existing network and especially the deployment of the new network.

3.19.2.7 Severe malfunctions in information and engineering systems

Pelephone provides its services through various infrastructure systems, including switches, data communications and access transmission networks, cables, computer systems, physical infrastructures and others (the “Systems"). Pelephone's business is highly dependent on these Systems. Pelephone has backup systems for some of these Systems, however in the event of damage to some or all of the Systems, whether due to a large-scale technical malfunction, natural disaster (such as an earthquake or fire), or damage to physical infrastructures or malicious vandalism (such as the introduction of viruses and cyber-attacks as set out below), may cause significant difficulties in providing of services, including in the event that Pelephone is not able to restore the Systems quickly.

3.19.2.8 Information security, customer data protection and cyber risks

As a leading cellular carrier that provides service to hundreds of thousands of subscribers, Pelephone is a target for cyber-attacks aimed at impairing the use of information systems or the information itself (“Cyber Attacks”). Such types of attacks or hacking events are liable to cause disruption of business, theft of information/funds, damage to databases and subscriber information, impairment of goodwill, damage to systems and leaking of information, which could also be caused maliciously or accidentally by internal entities.

Pelephone is an organization that operates under the directives of the Prime Minister’s Office National Cyber Directorate and by the Ministry of Communications, and is committed to comply with strict information security standards. In this context, Pelephone implements a security policy that includes the most advanced security systems in the world, which are installed using the cyber security layering method and are operated through a configuration that combines effective security with Pelephone's operational needs and security layers for protecting Pelephone's infrastructure and systems, which are designed to prevent and reduce the possibility of malicious or accidental misuse of Pelephone data by an outside party or internal entity, as well as the possibility of an external party taking over and managing network components or adversely exploiting information about Pelephone's infrastructure and networks in any way. As part of this, various actions are executed, including review of alerts and logs in the systems, integration of various information security products according to a description of the threats, periodic risk surveys and drills carried out according to a yearly plan.

Pelephone complies with the Prime Minister's Office standard that defines a level of security against a cyber-attack by a hostile country linked to information security (standards that define a level of protection for the Company's systems against information security threats), and as part of implementing the requirements of the standards, Pelephone ensures the availability, integrity, reliability and confidentiality of the databases that it is responsible for.

Pelephone supervises the implementation of its security policy, which includes testing of the Company's effectiveness and readiness. As part of this the Company conducts various attack scenario tests and drills at varying frequency (including through external companies that specialize in this area). Pelephone’s board of directors is also involved and supervises cyber risk management at Pelephone as part of its involvement in Pelephone’s overall risk management policy. The Company believes that its risk management policy for handling and minimizing cyber risks is effective.

The cyber risk management and its implementation is part of the responsibility of the Information Systems Department of the Infrastructure Division.

Notwithstanding Pelephone's investments in means for reducing such risks, it cannot guarantee that these measures will succeed in preventing damage and/or disruptions, which could also be significant, of the Systems and the information linked to them.

3.19.2.9 State of emergency

During an emergency, legislative provisions and certain provisions of the MRT license empower competent authorities to take necessary measures for ensuring the security of the State and/or public safety, including: obligating Pelephone (as a MRT license holder) to provide services to the defense forces, the appropriation of engineering equipment and facilities belonging to Pelephone, and even taking control of Pelephone’s Systems.

3.19.2.10 Shortage of frequencies

For information about the shortage of frequencies, see section 3.8.2.1. In many cases, frequencies are allocated under tenders, in a way that could increase the costs of acquiring frequencies and place cellular operators that are not given allocations under the tender at the risk of competitive disadvantage.

3.19.3 Pelephone specific risk factors

3.19.3.1 Severe malfunctions in the communications network

Pelephone is exposed to various property risks and liabilities. Pelephone employs the services of an external professional insurance consultant specializing in this field. Pelephone has insurance policies that cover the regular risks to which it is exposed with restriction on the terms of the policies, such as various property insurances, various liability insurances, loss of profit cover, third-party cover and officers liability insurance. Nonetheless, Pelephone's insurance policies do not cover certain types of risk, including certain faults arising from negligence or human error, radiation risks, or terror.

3.19.3.2 Serious malfunctioning of the cellular network

Pelephone’s cellular network is deployed throughout the country via core network sites, antenna sites and other systems. Pelephone's business has absolute dependence on these systems, which are often, sometimes temporarily, in a state of partial survivability. Wide scale malicious damage or malfunction might adversely affect Pelephone’s business and results.

3.19.3.3 Endemic malfunctioning of devices

Various risks arise from Pelephone's liability as an importer with respect to manufacturing defects in devices which are not supported by the manufacturers.

3.19.3.4 Legal proceedings

Pelephone is party to legal proceedings, including class actions, which are liable to result in it being ordered to pay material amounts that cannot presently be estimated, and with respect to part thereof, no provision has been made in Pelephone’s financial statements. Class action suits may reach high amounts, since a major part of the residents of Israel are Pelephone consumers, and a claim relating to a small amount of damage to a single consumer could grow into a material claim against Pelephone if certified as a class action applicable to all or a large proportion of those consumers.

3.19.3.5 Material suppliers and customers

For information about agreements with material suppliers and customers, see sections 3.10 and 3.15. Some of Pelephone's agreements, including with its key customers, are limited in time. There is no certainty that these agreements will be renewed at the end of their term or that options granted to customers for their extension will be exercised.

3.19.3.6 Labor relations

Pelephone has a collective agreement with the Labor Union and with the employees' committee which applies to most of its employees. The collective agreement may reduce managerial flexibility and incur additional costs for

Pelephone (see section 3.9.4). In addition, implementation of workforce programs may cause labor unrest and harm Pelephone's current operations. For information about labor disputes at Pelephone, see section 3.9.5.

3.19.3.7 Loss of knowledge and information

The changes taking place in the labor market in Israel and globally, together with the organizational changes, entail a risk of losing key employees, loss of knowledge due to employee churn, difficulties in recruiting workers, among others.

3.19.3.8 Impairment of financial assets

In accordance with accounting standards, Pelephone carries out periodic impairment testing of assets for which impairment signs have been identified. For further information about the risk factor relating to reported impairment losses, see section 2.20.12.

3.19.3.9 Frequency spectrums

Pelephone operates frequencies in the 700 MHz, 850 MHz, 1800 MHz, 2100 MHz, 2600 MHz and 3500 MHz spectrums. The frequencies are exposed to interference that is liable to impair the quality of service of the networks operated by Pelephone. The factors that could cause interference include the fact that the 850 MHz frequency is also used for terrestrial television broadcasts by television stations in the Middle East on the same frequency, causing interference in Pelephone's 850 MHz UMTS/HSPA network. Furthermore, Jordanian networks also use the same 2100 MHz frequency spectrum used by Pelephone and in view of the limited cooperation between the Jordanian operators and Pelephone, this could have an adverse effect on part of Pelephone's services. Furthermore, Pelephone is required to avoid interference with satellite broadcasts over the 3500 MHz frequencies at several points around the country, which restricts operation of 5G services close to such points.,

For further information about the implications of switching frequencies in the first Giga spectrum, see section 3.8.2.3.

3.19.3.10 Cash flow

Pelephone is required to maintain sufficient cash flows to comply with its long term business plan. The absence of sufficient cash flows may adversely affect Pelephone's business and its ability to make large-scale investments in the network and is liable to impair its ability to manage the competitive threats in the industry.

The chart below grades the impact of the foregoing risk factors on Pelephone's operations, as assessed by Pelephone's management. It should be noted that Pelephone's assessments of the extent of the impact of a risk factor reflect the scope of the effect of such risk factor, on the assumption that it the risk factor will be realized and the foregoing does not express an assessment or give weight to the chances of its realization as aforesaid. The order in which the risk factors appear above and below is not necessarily based on the extent of the risk[58]:

[58] See footnote 48.

Summary of risk factors - cellular telephony

	Effect of risk factor on Pelephone's activities as a whole Risk factors		
	Major	**Moderate**	**Minor**
Macro risks			
Exposure to changes in the currency exchange rate.		X	
The Pandemic and Supply Chain	X		
Damage due force majeure, war, disaster	X		
Sector-specific Risks			
Investments in infrastructures and technological changes	X		
Competition	X		
Customer credit		X	
Regulatory developments	X		
Electromagnetic radiation			X
Site licensing		X	
Severe malfunctions in information and engineering systems	X		
Information security, customer data protection and cyber risks	X		
State of emergency	X		
Shortage of frequencies		X	
Pelephone specific risk factors			
Severe malfunctions in the communications network			X
Serious malfunctioning of the cellular network	X		
Endemic malfunctioning of devices			X
Legal proceedings		X	
Material suppliers and customers		X	
Labor relations		X	
Loss of knowledge and information		X	
Impairment of financial assets			X
Frequency spectrums	X		
Cash flow			X

The information contained in this section 3.19 and Pelephone's assessments regarding the effect of the risk factors on its operations and businesses is forward-looking information as defined in the Securities Law. The information and assessments rely on data published by the Ministry of Communications, Pelephone's assessments of the market situation and its competitive structure. Actual results may differ significantly from these assessments if a change occurs in any of the factors taken into account in the assessments.

4. Bezeq International - Internet, International Communications and ICT Solutions

4.1 General

4.1.1 Operating segment structure and changes

Bezeq International operates in several key sectors: Internet services, international data communication, international telephony, business communication and IT services, including server farm hosting and cloud services, as well as equipment supply, licensing and business service contracts.

For information about regulatory changes for internet services to private subscribers which are expected to materially affect Bezeq International's operations in this market, see section 4.11.5.3.

4.1.2 Restrictions, legislation and standardization applicable to Bezeq International

A substantial part of Bezeq International's operating segments are regulated primarily by the Communications Law and the pursuant regulations, as well as the terms of its license (see section 4.11).

For information about the central regulatory developments applicable to Bezeq International, see section 4.11.5.

4.1.3 Changes in volume and profit of operations in the segment

For information about changes in Bezeq International's scope of operations, see sections 1.5.3.2 and 4.3.

4.1.4 Market developments and customer characteristics

The internet services segment is characterized by customers switching from retail market services (where the customer purchase ISP and infrastructure services from different providers) to end-to-end bundles (in which ISP and infrastructure services are purchased from a single provider), due to regulatory changes (see section 4.11.5.3). The international data communication market recorded a growth in demand for services in Israel and worldwide. The increased use of information technologies requires increasing the capacity. Positioning Israel as a communication and technology node increases the demand of global companies for data communication services to Israel. Due to establishment of diplomatic ties with additional Eastern Mediterranean countries, demand for communication services between the Eastern Mediterranean and Europe, some of which will go through Israel, is expected to grow.

There has recently been a decline in call minutes (incoming and outgoing) in Israeli international call market, mainly due to an abundance of free applications that enable making VoIP calls. In 2022, the downturn in the international call market continued.

In 2022, the business communication and IT services sector saw a growth in demand for server farm hosting services and public cloud services due to the trend of organizations migrating their IT rooms and infrastructure to server farms that provide 24/7 maintenance and monitoring services and the high power supply required for IT equipment, and as a result of switching to as a Service. The reasons for the growth in demand for free cloud services include the digital transformation, entry of cloud companies such as AWS, Oracle, Google, and Microsoft into the Israeli market, and the transition of government services to cloud under the Nimbus project.

The business equipment, licensing, and service contract sector is affected by the economic situation in Israel and the world, as well as technological changes. There is a clear market trend of switching from purchasing equipment to cloud-based software products and services (such as PaaS, IaaS, SaaS, and reliance on public cloud resources such as AWS, Azure, and GCP). However, customers are expected to adopt a model that combines equipment purchasing and cloud services (hybrid model).

4.1.5 Main entry and exit barriers

4.1.5.1 The main entry barriers into the markets where Bezeq International operates are investments, partly in infrastructure and setting up service and support systems. Some operations also require a license pursuant to the Communications Law.

4.1.5.2 The main exit barriers from these markets are long-term binding agreements with infrastructure providers, and investments with a long payback period. In some operations, Bezeq International also undertakes to provide customer service throughout the term of the contract, which is not short.

4.1.6 Alternatives to Bezeq International's products and changes to them

The main alternative product in the international call market is the use of VoIP technology that enables making international internet calls to other users of that technology and of TDM network, using software products (such as Skype, WhatsApp, or Zoom), as well as the services of communications providers overseas. These services have attractive user fees (including no user fees) and together with their availability, lead to an ongoing growth in the number of users, and as a result impairment of Bezeq International's revenue. At the same time, international operators with a license to provide international telecommunication services have been operating in Israel for more than a decade.

4.1.7 Structure of competition in the internet market and changes in it

To date in the ISP segment, ISP licenses have been granted to many companies. Due to regulatory changes, the ISP market is switching to an end-to-end service format (bundles that includes ISP and infrastructure services from a single provider). This has led to a substantial reduction of Bezeq International's internet customers and the restructuring described in section 1.1.4, so that Bezeq International no longer sells internet services to private customers.

For further information about competition in the operating segment, see section 4.6.1.

4.1.8 Critical success factors

4.1.8.1 Hiring and employment of skilled human resources;

4.1.8.2 Streamlining, and reduction of costs and human resources;

4.1.8.3 The ability to maintain a high service level and customer satisfaction;

4.1.8.4 Technological innovation, identification of market needs and trends, and launching of solutions that meet such needs;

4.1.8.5 Investments in the infrastructure required to provide services;

4.1.8.6 Maintaining proper working relationships with leading manufacturers and suppliers.

4.2 Products and services

List of Bezeq International's main products and services:

4.2.1 Internet and data communication services

4.2.1.1 Internet services

In the internet services sector, Bezeq International provides DSL or cable-based ISP services to private and business customers, including the required terminal equipment and support based on DSL, transmissions or cables. The ISP services are provided by Bezeq International in the following configurations:

- Retail market services: ISP service with no infrastructure services;
- Wholesale market services: A consolidated bundle that includes ISP services together with an internet infrastructure service of the infrastructure companies included in the wholesale market reform;
- Bundles or reverse bundles: A consolidated bundle that includes ISP services together with the Company's internet infrastructure service, provided by Bezeq International (in case of a bundle) or by the Company (in case of a reverse bundle);
- The bundles include Bezeq International's ISP services, the Company's infrastructure services and DBS' Sting TV brand - a TV streaming service platform (together with ISP services).
- Symmetrical internet lines for the business sector.

- Voice over Broadband (VoB) domestic telephony services.

It should be noted that due to the fact that Bezeq International gradually stopped operating in the private customer market (see section 4.13), its revenue from internet services is expected to be impaired substantially. Some of the above services are not sold to private customers (but are provided to existing customers).

4.2.1.2 International data communication services

Provision of customized international data communication solutions to business customers, including global deployment. The services are provided through Bezeq International's submarine cable and submarine cables of other companies in which Bezeq International has the long-term user rights, as well as through business partnerships with ISPs that provide their customers access to their global network services. In addition to the above services, Bezeq International also offers international telecommunication and ISP licensees international capacity (by leasing or purchasing indefeasible user rights) based on its submarine cable and user rights purchased in onshore infrastructure in Europe and other international networks.

4.2.2 International telephony services

In the international telephony services sector, Bezeq International provides international direct dialing (IDD) services to business and private customers, free IDD service to business customers, international hubbing services, i.e. transmission of international calls between foreign communications providers (world2world), and dialing card services that enable dialing from Israel overseas and from overseas to Israel.

4.2.3 Business communication and IT services

4.2.3.1 Hosting services

Bezeq International operates several server farm facilities that offer server and equipment hosting (colocation) services, as well as related services such as backup and restore services, virtual servers, and DDoS protection services.

4.2.3.2 Public cloud services

Bezeq International serves as a Microsoft distributor by virtue of which it distributes this company's cloud products such as Office 365 and Azure public cloud services. These operations includes direct sales to end customers and sales to indirect resellers. Part of the operations are performed through the subsidiary CloudEdge Ltd, which offers integration solutions and professional services in this sector.

4.2.4 Equipment, licensing and service contracts for businesses

Bezeq International is a non-exclusive distributor of global manufacturers, and therefore provides integration services, including communications and telephony hardware and software sales, installation, integration and maintenance (such as physical or cloud PBXs, WiFi networks, communications networks to server rooms and user environments, and networking systems), IT infrastructure (such as servers, various software licenses, inter alia, in the storage and system sectors), and information security (such as firewalls, endpoint protection services, web application firewall (WAF), file sterilization (content disarm and reconstruct - CDR), and network event identification and monitoring). In this context, Bezeq International also provides integration project management services.

4.3 Breakdown of revenue from products and services

Bezeq International's revenue (in NIS millions):

	2022	2021	2020
Internet and data communication services	637	683	710
% of Bezeq International's total revenue	51%	55%	57%
International communications	183	177	181
% of Bezeq International's total revenue	15%	14%	14%
Business communication and IT services	185	142	131
% of Bezeq International's total revenue	15%	11%	10%
Equipment, licensing and service contracts for businesses	234	235	249
% of Bezeq International's total revenue	19%	19%	20%
Total revenue	**1,239**	**1,237**	**1,271**

4.4 Customers

Bezeq International is not dependent on any single customer and does not have a customer that provides 10% or more of its total revenue.

Breakdown of revenue from private and business customers (in NIS millions)[59]:

	2022	2021	2020
Revenue from private customers	312	372	401
Revenue from business customers	927	865	870
Total revenue	**1,239**	**1,237**	**1,271**

Regarding Bezeq International customers and their attributes, the diverse consumption characteristics associated with the purchase of internet bundles by the public has resulted in a certain percentage of customers buying ISP services from more than one ISP, while in practice using the services of one ISP only. On September 10, 2020, the Ministry of Communications sent a letter to carriers expressing concern that some subscribers of internet or other services, such as electronic mailbox, do not use them and are not even aware of their existence. In the letter, the Ministry recommended to notify and stop charging subscribers that do not use such services, and requested periodic reports on the matter, during the following 6 months. The letter also states that the Ministry will in future consider whether to establish binding provisions on the matter, if proactive action fails to minimize the issue substantially. On November 8, 2020, another letter was received from the Ministry of Communications stating that by the next report date (set for December 17, 2020), it expects the figures reported to reflect a significant reduction of such incidents, because on such date, information must be provided on the measures taken by the licensee to prevent their recurrence, and as in the previous letter, that if they are not reduced substantially, the Ministry would take various measures, including setting of binding provisions on the matter. Bezeq International believes that elimination of the ISP-infrastructure separation will lead to a significant reduction of such incidents. Bezeq International is initiating letters to customers which it finds are not using the ISP service to obtain their permission to disconnect or keep the subscription.

For information about motions to certify class actions on this matter filed against Bezeq International, see section 1.1.

4.5 Marketing, distribution, and service

Bezeq International operates sales channels for the business market, including a sales center and business customer managers. It also has technical service and support centers at the customers' disposal. Bezeq International operates technical service and support centers for the private market. It also maintains a team of field technicians to provide a solution to malfunctions at the customers' sites that cannot be solved remotely.

[59] The figures are following reclassification of small office/home office (SOHO) customers from private to business customers in 2019.

4.6 Competition

4.6.1 ISP services

4.6.1.1 The market is saturated with competitors, mainly Cellcom, Partner, and Hot Net.

Bezeq International estimates that its market share of internet services as at December 31, 2022 is 22%[60].

4.6.1.2 Competition in 2022 is typified by customer migration from retail market services (in which they purchase ISP and infrastructure services separately) to end-to-end bundles (in which they receive ISP and infrastructure services from a single provider).

4.6.1.3 Developments in 2022:

A. Continuation of the consolidated service bundle sales trend against the background of the wholesale sales model (ISP + infrastructure) in 2022.

B. Competitors focusing of the promotion of high-speed broadband services. Some competitors have launched ultra-high-speed broadband bundles partly through fiber optic infrastructure deployed by them.

C. Continuation of the triple bundle sales trend by competitors, which, in addition to TV services, also include ISP and infrastructure in an unbundleable service bundle.

4.6.2 International telephony services

4.6.2.1 As at the end of 2022, there are ten companies operating in the market (including Cellcom, Partner, Golan Telecom and Hot Mobile).

Bezeq International estimates that its market share of outgoing calls as at December 31, 2022 is 21%[61].

4.6.2.2 General characteristics of competition in 2022:

In 2022, the number of call minutes via international telephony continued to decrease, partly due to increased use of various call applications and the service bundles offered by the cellular companies, which include international call minutes. The work habits adopted by businesses due to the Covid-19 pandemic crisis, whereby the use of services that enable holding online calls and meetings increased, while the use of international telephone services decreased, are still evident.

4.6.3 International data communication services

The different ISPs such as Partner, Cellcom, Hot, and owners of submarine cables such as Tamares Telecom compete in the international data communication services sector. Bezeq International, which owns a submarine cable, has a competitive edge over ISPs that do not own international infrastructure. Due to the lack of public information on the market shares of competitors in this market, it is impossible to assess Bezeq International's market share in this sector.

4.6.4 Business communication and IT services

4.6.4.1 Hosting services

Typically, the hosting services sector has numerous competitors, including Binat, Partner, MedOne, and GDC. In 2022, demand for server farm hosting services grew, partly due to the business market trend of switching to as a service (aaS) and services in a cloud environment, and also due to the intention of cloud companies operating in the public cloud services sector to establish points of presence in Israel. Due to the lack of public information on the market shares of competitors in this market, it is impossible to assess Bezeq International's market share in this sector.

[60] Bezeq International's assessment regarding its market share of ISP services is based on an external telephone survey conducted for the Company, and not on clear figures in the Company's possession.

[61] Based on Ministry of Communications publications on the number of outgoing minutes in Q2, 2022.

4.6.4.2 Public cloud services

Many companies compete in the cloud services sector by marketing and integrating the services of various cloud companies. The demand for public cloud services offered by companies such as Amazon, Microsoft, Google and Oracle has been growing recently. Bezeq International serves as both a seller (selling directly to customers) and distributor (selling through resellers) of Microsoft cloud service licenses to customers in Israel, and integrating these services solutions at the customers. Due to the acquisition of CloudEdge Ltd. by Bezeq International, it acquired additional capabilities in this sector, including knowledge in providing professional services and integrating cloud solutions at large business customers, giving it a competitive edge in this sector. Due to the lack of public information on the market shares of competitors in this market, it is impossible to assess Bezeq International's market share in this sector.

4.6.5 Equipment, licensing and service contracts for businesses

There are many competitors in the supply of hardware and software solutions to businesses and competition is fierce. Bezeq International faces many competitors such as Binat, One-Taldor Group, Malam Group, Cellcom, Partner, and Matrix. Most manufacturers are not distributed solely by Bezeq International. The fierce competition in the sector has led to price erosion. Due to the lack of public information on the market shares of competitors in this market, it is impossible to assess Bezeq International's market share in this sector.

4.6.6 Special characteristics

4.6.6.1 Positive factors that affect Bezeq International's competitive status

A. Strong, well-known brand.

B. Technological innovation.

C. Professional, experienced and competent human resources.

D. Presence in many businesses.

E. Ownership of a submarine cable that enables Bezeq International to provide quality international internet and data communication services.

F. Engagement in various sectors allows providing a comprehensive service package to business customers, such as communication services, hosting and cloud services, the supply of IT and communications equipment, and licensing.

4.6.6.2 Negative factors that affect Bezeq International's competitive status

The fact that Bezeq International does not own domestic access infrastructure is a competitive disadvantage in the business internet and data communication market over competitors that own such infrastructure.

4.7 Fixed assets

Bezeq International's fixed assets includes switching and internet equipment, submarine cable, PBX equipment, leased routers, office equipment, computers, software licenses, and leasehold improvements.

Bezeq International Dialogic SoftSwitch switches, which are used to route its voice traffic. The added value services, including dialing cards, are based on intelligent network (IN).

The CRM system is based on Peoplesoft software, which is not supported by the manufacturer but rather maintained by Bezeq International. Bezeq International is exploring upgrading to new CRM and ERP systems.

Bezeq International's technological infrastructure, which supports the voice, data and internet systems are deployed at several sites in and outside Israel, partly to ensure high service provision survivability when necessary.

Bezeq International has long-term leases for the two main buildings where its offices are located. The term of the lease for one building is until March 2029 with an extension option for another five years. The term of the lease of the other building is until December 2023 (with two equal extension options until 2027).

Bezeq International has a lease for the building that houses a server farm. The term of the lease is until August 2026, with two more equal extension options until 2036.

Bezeq International has other leases for warehouses (including a logistics center) and buildings where it operates the call centers used for its operations.

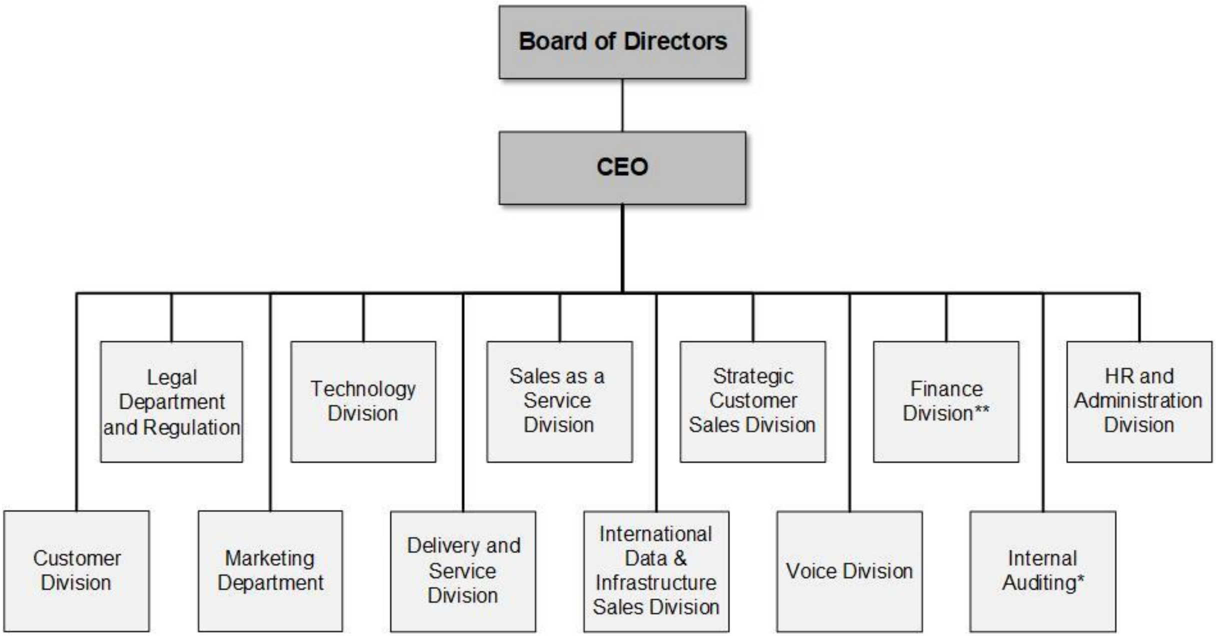
4.8 Human resources

Breakdown of Bezeq International's workforce in 2021 and 2022:

	December 31, 2022	December 31, 2021
Head office employees	676	758
Sales and service representatives	273	363
Total	**949**	**1,121**

The number of employees in the table includes those employed in part-time positions. The total positions[62] at Bezeq International as at December 31, 2022 was 927 compared to 1,047 as at December 31, 2021.

Bezeq International Organizational Structure as at the report date:



(*) The internal auditor is a Pelephone employee.

(**) The CFO is a Pelephone employee.

As part of implementing the synergy with the Group's subsidiaries, until the end of 2022, Bezeq International's CEO also served as the CEO of Pelephone and DBS. Most of Pelephone's VPs are also VPs in DBS and Bezeq International. On January 1, 2023, Ron Glav took up office as CEO of Bezeq International.

For information about the streamlining measures and intra-organizational changes at Bezeq International, Pelephone and DBS, see section 1.8.

On October 3, 2022, Bezeq International's board of directors approved implementation of understandings reached with the Histadrut New Federation of Labor and Bezeq International's employee representatives (in the negotiations to regulate the rights of employees) regarding the voluntary redundancy plan for Bezeq International employees in 2022-2024 (the "Voluntary Retirement Plan"). The estimated cost of the Voluntary Retirement Plan is NIS 70 million, assuming full implementation of the plan. It is expected that implementation of the Voluntary Retirement Plan will allow Bezeq International to adapt the organizational structure, the number of human resources, and the costs to the changes in the market following the regulatory revision for internet services (elimination of the separation between an infrastructure provider and ISP, which allows Bezeq to provide a single

[62] The total monthly work hours divided by the standard monthly work hours.

internet service) which contributes to the reduction of ISP activity in Bezeq International, in accordance with the alternative outline described in section 1.1.4. Subsequently, since November 13, 2022, Bezeq International enables its employees to retire voluntarily at the maximum estimated cost of the plan (NIS 70 million).

On December 6 2022, Bezeq International signed the renewal of the existing collective agreement between it, the Histadrut New Federation of Labor and the employee representatives as from December 6, 2022 until December 31, 2025 (the “Agreement” and “Term of the Agreement”, respectively). According to the Agreement, salary increases and bonuses will be granted, the fringe benefits will be improved, and the labor disputes declared by the Histadrut New Federation of Labor and the employee representatives will end, while maintaining industrial peace during the Term of the agreements on the issues which it regulates, other than the labor dispute on the sale of control of the Company in respect of which the employee representatives’ demand to appoint a director on their behalf still remains and will be discussed between the parties. The total estimated additional cost over the Term of the Agreement, beyond the estimated cost of voluntary retirement of NIS 70 million (as aforesaid), is NIS 28 million.

Bezeq International’s assessments regarding the estimated cost of the Agreement is forward-looking information, as defined in the Israel Securities Law, based partly on its assumptions on how and to what extent the retirement plan and other terms of the Agreement will be implemented. These assessments may not materialize or may materialize differently than expected, partly depending on the manner and extent to which the Agreement and retirement plan will be implemented, with attention to Bezeq International’s needs and ability to implement its plans, and compliance with other terms of the Agreement.

In this regard, also see Note 16 to the 2022 Financial Statements.

4.9 Suppliers

4.9.1 Foreign carriers

Bezeq International has collaboration agreements with 200 foreign carriers under which it transfers and receives international telephone calls to and from them (including outgoing calls from Israel, incoming calls to Israel and calls between different destinations outside Israel) to 260 destinations worldwide.

4.9.2 Capacity providers

Most of the domestic capacity used by Bezeq International to provide its services are purchased from the Company.

Most of the international capacity used by Bezeq International is transmitted through its submarine cable. As backup, Bezeq International uses capacity purchased from Med Nautilus and the Cyprus Telecommunications Authority (CYTA).

Under the agreement with Med Nautilus, Bezeq International purchased indefeasible right of use in an unspecified and unattributable part of the communication capacity transmitted by the submarine cable system operated by Med Nautilus between Israel and Europe, as well as continuation capacity in the company’s ground infrastructure to several communication nodes in Europe. The periods of use have been extended until July 2030. Bezeq International paid one-time fees for these rights of use shortly before starting to use the capacity.

Under the agreement with CYTA, Bezeq International purchased indefeasible right of use in an unspecified and unattributable part of the communication capacity transmitted by the submarine cable system operated by CTYA between Cyprus and Europe. The term of use is at least until May 2027 with an extension option.

Bezeq International also purchased indefeasible right of use in an unspecified and unattributable part of the communication capacity transmitted by ground infrastructure in Europe from EXA Infrastructure (formerly GTT Communications Inc.) to bridge Bezeq International’s submarine cable to communication nodes in Europe. The term of use is at least until 2026 with an extension option.

4.9.3 Hosting services

Bezeq International purchases hosting services under long-term agreements with several operators of server farm facilities, mainly to provide hosting services to business customers:

Under an agreement signed in 2011, Bezeq International purchases hosting services from the Company in its server farm facility. These services are mostly used to provide hosting services to business customers. The agreement is valid until 2024 for specific parts of the facility and until 2033 for other parts.

Under an agreement signed in 2019 with Adgar Investments and Development Ltd., Bezeq International purchases hosting services in this company's server farm facility. The agreement is valid until 2041 with an early termination option in 2034. These services are used to provide hosting services to business customers.

Under an agreement signed in 2021 with Serverfarm IIF Bnei Zion Limited Partnership, Bezeq International purchased hosting services in a server farm facility under construction by this partnership, as from 2023. The agreement is valid until 2039 with an extension option until 2047. These services are expected to be used to provide hosting services to business customers.

4.9.4 Microsoft

Bezeq International has an agreement with Microsoft under which it may sell Microsoft cloud products both to end customers and indirect resellers. The agreement is extended automatically and each party may terminate it. Bezeq International's public cloud operations are carried out exclusively on Microsoft products and therefore, termination of the agreement with Microsoft could materially impair such operations and even lead to their discontinuation.

4.10 Taxation

See Note 7 to the 2022 Financial Statements.

4.11 Restrictions and supervision of Bezeq International's operations

4.11.1 Legislative restrictions

Under the Communications Law, telecommunications operations and provision of telecommunications services, including international telecommunications and ISP services, are subject to licenses from the Minister of Communications. The Minister is authorized to revise, add to or detract from the license terms, taking into consideration government telecommunications policy, public interests, licensee suitability to provide the services, contribution of the license to competition in the telecommunications industry, and its service level.

The law authorizes the Director General of the Ministry of Communications to impose financial sanctions due to various violations of the provisions of the law, pursuant orders and directives, and the terms of the license.

4.11.2 Licenses

Bezeq International has a consolidated general license to provide telecommunication services ("Consolidated License") that is valid until February 4, 2036.

Main provisions of the Consolidated License:

4.11.2.1 Under certain circumstances, the Minister may modify, add to or detract from the terms of the license, and in other instances even revoke it.

4.11.2.2 The license is non-transferable and includes restrictions on direct or indirect acquisition or transfer (including by means of a lien) of control or 10% or more of any means of control of Bezeq International, including a lien on such means of control, unless the Minister provides advance consent.

4.11.2.3 Bezeq International must provide interconnect services to all other carriers under equal terms and must refrain from any discrimination in providing such interconnect service.

4.11.2.4 Bezeq International must refrain from granting infrastructure service priority to an affiliated licensee company (as defined in the license) over another licensee.

4.11.2.5 Bezeq International may not sell, lease or mortgage any of the assets used to exercise the license without the Minister of Communications' consent, other than specific exceptions set out in the license.

4.11.2.6 In emergencies, whoever is statutorily competent will have the authority to issue various instructions to Bezeq International on its mode of operation and/or manner of provision of services.

4.11.2.7 The license specifies the types of payments Bezeq International may charge its subscribers for telecommunication services and the reports it must submit to the Ministry of Communications The license also prescribes the Minister's authority to intervene in tariffs, in certain cases.

4.11.2.8 The license binds Bezeq International to a minimum service level.

4.11.2.9 Pursuant to Ministry of Communications requirements, Bezeq International provides a bank guarantee of NIS 2 million in compliance with the terms of the Consolidated License.

4.11.3 Land powers

On July 9, 2014, the Minister of Communications granted Bezeq International powers pertaining to land listed in Chapter F of the Communications Law, including access to land for laying and maintenance of a network (see section 2.16.6).

4.11.4 Interconnect payments

For information about interconnect fees paid to domestic carriers and mobile telephony operators, see section1.7.7.1.

4.11.5 Key regulatory developments

4.11.5.1 For information about possible changes in the communications market that could also affect Bezeq International due to policy to increase competition, see section 2.16.4.1.

4.11.5.2 For information about decisions made in connection with the wholesale market that also have implications for the operating segment, see section 2.16.4.

4.11.5.3 For information about the Ministry of Communications' decision in the hearing of June 20, 2021 to eliminate the separation between broadband infrastructure service and ISP service, see section 1.7.3.2. The communications market changes resulting from this decision led to material impairment of Bezeq International's internet subscriber base and revenue. The impairment is expected to continue and deepen in 2023.

4.12 Legal proceedings[63]

Lawsuits are filed against Bezeq International during the normal course of business, including motions to certify class actions.

4.12.1 Contingent claims

	Date	Parties	Court	Type of proceeding	Details	Amount of the claim (NIS millions)
A.	March 2016	Customer v. Bezeq International and other communications companies	District (Central)	Financial claim with a motion to certify it as a class action	It is alleged, inter alia, that Bezeq International sells its customers a broadband speed even though the infrastructure where they live does not enable this speed. In January 2021, the court certified the claim as a class action.	Not specified
B.	April 2019	Customer v. Bezeq International and other communications companies	District (Central)	Financial claim with a motion to certify it as a class action	It is alleged that Bezeq International fails to inform its customers as required of the possible risks involved in using the internet and the option of joining a free filtering service, in contradiction to the provisions of the Communications Law. Bezeq International also provides abusive website and content filtering services which, the applicants argue, are not sufficiently effective.	Not specified
C.	October 2020	Customer v. Bezeq International	District (Central)	Financial claim with a motion to certify it as a class action	It is alleged, inter alia, that Bezeq International charges customers for services it does not actually provide to them, allegedly knowing that the customer has switched to another ISP and disconnected from Bezeq International. On November 5, 2020, Bezeq International was served another motion to certify a class action in the same matter.	Not specified
D.	November 2020	Customer v. Bezeq International	District (Central)	Financial claim with a motion to certify it as a class action	It is alleged, inter alia, that Bezeq International charges for the provision of anti-virus and backup services without actually providing them. It is also alleged that Bezeq International does not inform customers at the time of concluding the contract that using the services requires them to first perform preparatory actions on their own, such as installing special software; nor does it apprise them that they are billed for such services as of the contract conclusion date and not from the actual service provision date.	Not specified

[63] For information about reporting policy and materiality threshold, see section 2.18.

4.12.2 Legal proceedings that ended during the reporting period

Regarding the withdrawal of the application for disclosure and inspection of documents prior to filing a derivative claim against the Company and Bezeq International regarding asset balances in the financial statements of Bezeq International - see the update to section 2.18.2A.

4.13 Goals, business strategy and expected development

Due to elimination of the separation between infrastructure provider and ISP, Bezeq International intends to gradually discontinue its ISP operations in the private sector and focus on developing integration operations and services to the business sector with the aim of becoming a growth-focused ICT company. This is expected to enable management to focus and dedicate resources to integration operations and cloud services, which are growing due to the business sector's trend of switching to a cloud service model. Bezeq International will continue to acquire capabilities and knowledge through employee training and acquisition of companies in complementary sectors. Bezeq International will maintain collaborations with partners in Israel and overseas in order to provide a comprehensive service package to its customers. Bezeq International will offer its services to all business sectors, including small, medium and large businesses, and the public and government sectors. Bezeq International expects the main growth engines to be hosting, cloud and information security services. For further information, see sections 1.1.4 and 1.8. Bezeq International will also take streamlining and cost reduction measures, with emphasis on reducing the number of human resources, by discontinuing labor-intensive operating segments and switching to efficient operating methods. These measures depend partly on the cooperation of the employee representatives.

The aforesaid is forward-looking information, as defined in the Israel Securities Law, based on Bezeq International's assessments and assumptions. Bezeq International is unable to assess if and when the above goals will be fully or partially realized. The goals may be affected by changes and developments in the relevant markets, due to regulatory changes that could affect Bezeq International's ability to provide a solution to existing or changing market requirements, as well as all other risk factors described below.

4.14 Discussion of risk factors

Description of the risk factors arising from the macroeconomic environment, the specific characteristics of the industry in which Bezeq International operates, and the risk factors specific to Bezeq International:

4.14.1 Competition

For information about the effect of competition on Bezeq International's areas of business, see sections 4.6 and 4.13.

4.14.2 Frequent technological changes and infrastructure investments

Bezeq International's operating segments are characterized by frequent technological changes. The development of technologies that are attractive alternatives to some of Bezeq International's products (such as WhatsApp, Skype or Zoom) could materially affect its operations. Technological developments also require frequent investment in infrastructure. See sections 4.1.5.2 and 4.1.6.

4.14.3 Exposure to currency exchange rate fluctuations

Bezeq International is exposed to risks due to currency exchange rate fluctuations, particularly in connect with equipment sales and integration, as well as international data services, because most purchases of equipment and services from providers in these sectors are made in USD, whereas Bezeq International's revenue is in NIS. Erosion of the NIS against the USD could affect Bezeq International's profits if it is unable to adjust the selling prices at short notice.

4.14.4 Government supervision and regulation

For information about the applicability of the provisions of the law and licensing policy and their impact on Bezeq International, see section 4.11. Specific regulatory changes applicable to Bezeq International could adversely affect its results and operations.

4.14.5 Pandemic

The outbreak of diseases and pandemics in general (such as COVID-19 in 2020) could have consequences for Bezeq International's business operations, depending on the extent of the spread, the severity, and national and global measures taken as a result. These consequences may be expressed in harm to Bezeq International's operations, customer service system, and supply chain. Such events are evolving and beyond Bezeq International's control, and their consequences are subject to the decisions of countries and authorities in Israel and the world, which could affect Bezeq International accordingly.

4.14.6 Severe malfunctions in information and engineering systems

Bezeq International provides its services through various infrastructure systems, including switches; transmission, data communication and access networks; cables; IT systems; and physical infrastructure (the "Systems"). Bezeq International's business is highly dependent on these systems. Some of Bezeq International's Systems have backup, but in the event of damage to some or all of these Systems, whether due to an extensive technical malfunction, natural disaster (such as earthquake, fire), damage to physical infrastructure, or malicious damage (such as virus infection and cyber-attacks as set out below), it may be extremely difficult to provide services, including if Bezeq International is unable to restore the Systems quickly.

4.14.7 Information security, customer data protection and cyber risks

Bezeq International is a target for cyber-attacks aimed at harming the use of its information systems and/or the actual information. Such attacks or hacking may lead to interruption of business, information/money theft, reputation damage, damage of systems and information leakage. Another risk posed is accidental or malicious leakage of information from the organization by Bezeq International employees.

Bezeq International's cyber security management strategy is built on three pillars: Information confidentiality, integrity and availability. It takes numerous technological and organizational measures to deal with such risks.

Bezeq International allocates many resources to deal with cyber risks. Bezeq International has an information security department that engages in information security and cyber risk management. Bezeq International dedicates substantial budgets to purchasing technological information security systems and means. Detailed procedures have been established to address both routine handling of information, and courses of action and method of management of information security incidents. Bezeq International employees undergo periodic information security training. Monthly notices, guidelines and updates are sent to Bezeq International employees to increase awareness to cyber risks and correct handling of information.

Bezeq International overseas the implementation of its defense policy, including testing its effectiveness and readiness level. In this context, risk surveys, penetration testing, and periodic controls are conducted by both internal auditing and external auditors hired by Bezeq International for this purpose. Bezeq International also periodically performs security attack testing (SAT) and drills for different scenarios (including through external companies specializing in this area). Bezeq International believes its information security policy is effective.

Bezeq International is an entity directed by the National Information Security Authority (NISA). Bezeq International is also obligated to implement the information security requirements set in the consolidated general license granted by the Ministry of Communications. Bezeq International is also ISO 27001 Information Security Standard certified.

The information security policy, defense measures, security events and conclusions drawn are discussed monthly by Bezeq International management and submitted to its board of directors for examination and approval. The party responsible for implementation of Bezeq International's policy is the head of the technology divisions' information security department.

Notwithstanding Bezeq International's investments in means of reducing such risks, it cannot guarantee that such measures will succeed in preventing damage and/or disruption of the systems and the related information.

4.14.8 Damage due to the forces of nature, war and disasters

Damage to the server farms used by Bezeq International for its core operations could adversely affect its business and results.

4.14.9 Legal proceedings

Bezeq International is a party to legal proceedings, including class actions, that could result in it being required to pay substantial amounts that cannot be estimated, and for some of which no provision has been made in its financial statements. These class actions could reach high amounts, because a substantial part of the country's population are Bezeq International customers, and claims for damage in small amounts to an individual customer may become a material claim for Bezeq International if it is recognized as a class action that covers all or a substantial portion of its customers. Furthermore, in specific contracts, mainly in the government and public sector, Bezeq International sometimes enters into service contracts subject to a partial liability limit, or no liability limit at all. Considering the sensitivity of the services provided by Bezeq International to these customers, if the customer is harmed by such contract, this may lead to legal proceedings in large amounts. For information about legal proceedings to which Bezeq International is party, see section 4.12.

4.14.10 Labor relations and streamlining measures

Bezeq International has a collective agreement with the Histadrut New Federation of Labor and the employee representatives that applies to most of its employees. Implementation of the collective agreement could affect Bezeq International's operating activities. Implementation of human resources programs may also lead to unrest and harm Bezeq International's current operations. As described in section 1.8, Bezeq International implements streamlining plans that involve sharing management resources, organizational changes, and reduction of human resources, while managing significant infrastructure and other projects. Streamlining measures, by nature, involve the risk of loss of knowledge, employee turnover and shifting management focus. Bezeq International currently has several labor disputes. For information about labor disputes at Bezeq International, see section 4.8.

4.14.11 Loss of knowledge and information

Labor market changes in Israel and worldwide together with organizational changes involve the risk of loss of key employees, loss of information due to employee turnover, and employee recruitment difficulties.

4.14.12 Impairment of Bezeq International's assets

In accordance with generally accepted accounting principles, Bezeq International conducts periodic impairment testing of assets regarding which signs of impairment have been identified. For further information about the risk factor relating to recognition of impairment losses, see section 2.20.12. Regulatory changes in the internet services market (see section 1.7.5.1) could affect Bezeq International's result and/or lead to impairment of its assets. For information about the impact that dealing with Bezeq International's customers who do not use ISP services has on the value of its assets, see section 4.4.

4.14.13 Cash flow

Bezeq International must maintain an adequate cash flow to comply with its long-term business plan. Cash flow may be affected in cases of planning gaps, business model revision and payment collection difficulties from customers or communications operators. A lack of sufficient cash flow could adversely affect Bezeq International's business and hinder its ability to deal with competitive threats.

Below are the effects of the above risk factors on Bezeq International's operations, as assessed by its management. It should be noted that Bezeq International's assessments regarding the extent of the effect of a risk factor reflect the extent of the effect of that risk factor assuming it materializes, and the aforesaid does not express an assessment or give weight to the likelihood of materialization. The order of appearance of the risk factors above and below is not necessarily based on the extent of the risk[64]:

[64] See footnote 48.

Summary of risk factors - international communications, internet and NEP services

	Extent of effect of risk factor on Bezeq International's operations		
	Major	**Moderate**	**Minor**
Macro risks			
Exposure to currency exchange rate fluctuations		X	
Pandemic		X[65]	
Damage due to the forces of nature, war and disasters	X		
Sector-specific risks			
Competition	X		
Investment in infrastructure and technological changes		X	
Government supervision and regulation	X		
Severe malfunctions in information and engineering systems	X		
Information security, customer data protection and cyber risks	X		
Risks specific to Bezeq International			
Legal proceedings		X	
Labor relations and streamlining measures	X		
Loss of knowledge and information	X		
Impairment of Bezeq International's assets		X	
Cash flow		X	

The information included in this section 4.14 and Bezeq International's assessments regarding the effect of the risk factors on its business operations are forward-looking information, as defined in the Israel Securities Law. The information and assessments are based on data published by the Ministry of Communications, Bezeq International's assessments regarding the market situation, its competition structure, and possible developments in the market and the Israeli economy. Actual results may differ significantly from the above assessments if one of the factors taken into account in these assessments changes.

[65] The extent of the effect of this risk factor on Bezeq International's operations was classified as moderate, assuming that the event would be limited in scope and time. Otherwise the effect could be major.

5. DBS - Multi-channel television

DBS, also known by its commercial name "yes", is a wholly owned subsidiary of the Company, that provides multi-channel satellite TV and online television transmissions (OTT) and internet access services.

5.1 General information about the operating segment

5.1.1 Operating segment structure and changes

5.1.1.1 Several operators in the subscriber TV broadcasting sector operate in a number of key categories:

A. Broadcasting licensees under the Communications Law operating in the multi-channel television sector, are DBS and HOT that provides cable television services and was pronounced a monopoly under the Economic Competition Law in the multi-channel TV broadcasting sector ("the Satellite and Cable Broadcasting Sector"). For further information about regulation applicable to the foregoing broadcasting licensees see section 5.14. DBS and HOT provide linear channel broadcasts (in this chapter also known as “Channels”) and on-demand streaming services (regarding regulations of DBS’s VOD services, see section 5.14.2).

B. OTT (over-the-top) internet content providers - there are several local and international audio-visual content providers operating in Israel via the internet, that can be viewed on various types of terminal devices (including mobile devices). The main local providers operate in a format that includes linear channels and on-demand streaming services (including DTT network content that is broadcast via the network or the internet), and the key players among them are DBS (through STING TV and yes+ services; for further information see sections 5.2.1.2A and 5.2.1.2B) Cellcom, Partner and HOT. Key international providers that operate in Israel are Netflix+, Disney+, Apple and Amazon, which provide VOD content viewing options (as at the reporting date, the majority of this content is not translated into Hebrew), without linear channels. To the best of DBS's knowledge, most of the international providers’ subscribers in Israel also subscribe to services provided by the local providers or broadcasting licensees. The majority of the OTT content providers market their services in a scope and at a price lower than those common in the satellite and cable broadcasting sector.

Some of the local licensees and suppliers collaborate with some of the international suppliers. DBS conducts several such collaborations including, among others, collaboration with Disney and Netflix+, which include, among other things, distribution of their services for a fee. For information about the agreement with Disney+, see the Company's immediate report dated May 22, 2022, which is included in this report by way of reference.

Under the Broadcast Distribution Law, a broadcaster whose broadcasts are part of the open broadcasts (i.e., television channels transmitted via the digital stations), will provide each registered content provider[66] consent to transmit its broadcasts via the internet free of charge, however, without derogating from copyrights and production rights pursuant to the law and subject to certain conditions set out in the law, including obtaining a license from the copyright holders and performers (including through the broadcasting entity). In In February 2023, the transition provisions applicable to the commercial channels[67], under which special arrangements were

[66] A registered content provider is defined in the Broadcasting Law as a content provider registered in the registry; a content provider is defined in the Broadcasting Law as an entity whose main activity is broadcasting a variety of content to the public in Israel, provided that the content is broadcast on its own initiative, via interfacing equipment that it controls, and that the content can be viewed in real time, simultaneously by the public, and that the content can be viewed at a time and place of the viewer’s choice. DBS is a registered content provider.

[67] To the best of DBS’s knowledge, these commercial channels are Channel 12 (owned by Keshet Broadcasting Ltd.) and Channel 13 (owned by Reshet Media Ltd.).

applied, including granting license to broadcast their content over the internet to any registered content provider that requests such license, at the best price and under the best conditions that the relevant commercial channel grants to any another content provider under a license that was valid at the time such license was granted, all as specified in the transition order, ended. As at the reporting date, DBS has agreements with such foregoing commercial channels, which also include on-demand streaming services.

C. Parties that offer content without permission of the rights holders (piracy)[68].

D. DTT network

A digital terrestrial television broadcasting network (DTT) known as Idan+ through which certain channels are broadcast to the public, free of charge[69.] As at the reporting date, the system is operated by the Second Authority.

The channels are broadcast for a broadcasting fee, however the Ministers of Communications and Finance may decide that the State will subsidize broadcasting fees applicable for subject-based channels and niche channels.

As at the reporting date, the DTT partially constitutes an alternative product to the multi-channel television broadcasts.

5.1.1.2 The multi-channel TV providers, including DBS, offer their services together with additional communication services that they provide, generally as part of bundles that cannot be unbundled (such as bundles that include internet and television services). For information pertaining to additional communication services provided by these communication groups, see section 1.7.2. For information about communication service bundles offered by DBS and related restrictions see section 1.7.3.2).

In the reporting year, competition in this sector remained fierce, particularly due to the entry and establishment of local and international providers of content via the internet, as aforesaid, that operate on relatively low prices. These providers operate via the internet without the need to set up special infrastructure and as at the reporting date, also without any regulatory supervision. For further information about competition in the sector and the changes that occurred in the reporting year, including DBS mode of operations, see section 5.5. For information about regulation of broadcasts via new broadcasting technologies, see section 5.14.2.

For changes in the number of DBS subscribers see section 5.5.1.

5.1.2 Legislation, restrictions and special constraints in the segment of operations

Operations of the broadcasting licensees are subject to extensive communications regulation, particularly the Communications Law, a strict licensing and monitoring regime and Ministry of Communications policy decisions. These operations are also under the ongoing supervision of the Council, which sets policy, makes rules and monitors many areas of the sector, including broadcasting content, compliance regarding original Israeli productions, broadcasting ethics, consumer protection and approval of the channels broadcast.

The provision of television services other than via satellite or cable is not subject to the foregoing supervision.

Further to the recommendations of the committee for examining the overarching regulation in the field of broadcasting headed by former MK Roy Folkman (the “Folkman Committee”) and the decision by the Minister of Communications of September 2021 concerning adopting the Committee’s recommendations in principle, subject to certain changes and modifications, in

[68] DBS is a shareholder of Zira Ltd., which acts to prevent infringement of video content copyrights over the internet.

[69] As at the reporting date the channels are broadcast via the Broadcasting Corporation’s channels (CAN 11, CAN Education and Channel 33), the commercial channels (Keshet and Reshet), Channel 14, and the Knesset Channel (Channel 99), as well as several radio stations. A DTT operator is required to also broadcast thematic channels (for which most broadcasts are devoted to a topic set out in the Digital Television Broadcasting Law, 2012 (the “Broadcasting Law”) and the services of mini license holders and dedicated mini license holders (as these are defined in the Second Authority for Television and Radio Law, if they so request. The Ministers of Communications and of Finance may appoint a private operator to operate it, to which the Council may also grant a general license for broadcasts financed from subscription fees or advertising.

August 2022, the Ministry of Communications announced a hearing for public comment with respect to the Draft Bill on Principles for Regulating Public Broadcasting of Audio-visual Content, 2022 (the "Regulation Hearing" and "Draft Bill", respectively). According to the Regulation Hearing and explanatory notes to the Draft Bill, the Bill is intended to amend legislation based on the Folkman Committee recommendations and to revise the obligations and rights that apply to all players operating in the audio-visual content market, in a number of ways, including:

1. A new authority will be established in place of the Council and the Second Authority, whose role will be to regulate the entire audio-visual content market and which will be authorized to issue directives for preventing actions that may impair competition in the sector (the "Authority").
2. A limited and focused set of core obligations will apply to the significant players operating in this market, and will include registration, investment in local productions, distribution of the Israel Broadcasting Corporation and Knesset channel content, and directives relating to ethics and consumerism, where the scope of such obligations will vary according to the level of the content provider's revenues.
3. The existing restrictions on the economic models in the audio-visual content market will be removed (while allowing some of the provisions regarding cross-costs). As far as the traditional platforms are concerned, the obligation to provide broadcast channels and allocate channels for broadcasting that apply to them, as well as applicable prohibitions with regard to broadcasting of commercials and news company holdings, will be abolished. Furthermore, the obligation to provide free broadcast channels for the traditional platforms will be canceled. On this matter, a transitional provision was established according to which these changes will come into force three years after publication of the law (and two years after the publication of the law the Authority's board may cut this period short).
4. Separate regulations will be established for providing news content to the public.
5. Regulations will be set out regarding public broadcast of sports content to avoid broadcast of significant sports channels through a single content provider, and to ensure that high demand or special interest sports channels will be accessible to the public.
6. Obligations will be defined for investing in local productions, which will apply with the required changes, to all local and international content providers whose scope of activity in Israel is significant, as well as to independent Israeli commercial channels.

DBS submitted its response to the Regulation Hearing document. As there is no certainty regarding whether this Hearing will mature to binding legislature and what the content and arrangement therein will be, it is difficult at this stage to estimate the scope of the effect such legislation and regulation that will be established in the wake of the Regulation Hearing (if it is adopted) on DBS's business.

5.1.3 Changes in the volume and profitability of operations.

For further information about the changes in the scope of DBS's operations and its profitability, see section 1.5.4.4.

5.1.4 Critical success factors in the operating segment and applicable changes

5.1.4.1 Quality, differentiation, innovation and originality in the content, variety, branding and packaging of its broadcasts.

5.1.4.2 Value offers applicable for various target audiences

5.1.4.3 Provision of advanced on-demand streaming services and use of advanced technologies (with regard to broadcasting technologies, terminal devices and user interface).

5.1.4.4 Provision of television services via the internet

5.1.4.5 Offering communication service bundles that including television and other services such as telephony and ISP services (see section 5.14.3).

5.1.4.6 Access and connectivity to international content providers.

5.1.4.7 Access to applications operated by international content providers.

5.1.4.8 Access and connectivity to international content applications.

5.1.4.9 High level customer services, appropriate for the type of service.

5.1.4.10 Brand strength and its identification with quality, innovation and industry-leading content and services.

5.1.4.11 Attractive price.

5.1.5 Main entry and exit barriers for the segment of operation

5.1.5.1 The main sector entry barriers are: (a) cable and satellite broadcasting - the need for cable and satellite broadcasting licenses and compliance with the applicable regulatory requirements; (b) the investments required of carriers in the sector, including for acquisition and production of content, and for cable and satellite broadcasting - installation of specific infrastructures; (c) the limited volume and the characteristics of the Israeli market; The scope and level of entry barriers with regard to OTT TV services are very low, especially for international providers for which Israel constitutes another market for existing operations, and this is reflected in the increase in the number and variety of OTT services offered

5.1.5.2 The main exit barriers are: (a) with regard to licensed broadcasters there are regulatory barriers – termination of operations under the Broadcasting License depends on a decision of the Minister of Communications to cancel the license prior to the end of the license term, under the conditions set out in the license, including arrangements (which could be imposed on the licensee) for ensuring the continuation of broadcasts and services and minimization of harm to subscribers; (b) long-term contracts with important suppliers.

5.1.6 Alternatives for products in the sector and changes therein

DBS considers the option of receiving multiple foreign channels via inexpensive terminal equipment as an alternative to its services for certain sectors. For further information, see section 5.1.1.

5.1.7 Structure of competition in the sector and changes therein

Competition in the television sector is fierce with a relatively large number of players, the majority of which operate at relatively low prices (see section 5.1), and via advanced internet customer interfaces in a way that increases competition in the sector. Increasing the number of subscribers in the current state of competition is mainly possible by recruiting new subscribers from the competitors, requiring substantial resources to be invested in retention of existing subscribers and recruitment of new subscribers.

DBS does not have information regarding the number subscribers to the international companies operating in the market or regarding the number of DTT viewers, and it believes that the majority of them are also subscribers of one of the local television providers in the sector. DBS estimates that the upward trend of the total market share of these players (among all the households in Israel) is weakened due to the fact that a large part of the remaining households are not potential audiences.

For further information about competition and changes in the segment, see section 5.5.

5.2 Products and services

DBS offers satellite TV service and OTT services in bundles of varying values, differentiating between them by the scope of content, scope of services included in them, the interfaces through which they are offered and price. The OTT services are offered as part of DBS’s migration trend to gradually migrate its services from satellite TV to OTT services. For information about the migration process see section 5.17.1

In recent years, there has been an increasing trend of demand for 'discount' services, which relates to the scope of services and lower prices than customary in the satellite and cable broadcasting sector. Accordingly, the increase in the percentage of customers subscribing for STING TV services out of all DBS customers has resulted in a decrease in the average revenue per customer.

5.2.1 DBS television services

5.2.1.1 <u>Satellite broadcasts</u>

DBS satellite broadcasts include linear channel broadcasts, as well as radio and music channels, and interactive services.

To allow reception of DBS satellite services, dish antennas are installed on buildings and several types of decoders with various features are installed in the subscriber's home enabling receipt of a range of services depending on the decoder features (including recording broadcasts at various resolutions, recording content, and VOD).

Pursuant to DBS's broadcasting license and the Council's decisions, DBS's satellite broadcasts include a basic package of linear channels that every subscriber is required to purchase (along with additional basic packages that DBS is permitted to offer), and additional channels that the subscribers can select, either as packages or as individual channels.

DBS provides subscribers to its satellite broadcasts ("Satellite Subscribers") online (OTT) VOD services. The vast majority of the Satellite Subscribers subscribe to content bundles that include VOD services and the rest can purchase these services. Part of the content of the VOD service is provided for a separate fee.

Connecting Satellite Subscribers to VOD services requires, among other things, the use of specific types of decoders. With regard to the issue of regulation of DBS's VOD services, see section 5.14.2 below.

Satellite TV services are offered in an expanded bundle that contains most of the linear channels and VOD services, which is purchased by most of the Satellite Subscribers, as well as in limited bundles with less content (and subscribers are able to purchase additional channels that are not included in any of the bundles they purchased).

5.2.1.2 <u>OTT Services</u>

DBS offers several OTT services:

A. yes+

DBS offers its yes+ service, which includes linear TV channels and on-demand streaming services, including VOD content, which are offered in several bundles, the most prevalent among them being similar in scope to the expanded bundle offered to satellite subscribers. It also includes an advanced technology interface with advanced features that are not available on the satellite interface. The service is provided via compatible streamers and other suitable terminal devices, including mobile phones. The services can be used independently or in parallel with the satellite service.

B. Sting TV Services

DBS operates the Sting TV service, which includes linear TV channels and on-demand streaming services, including VOD content, and is intended for customers who are not satellite subscribers. The service is offered in several viewing bundles that do not include the full range of content offered as part of DBS's other services, at relatively low prices. The service is provided via compatible streamers and other suitable terminal devices, including mobile phones.

5.2.2 Internet access services

In June 2022, DBS began providing internet access services making progress in selling combined internet and TV bundles to its customers[70].

5.3 Trade receivables

The overwhelming majority of DBS's subscribers are private customers. DBS usually engages with its subscribers in subscriber agreements which regulate the rights and obligations of subscribers in their

[70] Initially the services were provided under a special internet access license and as of October 2022, the services are provided under a general permit pursuant to the provisions of the Telecommunications Regulations (Telecommunications and Broadcasts) (General Permit for the Provision of Telecommunications Services), 2022.

relations with DBS. The subscriber agreement for satellite subscriptions requires approval of the Council, which was obtained[71].

5.4 Marketing and distribution

DBS markets its services by way of publication in the various media. DBS sales to existing and new subscribers are carried out via two key distribution channels (some by DBS employees and some by external resellers):

5.4.1 Call centers

5.4.2 Digital channels

5.4.3 Sales representatives working to recruit new subscribers.

5.5 Competition

5.5.1 Competitors in the market

As at the reporting date there are several competing groups on the market (see section 5.1).

DBS's main competitors are HOT, which was declared a monopoly in the multi-channel television broadcasting sector[72] and holds, to the best of DBS knowledge, the largest market share, and Cellcom, Partner and Netflix.

To the best of DBS's knowledge, in 2023 a joint venture is expected to be launched between Keshet Broadcasting Ltd., which operates, among other things, a commercial TV channel that is broadcast by DBS ("Keshet) and RGE Group Ltd. ("RGE") to set up and operate a multichannel broadcasting platform, with the acquisition of non-controlling interests in RGE by Keshet, subsequent to obtaining an exemption from a restrictive arrangement by the Competition Authority for the venture, for the period up to September 2025. DBS's estimates that the start of this project's operations is expected to intensify competition in the sector, in particular due to the identity of the project companies (for information about Sports Channel Ltd., which is part of RGE Group, and regarding Keshet see section 5.9.2).

Breakdown of DBS's subscriber numbers and market shares[73], to the best of its knowledge, as at December 31, 2021 and 2022[74]:

2022		2021	
Subscribers (in thousands)	**Market share**	**Subscribers (in thousands)**	**Market share**
579	33%	563	32%

5.5.2 Nature of competition today

Competition in the market focuses on diversity of broadcasting content, price of services, quality of services, and offering of state-of-the-art terminal equipment and advanced user

71 According to the broadcasting license, court approval is also required for uniform contracts for subscriptions (approval that was given in the past and has since expired). DBS applied to the Council to amend the subscribers' agreement and the license. In its application DBS requested, inter alia, that the provision of the license requiring the court's approval for uniform contracts be canceled in view of the legislative amendment concerning this issue. As at the reporting date, the position held by the Council regarding DBS's application has not yet been received.

72 To the best of DBS knowledge, in 2021 HOT applied to the Commission of Competition to annul its announcement as a monopoly, as aforesaid.

73 The market shares were calculated out of the foregoing total number of subscribers of DBS, HOT, Partner and Cellcom as specified below (and not out of the total number of viewers and subscribers in the market, due to lack of actual figures in this regard). The estimate of DBS's market share in 2021 and 2022 is based on the number of subscribers of DBS, Cellcom and Partner (based on their reports of the number of their subscribers at the end of the third quarter of 2022), and of HOT, that does not publish the number of its subscribers, and therefore the figures relating to HOT are estimated by DBS, taking into account past trends and existing figures for the other players). Nonetheless, there is no certainty that the figures assumed for HOT are accurate, and therefore it is possible that the actual market share may be different from those estimated.

74 The number of subscribers is approximate and the market share is rounded. Subscriber - one household or small business customer. In the case of business customers who have more than a minimum number of decoders (such as hotels, kibbutz or gym), the number of subscribers are standardized. The number of business customers who are not small business customers is calculated by dividing the total payment received from all non-small business customers by the average revenue from a small business customer, as is determined periodically.

interfaces as well as other services, such as HD and 4K broadcasts, and on-demand streaming services, including VOD content.

Competition also involves offering additional communications services together with video content (for information about service bundles offered by HOT, Cellcom and Partner see section 1.7.1 and regarding the service bundles offered by DBS, see also section 1.7.3.2), regarding accessibility and connectivity to international content providers and collaboration with them, and regarding the increase in the number of competitors and the foothold they gained (see section 5.1).

5.5.3 Positive and negative factors that affect Pelephone's competitive status

5.5.3.1 DBS's management estimates that DBS has competitive advantages, the main ones being:

A. The quality and variety of content DBS broadcasts to its subscribers.

B. The level, quality and availability of DBS’s customer service.

C. Using the most advanced cutting-edge technology for providing advanced services and better user experience.

D. Fostering and promoting the yes brand as a preferred, popular brand with a high level of loyalty.

E. Marketing of several agreement formats, with different prices, offering different content, using different broadcasting methods, via various technological interfaces and various customer service formats.

F. Access and connectivity to international content providers.

G. Sale of bundles combining television and internet services.

5.5.3.2 However, DBS’s competitive operations in the broadcasting sector suffer from inferiority or from adverse factors in a number of areas, the main ones being:

A. Infrastructure inferiority – DBS's satellite infrastructure does not enable bidirectional communications, it does not enable provision of VOD services and does not enable transmission of telephony and internet services, compared with the infrastructures used by HOT, Cellcom and Partner, which enable them to provide these services. Furthermore, the satellite infrastructure is limiting compared to internet infrastructure for offering advanced technological interfaces. For information about the migration to OTT services and about the OTT services, see sections 5.2.1.2 and 5.17.1.

B. Regulatory restrictions -

For information about restrictions on marketing joint service bundles see section below.

For information about restrictions under the Commissioner's conditions for a merger see section 2.16.9.3. These restrictions also apply to DBS’s OTT operations.

For information about the competitive inferiority resulting from the absence of regulatory supervision of players who do not have broadcasting licenses, see section 5.18.2.2.

C. Space segments - the use of space segments involves heavy expenses, is dependent on receiving services from a third party (see section 5.15), and is restrictive with regard to the ability to expand the supply of broadcasts (see section 5.6).

5.5.4 Main methods for coping with competition

Below are the main methods used by DBS for dealing with competition:

5.5.4.1 Content – DBS purchases, produces and broadcasts high-quality, innovative and diverse content, creating differentiation, by focusing on branding and obtaining licenses for the content it broadcasts;

5.5.4.2 Pricing policy - offering a variety of services at various price levels.

5.5.4.3 Offering OTT services and migration (see sections 5.2.1.2 and 5.17.1).

5.5.4.4 Service – DBS places emphasis on its customer service system;

5.5.4.5 Technology – DBS invests in expanding its technological capacities by focusing on providing innovative and advanced services.

5.5.4.6 Branding – DBS cultivates, promotes and differentiates the yes brand;

5.5.4.7 Collaboration with international content providers and accessibility of content applications.

5.6 Production capacity

The number of channels that DBS is capable of broadcasting to its Satellite Subscribers depends on the number of space segments it has access to, its ability to compress content and the bandwidth required for transmission of each type of channel. As at the reporting date, DBS utilizes almost all the space segments it has access to. Space segments are provided to DBS by Space Communications Ltd. (see section 5.15). These restrictions do not apply for OTT and VOD services, which depend on internet browsing speeds.

5.7 Property, plant and equipment

Below are the main components of DBS's property, plant and equipment:

5.7.1 Land

DBS leases several real estate properties for its operations. DBS's head office and its main broadcasting center are located in rented premises in Kfar Saba, for which the lease term ends in 2024 (with options granted to DBS for extension of the lease, subject to the terms of the agreement, until 2034). The remainder of the lease terms for the other premises that DBS leases is between six months and six years (these terms are based on the assumption that DBS will exercise the options granted to extend the leases).

5.7.2 Terminal satellite equipment

DBS installs a receiver dish and other terminal equipment in its subscribers' homes, including decoders enabling reception of broadcasts and smart cards for decoding the encrypted broadcasts. The decoders are leased to subscribers for a fixed leasing fee paid during the entire period the services are received, or are lent to subscribers.

5.7.3 OTT terminal equipment

yes+ and Sting TV services are provided to viewers via a range of terminal equipment, including various streamer and smart TV models. DBS purchases streamers and leases them to subscribers.

5.7.4 Broadcasting equipment and computer and communications systems

DBS’s central broadcasting center is located in Kfar Saba and a secondary broadcasting center is located in the Ella Valley from where it transmits its broadcasts via satellite and via the OTT systems. The broadcasting centers contain reception and broadcasting equipment, as well as computer and communications systems. The secondary broadcasting center is partially operated from the premises of a third party which provides DBS part of the secondary broadcasting center operating and maintenance services under a framework contract that is valid until the end of 2023 (that gives DBS an option to extend for an additional five years each time, and can be exercised six months before the agreement terminates).

5.7.5 Operating and encryption systems

DBS purchases from Synamedia Group ("Synamedia") development, assimilation, encryption, maintenance and warranty services for the operating systems of its satellite broadcasting system and the decoders, as well as similar services for the OTT system, under a framework agreement between DBS and Synamedia. Such services are provided for various DBS systems, terminal equipment and for viewing cards and other hardware components required for receiving these services, and DBS is given relevant user licenses for the systems and terminal equipment.

The agreement with Synamedia regarding the satellite system is valid until February 2026, subject to the terms of the agreement, with an option for early termination of the agreement by DBS in the event that it discontinues its satellite broadcasts as part of the migration. See section 5.17.1.

With regard to the services and products provided under this agreement, DBS pays monthly installments where the agreement stipulates a minimum monthly amount for a set volume of services provided, as well as possible additional amounts that may vary depending on the types and scope of use of services provided to DBS, and development services that DBS is entitled to order under the agreement.

The term of the agreement for the OTT system is until December 2024 (with automatic renewal mechanism for two-year terms, unless one of the parties announces otherwise, according to the dates set in this regard in the agreement). DBS has the right to exit the OTT system agreement, subject to prior notice and an exit fee (at a descending rate based on the duration of the remaining term of the agreement).

DBS is dependent on the ongoing provision of these services, for both the satellite system and the OTT system.

5.7.6 Computerized billing system

DBS uses software and computer systems for managing its subscriber agreements, including its billing and collection system. In this context, DBS engaged in agreements for licensing, development services and technical support with NetCracker Technology Solutions Ltd and NetCracker Technology EMEA Limited (jointly - “NetCracker"); DBS also uses Salesforce software, together with Pelephone and Bezeq International, under Pelephone's agreement with Salesforce (for further information see section 3.8.4).

DBS is dependent on the NetCracker and Salesforce systems and services due to their importance for DBS to manage and monitor services and content purchased by subscribers and for subscriber billing and collection. System malfunctions or discontinuation of the services provided to DBS (including its dependence on the engagement with Salesforce) could cause operational difficulties until such matter is rectified or the system or provider is replaced, which could take a long time. As at the reporting date, part of the components of the agreement with NetCracker are renewed annually and some are valid until the end of 2024. The agreement with Salesforce is until the end of 2027.

5.8 Intangible assets

5.8.1 Licenses

DBS owns the following key licenses:

5.8.1.1 Broadcasting license valid through February 2026 – this license is material for DBS’s operations and is the main regulatory permit for its operations (for the terms of this license, see section 5.14)[75].

5.8.1.2 A satellite television license for broadcasting in the Judea and Samaria region, valid through February 2026, the terms of which are similar to those of DBS’s main broadcasting license, as set out in section 5.8.1.1.

5.8.1.3 License to perform uplink operations (transfer of broadcasts from DBS’s broadcasting center to the broadcasting satellite and carrying out set up and supplementary operating actions) that is valid through January 2027. This license is essential for DBS’s operations and constitutes the regulatory permit for transmitting broadcasting messages from the broadcasting center to the broadcasting satellites and from them to the subscribers' homes.

5.8.2 Trademarks

DBS owns registered trademarks with the main ones designed to protect its trade name and the key brands that it uses (yes, yes+, Sting TV).

[75] The expiry date of this license was fixed, at DBS’s request, to match, as far as is possible, the expected date of completion of the migration of DBS from satellite broadcasting services to internet broadcasting services. The license grants DBS the right to inform the Ministry of extending the license for two additional terms of one year each, under the terms set in the license.

5.9 Broadcasting rights

5.9.1 DBS has the broadcasting rights of two types of video content.

Content purchased from third parties, including content and channels, that own the broadcasting rights thereto; DBS acts to adapt, as far as possible, the broadcasting rights it purchases in a way that will allow broadcasting via the various media and configurations that it operates.

Content which DBS invests in producing (in full or in part), and in addition to the actual right to include the content in its broadcasts, DBS generally also has rights in such content, at the rates specified in agreements with the producers. In most instances, DBS is also entitled to issue authorizations to use the rights and share the revenues stemming from additional use of the content, in addition to DBS broadcasting thereof

The broadcasting and distribution of content by DBS over various media involves payment of royalties to the owners of copyrights and performance rights to music, sound recordings, scripts and directing of content, and for secondary broadcasting included under the Copyright Law, 2007 and the Performers and Broadcasters Rights Law, 1984. Such royalties are paid to several organizations, for collecting royalties on behalf of the owners of the intellectual property rights, under blanket licenses. Royalty payments under these licenses are, at times, based on a fixed payment and sometimes on various pricing methods, and with respect to some of the organizations, DBS may be required to pay additional amounts as royalties for transmitting content via certain media, and in amounts that DBS estimates are not expected to be material.

DBS's assessment in this regard is forward-looking information, as this term is defined in the Securities Law, and is based among other things on estimates by DBS, including with regard to the scope of use of such content and on the positions of the various organizations, and if any of them change it is possible that this assessment may change accordingly.

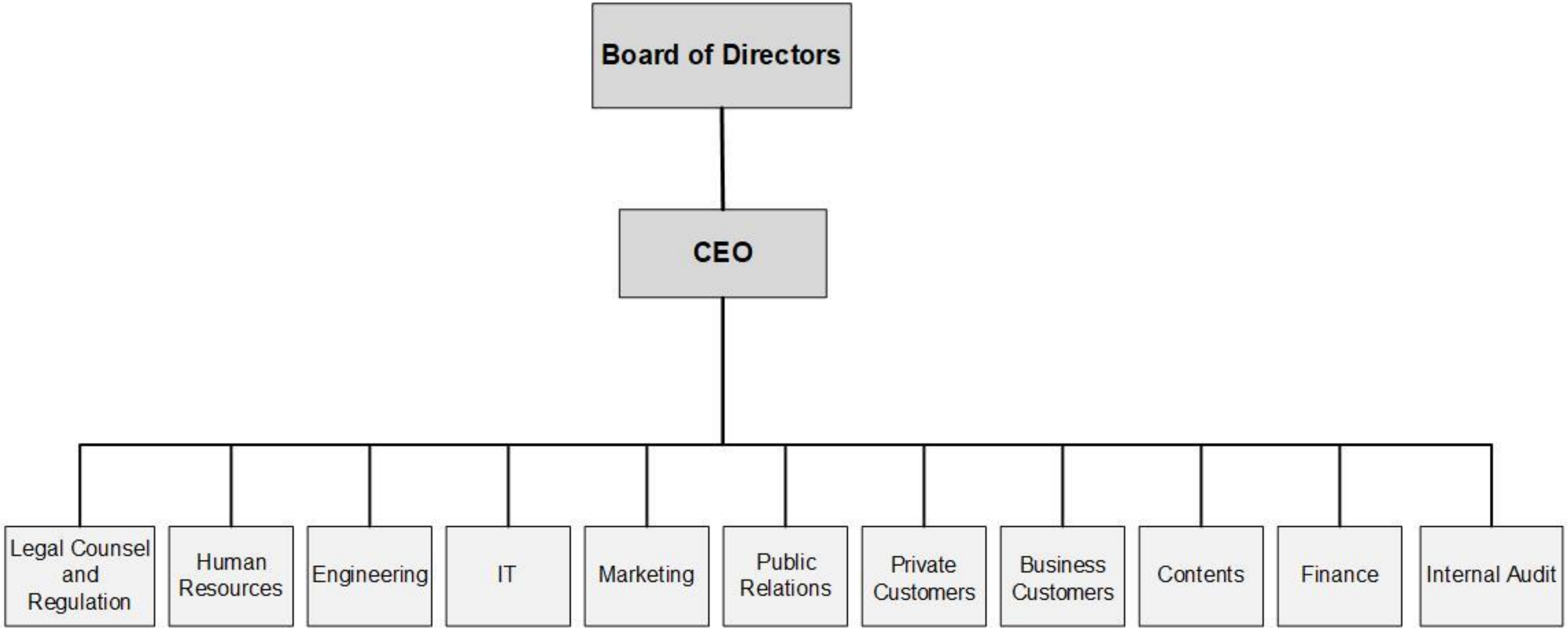
5.9.2 Dependence on content providers

Given the many content providers from which DBS purchases broadcasting rights, DBS does not have a main content provider and is not materially dependent on any single content provider. Nonetheless, as at the reporting date, the Israeli sports broadcasting sector is dependent on acquiring broadcasting rights for local sports channels from Sport Channel Ltd. and Charlton Ltd., with which it has long term agreements. This dependence is due to them being exclusive providers of Israeli sports broadcasts and in view of the high demand for such services among a significant part of DBS customers. The fees paid under these agreements are based on regular monthly payments by the number of subscribers to DBS broadcasts (other than the exceptions stipulated in these agreements). Furthermore, in view of the high demand for the content of the commercial channels (see footnote 67) among DBS subscribers, it is most important to broadcast them as part of its broadcasts.

5.10 Human resources

5.10.1 Organizational structure

DBS's management is made up of divisions, each headed by a VP who is a member of DBS management.



The CEO of DBS also serves as the CEO of Pelephone. Furthermore, the majority of the VPs who serve in DBS also serve as VPs of Pelephone, including the internal auditor, and some of them serve also at Bezeq International.

5.10.2 DBS personnel by division

	Number of employees	
	December 31, 2022	December 31, 2021
Head office employees	351	347
Customer Division	714	747
Total	1,065	1,094

The number of employees in the above table includes those employed in part time positions. The total number of positions[76] at DBS at December 31, 2022 was 986.

5.10.3 Bonuses and Nature of Employment Agreements

The terms of employment at DBS are regulated, among other things, under collective agreements and a collective arrangement, as set out below, which apply to the majority of employees (they do not apply to some of the management levels or to all the employees in positions of special trust). The DBS representative employees' union is the General Federation of Workers.

Furthermore, DBS employees are employed under personal employment agreements, on a monthly salary or at an hourly wage, where some of the employees also eligible for performance-based compensation. The employment agreements are usually for an indefinite term and either party may terminate the agreement with prior notice as set out in the personal agreement and according to the law, and subject to the provisions of the collective agreement, if applicable.

In August 2021, DBS signed a collective agreement with the General Federation of Workers and the employees' committee, which included, among other things, amendments to previous collective agreements and collective arrangements. The new collective agreement is in effect as of January 1, 2022 through December 31, 2024. Under this new collective agreement, among other things, wage increases and bonuses are granted, ancillary benefits were improved, a retirement plan was agreed upon, and the parties agreed to maintain labor stability throughout the term of the agreement on all matters settled therein. The collective agreements applicable to DBS employees (as amended above) regulate, among other things, the time spans after which DBS employees will become permanent employees, mechanisms for involving the employees' committee in decision making concerning hiring and termination of employment of permanent employees, as well as annual wage increments and other general benefits DBS will grant to its employees during the term of the agreement.

When the collective agreement terminates on December 31, 2024, it will automatically be extended for a period of 12 months each time if neither party gives notice, at least 90 days prior to the termination date, their desire to make changes.

5.10.4 Employee compensation schemes

DBS customarily awards its officers, managers and some of its employees, annual bonuses based on attaining goals and performance assessment. For equity based compensation components with respect to some of DBS managers see section 2.9.5.

5.11 Trade payables

5.11.1 Rate of purchases from key suppliers and agreements with them

With regard to section 23 of the First Schedule to the Prospectus Details Regulations, DBS considers a key supplier to be a supplier from which DBS's annual purchases exceed 5% of the total annual purchases of the Group and from which total purchases of its operating segment exceed 10%. In 2022 DBS did not have a key supplier, as defined above.

[76] Calculated according to the total monthly work hours divided by the standard monthly work hours.

5.11.2 Dependence on suppliers

DBS assumes that it could be dependent on the following suppliers:

Space, for further information about the agreement see section 5.15.

Synamedia, for further information about the agreement see section 5.7.5.

NetCracker and Salesforce, for further information about the agreement see section 5.7.6.

For further information about the acquisition of broadcasting rights from the local sports channels see section 5.9.2.

5.12 Financing

DBS's main source of financing is from its independent sources, however it may require investments or credit from the Company, based on DBS's needs.

DBS's foregoing assessment is forward-looking information as defined in the Securities Law. It is not at all certain that DBS will require financing from the Company or that the Company will always finance DBS's operations and for which periods, and it depends, among other things, on DBS's situation, developments in the sectors in which it operates, and the state of competition in these sectors and DBS's future financing needs.

In March 2023, the Company approved a credit facility or capital investment in DBS in a total amount of up to NIS 40 million, for a period of 15 months as of January 1, 2023. This approval replaces a similar approval given in November 2022 (and not in addition thereto).

5.13 Taxation

For further information, see Note 7 to the 2022 Financial Statements.

5.14 Restrictions and supervision applicable to DBS

5.14.1 Regulation of satellite broadcasts

DBS's operations, as a holder of a broadcasting license, are regulated by and are subject to an extensive system of laws that apply to the satellite and cable broadcasting sector, including primary legislation (and specifically the Communications Law and subsequent regulations), secondary legislation (including the Communications Rules), as well as Council decisions, among others.

Moreover, DBS's satellite operations are subject to the provisions of its licenses, and particularly the broadcasting license.

The law authorizes the Director General of the Ministry of Communications and the chairman of the Council to impose financial sanctions for various violations of the provisions of the law and of orders and directives issued thereunder, and for violation of the terms of the broadcasting license.

5.14.1.1 Eligibility requirements for satellite broadcasts licensee, cross-ownership restrictions

The regulations of the satellite broadcasting license place various restrictions on a licensee, including eligibility requirements that relate to the holdings, direct and indirect, by the license holder and its interested parties in licensees under the Second Authority Law[77] and in daily newspapers, as well as requiring DBS officers to be Israeli and minimum 26% holdings therein by Israeli shareholders, pursuant to the provisions set out in the Regulations.

5.14.1.2 Tariff control

The broadcasting license provides provisions regarding the types of fees the licensee may charge its subscribers for services provided under the license, and those fixed in DBS price list as approved by the Council. The majority of the Satellite Subscribers subscribe to special offers for DBS services, including

[77] As at the reporting date, the operations of these entities (in the cable broadcasting sector and under the Second Authority Law) are regulated through licenses and not franchises.

various combinations of content packages, related services, and receipt and installation of terminal equipment, at prices below the listed prices.

DBS is required to inform the chairman of the Council of any changes to the price list immediately it is published and the chairman may, in certain cases, prohibit the change to the price list. The Council chairman may intervene in campaigns or reductions offered by DBS if he/she finds that they are misleading to the public or discriminate between subscribers.

Under the Communications Law, the license may stipulate maximum prices that can be charged to subscribers. At the date of this report, no such prices had been set.

5.14.1.3 Obligation to invest in local productions

Under the provisions of the broadcasting license and the Council's decisions, in 2022 and 2023, DBS is required invest an amount no less than 8% of its revenue from satellite subscription fees[78] in local productions, and according to the Communications Regulations and the decisions of the Council, DBS is required to invest various amounts of such investments in different genres of local productions.

In December 2022 the Council decided to defer until 2024 applicability of its previous decision according to which the obligation to invest in local productions would increase to 9%. The Council further decided that in 2023, and based on developments, it will hold a further discussion to review the prevailing legislative status and the financial situation of the license holders, including the formula fixed in the preceding decision regarding the rate of investment and will issue provisions if it deems fit.

5.14.1.4 Requirement to transmit channels

DBS is required to transmit mandatory channels in its satellite broadcasts as determined by the Minister and in the broadcasting license[79].

Furthermore, DBS is required to allow the producers of channels as set out in the law to use its infrastructures to transmit broadcasts to its subscribers, and this in exchange for payment ("Transmission Fee") to be determined in an agreement, and in the absence of an agreement, in exchange for a fee to be determined by the Minister, after consulting with the Council. In addition, the Minister may require the transmission of broadcasts by small channel licensees pursuant to the Second Authority Law (that were not holders of special licenses prior to the amendment to the Law), taking into account DBS's satellite capacity. According to the amendment to the Second Authority Law, 2018, holders of small and niche channel licenses that were holders of niche licenses under the Communications Law are exempt from paying transmission fees to HOT and DBS during the transition period, following the extension under the amendment to the Second Authority Law in February 2023, which will end in August 2024.

5.14.1.5 Content of the broadcasts and obligations with respect to subscription

The broadcasting license sets out provisions that relate to the content of DBS's broadcasts, including the Council's supervision of the channels broadcast by DBS. The Communications Law forbids holders of broadcasting licenses to broadcast commercials, other than a few exceptions.

The broadcasting license also includes provisions regarding the subscriber service terms, including discrimination prohibition.

Based on an amendment to the license in November 2022, DBS will be entitled, as of February 28, 2025, to refrain from connecting new satellite service subscribers under the license, and accordingly to refuse subscription requests in

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[78] Based on DBS's annual revenues from satellite subscriptions, including revenues from terminal equipment and installation. According to Council's position according to which investments are actually made, and which DBS opposes, these revenues include revenues from VOD services provided to satellite subscribers.

[79] Pursuant to the provisions of the Communications Law, DBS is exempt from paying for the commercial channels that are included in the mandatory channels, which it transmits in its broadcasts.

the subscription agreement, without discriminating between the applicants for subscription.

For information about the Council's preliminary request for data regarding inactive subscribers see section 1.7.7.9.

5.14.1.6 Ownership of broadcast channels

Pursuant with the Communications Rules, DBS, including its affiliates as defined in the Communications Rules, may own up to 30% of the domestic channels it broadcasts (compared with the 20% applicable to HOT.) DBS is restricted under the Communications Law from owning a new program producer.

5.14.1.7 General provisions regarding the broadcasting license

The Minister and the Council have parallel authority to amend the broadcasting license. The Minister is authorized to cancel or postpone the broadcasting license for causes set out in the Communications Law and the broadcasting license. The Communications Law and broadcasting license stipulate restrictions on the transfer, attachment and encumbrance of the broadcasting license and any of the assets of the broadcasting license. The broadcasting license requires receipt of the approval of the Minister for specific changes in holdings of the means of control in DBS and imposes a duty to report regarding the holders of the means of control; prohibition on impairment of competition by way of an agreement, arrangement or understanding with a third party with regard to providing broadcasts and services, unless approved in advance and in writing by the Council; a duty to submit reports to the Ministry of Communications was defined as well as conditions regarding supervision of the licensees' operations; the duty to provide bank guarantees to the Ministry of Communications in the amount of NIS 30 million (principal) (as at the reporting date, in the amount of NIS 45 million)[80].

5.14.2 Regulation of OTT services

OTT services (such as those offered by DBS and other local providers and international providers operating in Israel) are not subject to the current regulation applicable to multi-channel satellite TV broadcasts or other regulation under the Communications Law. DBS assumes that the VOD services it provides via the internet to satellite subscribers (see section 5.2.1) are also not subject to such regulation. Nonetheless, from the Council's various decisions (also see section 5.2.1) it appears that the Council believes it is authorized to also regulate VOD services to DBS's satellite subscribers.

For further information about the procedure for reviewing regulation of OTT services see section 5.1.2.

If regulation is applied to OTT content broadcasting as aforesaid, it is expected to impose restrictions on DBS providing such services, however such regulation may reduce the existing gap in the regulation regime between broadcasting licensees and other entities operating in the OTT market.

DBS's assessments regarding the regulation of OTT services as set out in this section above are forward-looking information, as defined in the Securities Law, based on the regulation hearing document and the wording of the proposed legislation, among others. There is no certainty that this matter will be regulated by legislation and regulation in general, and in the manner recommended in particular. These assessments may not materialize, or they may materialize in a materially different manner than expected, depending, among other things, on the outcome of the regulation hearing and the manner of actual implementation, as well as on legislative amendments that may be formulated pursuant thereto and additional regulation.

5.14.3 Offering service bundles

Under the broadcasting license, DBS may offer joint service bundles that include service provided by the Company and service by DBS, subject to obtaining Ministry of Communications approval (and if no objections are raised within the period specified in the license, such approval will be deemed granted) and subject to conditions, the most important

[80] The amount includes the guarantee given under the Administered Territories license.

of which are the "unbundling" obligation, and the existence of a corresponding bundle marketed by a licensee that is unrelated to the Company (see section 1.7.3.2). A joint service bundle marketed by DBS that includes the Company's internet infrastructure service only, does not require Ministry of Communications approval and the unbundling obligation does not apply.

With regard to conditions published by the Commissioner with regard to the merger of the Company and DBS, and their amendment, see section 2.16.9.3.

DBS believes that in view of the development of competition between the communications groups and the growing importance of the supply of comprehensive communications services (see section 1.7.1), particularly the competition between it and HOT, and Cellcom and Partner that are not subject to such restrictions, if the restrictions with regard to the Company's collaboration with DBS (see section 1.7.3.2) remain in place, the adverse impact of such restrictions on DBS's results may increase.

5.15 Material agreements

Following is a brief description of the main points of the agreements likely to be considered as material agreements outside the ordinary course of DBS's business, which were signed and/or were in effect in the reporting period:

5.15.1 Space segment leasing agreement[81]

Under the 2013 agreement with Spacecom Communications Ltd. ("Spacecom"), as amended (including in January 2023), DBS leases Amos satellite space segments ("Spacecom Agreement").

Under the provisions of the Spacecom Agreement, DBS leases space segments on the satellites, Amos 3 (the estimated end of useful life of which is at the beginning of 2026), Amos 7, in which Spacecom owns the right to lease space segments under its agreement with the owner of the rights in this satellite, and which was leased to DBS until February 2025 (or until the end of its useful life, whichever is earlier)[82].

Term of the agreement - until the end of the useful life of the Amos 3 satellite (subject to exceptions as set out in the agreement), however in any case the agreement will end no later than February 2026[83].

<u>Leased space segments</u> - under the Spacecom Agreement (and subject to non-availability until the end of the term of the Amos 7 lease) DMS will lease 12 space segments from Spacecom, according to distribution among the relevant satellites as set out in the Agreement, according to the various periods, after which DBS is expected to lease 10 space segments on Amos 3. The agreement also regulates the provision of backup segments for space segments leased by Spacecom during the term of the agreement, in a manner where in the event of non-availability of space segments on one of the satellites, Spacecom will provide alternative segments on another satellite so that the number of segments will not be less than 10 segments, subject to conditions and constraints set out in the Spacecom Agreement[84].

[81] The estimates in this section concerning the satellite operations and end of their useful life, the number of segments leased and the effects of these aspects are forward-looking information, as defined in the Securities Law, are based among other things on the information given by Spacecom to DBS and which, in part, is not in the control of Spacecom, and is dependent on its engagements with third parties and on regulatory approvals. Consequently, these estimates may not materialize or may materialize in a manner significantly different from that expected, inter alia, depending on conditions relating to satellite operation, conditions required for their proper operation and the end of useful life of existing satellites, and other external factors and events (including third parties, among them the holder of rights in the Amos 7 satellite) that impact their operation and the operations of Spacecom and the state of its business and finances.

[82] See the Company's immediate report dated February 27, 2023.

[83] Under certain circumstances, DBS may give notice of continuing the use of the Amos 3 satellite also after the end of its useful life.

[84] In addition, according to the Agreement, Spacecom holds reserve tubes on the Amos 7 satellite, and is required to make every reasonable effort to locate alternative satellite segments in other satellites under the conditions and constraints set out in the agreement, including maximum amounts and rates of Spacecom’s participation in additional expenses that may arise from the lease of sections on such another satellite.

Cost - the average annual cost until the end of the Amos 7 lease is USD 25 million, and thereafter USD 18 million, subject to the discount and reimbursement mechanisms set out in the Spacecom agreement.

Early termination of the agreement - under the Spacecom agreement, DBS may give notice of early termination, without cause, of the Spacecom agreement subject to 12 months' prior notice and payment in lieu of the Amos 7 lease with the addition of a partial payment of the balance of the lease of the Amos 3 space segments.

DBS is materially dependent on Spacecom, as the exclusive holder of the rights and the sole provider of space segments used by DBS, which is also responsible for operation of the space segments. For information about exposure to risks in the event of malfunction of one of the satellites, non-availability of the space segments that DBS uses, or lack of redundancy of the Amos 3 satellite as of the end of the Amos 7 lease, see section 5.18.3.4. For information about the dependence on Spacecom, see section 5.18.3.5.

5.16 Legal proceedings[85]

5.16.1 Pending legal proceedings

	Date:	Parties	Court	Type of Action	Details	The amount of the claim
A.	December 2020		District Court at Tel Aviv – Yafo		For further information about an indictment filed in December 2020 by the State Attorney's Office (in the wake of an overt investigation initiated in June 2017) inter alia, against the former CEO and former CFO of DBS, see section 1.1.5.	
B.	June 2017	Shareholders of the Company v. the Company, the chairman of the Company's board of directors, members of the Company's board of directors, CEO of the Company, the CEO and CFO of DBS and companies in the Eurocom Group and against the CEO of the Company and the (former) CEO and (former) CFO of DBS.	District Court (Economic Department) in Tel Aviv	Motion to certify a class action	For further information about the motion for certification that was filed, inter alia, against the former CEO and former CFO of DBS, with respect to a transaction from 2015, under which the Company acquired from Eurocom D.B.S. Ltd. the balance of DBS shares held by it, see section 2.18.1.D.	
C.	July - August 2017	Shareholders of the Company v the Company and DBS	District Court at Tel Aviv – Yafo	A motion for discovery documents prior to filing a motion to certify a derivative claim pursuant to Section 198A of the Companies Law	For information about a motion for discovery of documents prior to filing a motion for certification of a derivative claim under Section 198A of the Companies Law, against the Company and DBS, and to disclose certain documents relating to an interested party transaction between DBS and Spacecom from 2013, as amended in 2017 (the Spacecom Agreement), see section 2.18.1.	

[85] For information about reporting policies and materiality, see section 2.18.

	Date:	Parties	Court	Type of Action	Details	The amount of the claim
D.	June 2018	Shareholders of the Company v. the Company, DBS and the former controlling shareholder of the Company	District Court (Economic Department) in Tel Aviv	Motion for discovery and perusal of documents under section 198A of the Companies Law	For further information about a motion for discovery of documents prior to the filing of a motion for certification of a derivative claim pursuant to Section 198A of the Companies Law, which were filed by shareholders against the Company, DBS, the former controlling shareholder of the Company, DBS, Shaul Elovitch, and his son, Or Elovitch ("Shaul and Or Elovitch "), to disclose documents and information relating to the breach of the duties of trust, loyalty, fairness Shaul and Or Elovitch with regard to the sale of the Company's shares on February 2, 2016 by BI Communications, see section 2.18.1.	

5.17 Goals and business strategy

5.17.1 DBS's goals are to retain its market share by maintaining DBS's business and competitive position in the market and the status of the yes brand as a leading media and TV brand.

Since 2019, DBS implements a plan for migration from satellite broadcasts to OTT broadcasts, in a long-term, gradual process that is expected to continue through to the beginning of 2026, pursuant to a decision of the boards of directors of DBS and the Company. This decision was made in view of trends in the television content market that include lower entry barriers, entry of new players and establishment of OTT broadcasting technologies, changes in the value chain and changes in consumer habits, together with the differences between the older satellite broadcasting technology and the OTT broadcasting technology with all its inherent advantages (also taking into account aspects of equipment, commitments and content rights). Based on this decision, DBS routinely monitors market conditions, competition and the technological environment, and periodically reviews the feasibility of the outline plan and need, if any, to make adjustments in it, in the pace of its execution or in the manner of its implementation, taking into account the needs of its customers and DBS's regulatory and other obligations.

As this relates to the implementation of a plan for the gradual, multi-year migration, with close monitoring, there can be no certainty at this stage regarding the actual time it will take to implement the process and/or that the process will be completed as stated. If the transition is carried out, it is expected to save DBS's expenses and for it to better adapt to changing market conditions.

As of the date of approval of the financial statements, 60%[86] of all DBS subscribers use yes+ and Sting TV's OTT services (as set out in sections 5.2.1.2A and 5.2.1.2B). For information in this regard, also see section 1.5.4.4 (footnote 3).

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[86] This rate also includes subscribers who at the same time also use satellite services.

5.17.2 To achieve these goals, along with efforts to reduce costs, DBS invests considerable effort in marketing and sales, and in appropriate marketing strategies designed to continue to attract new subscribers and to retain existing customers; continually improve the range of services to subscribers; improve the added value offers to customers; create differentiation and innovation in its broadcasting content; offer diversified products (low cost and premium) to increase the amount of content purchased by each subscriber and expand DBS's value-added services; to market ISP services by focusing on the sale of internet and TV bundles to its customers; to collaborate with international content providers and accessibility of content applications, and to invest in the development and integration of cutting-edge technologies, advanced customer interfaces and new services; where these efforts include DBS's drive to implement the OTT services migration plan.

5.17.3 DBS’s foregoing goals, including with respect to the migration plan described above, are forward-looking information, as defined in the Securities Law, based among other things on assumptions, assessments and forecasts by DBS's management concerning the current trends in the broadcasting market, regarding the competition, business developments, consumer behavior, technological environment, regulatory environment and method of regulation (on DBS and other entities) in the satellite TV broadcasting sector as well as the OTT market, taking into account the restrictions that apply and will apply to the Company, and that affect DBS. Nonetheless, the forecasts of DBS's management, its preparations, goals and the foregoing outline plan may not materialize, or may materialize in a significantly different manner, due to changes in broadcasting market demand, fiercer competition in these sectors, due to the entry of additional providers to the sector or alternative sectors, due to technological developments and changes in viewing habits, due to the rate of development of internet speeds, and due to the regulatory restrictions which are or will be imposed on DBS or on its partnerships with the Company and other entities in the sectors, and due to how the sectors are regulated.

5.18 Discussion of risk factors

Following is a list of the threats, weaknesses and other risk factors of DBS (the "Risks”) attributable to the general environment, industry and special nature of its operations.

5.18.1 Macro risks

5.18.1.1 Financial risks

DBS is exposed to various market risks such as exchange rate, index and interest risks. The main market risk is the NIS-USD exchange rate, due to the fact that a significant part of DBS’s expenses and investments are in USD (primarily content, satellite segments, purchase of terminal equipment and other logistics equipment). Consequently, sharp fluctuations in the exchange rate will have an effect on DBS’s business results.

5.18.1.2 Recession / economic downturn / security situation

An economic downturn, increase in unemployment rates and decrease in disposable revenue might bring about a decrease in the number of DBS’ subscribers, a decrease in DBS’ revenues and harm its business results. Similarly, an ongoing unstable security situation in large areas of Israel, which disrupts the day-to-day lives of the residents, could have an adverse effect on DBS's business results.

5.18.1.3 Pandemic

The outbreak of diseases and pandemics in general (such as the outbreak of Covid in 2020) may have consequences on DBS’s business activities based on the scope and severity of the spread, and the national and global measures that will be adopted as a result. Such consequences could be reflected by, among others, damage caused to DBS, and its customer service and supply chain. Events of this type are variable events that are out of DBS’s control and their outcome are subject to, among other things, decisions of governments and authorities in Israel and worldwide, which could affect DBS. For information about this issue also see section 5.18.1.2 and the Company's position in sections 2.20.10 and 2.20.13.

5.18.1.4 Damage due force majeure, war, disaster

Damage caused to DBS's infrastructure and services as a result of a force majeure, including earthquakes, and caused by war or disaster, could have an adverse effect on its business and results.

5.18.2 Sector-specific risks

5.18.2.1 Dependence on licenses

DBS provides multi-channel television broadcasts under a broadcasting license and other licenses and is therefore dependent on these licenses and on their extension from time to time. Violation of the provisions of the licenses and of the law under which the licenses are issued could bring about, subject to the license conditions, revoking, amendment or suspension of the licenses and consequently material harm to DBS's ability to continue operating.

5.18.2.2 Regulation

The provision of satellite television broadcasts is subject to obligations and restrictions set out in legislation and to a system of licensing, oversight and approvals from various regulatory bodies, and consequently may be affected and restricted due to policy considerations dictated by these entities and by their decisions and changes in communications legislation (see section 5.14). Regulatory changes could impact DBS operations and could have a material adverse effect on its financial results. OTT services, including those provided by DBS are not supervised as at the reporting date (for information about the possibility of regulation of these services, see section 5.14.2). The continuing operations of online content providers (and the entry of additional providers), as set out in section 5.1.1 above, without applicable regulation of their operations and/or without amending the regulations applicable to broadcasting licensees, may significantly affect DBS's financial results. In addition, as a provider of public services, DBS's operations are subject, among others, to consumer and privacy protection regulation and information security laws (see section 1.7.7.4).

5.18.2.3 Competition

The sector is fiercely competitive with diverse competitors (see section 5.1.7), which are expected to grow in the future with the entry of additional local and international entities, and with the changing consumer preferences, requiring DBS to regularly and continuously invest in attracting and retaining customers, and dealing with high rates of subscriber migration between the companies and may even require a change in the business model of DBS. For details regarding facets of the competition, see section 5.5.

DBS's assessment as set out in this section above concerning the possibility of local and international entities entering the market is forward-looking information as defined in the Securities Law. This assessment is based on DBS' assessments of the state of the sector and possible changes therein, which may not materialize or may materialize partially or otherwise taking into account the realization or non-realization of the plans of various entities to enter the market, how this will actually be implemented and the prevailing competition.

5.18.2.4 Technological developments and improvements

Technological improvements and the development of innovative technologies that render existing technology inferior could force DBS to invest large amounts to retain its competitive edge (see section 5.1.1).

5.18.2.5 Alternative multi-channel broadcasting infrastructures

The DTT system, and particularly its expansion and the expanding penetration of OTT operators, could have an adverse effect on the financial results of DBS (see section 5.1.1)

5.18.2.6 Unlawful viewing

The broadcasting sector is exposed to pirate connections by viewers for receiving broadcasts without paying subscription fees and is exposed to public access to content to which the broadcasting providers have rights.

5.18.2.7 Legal proceedings

DBS is party to legal proceedings, including motions for certification as class actions, which are liable to result in it being ordered to pay material amounts that cannot presently be estimated, and with respect to part thereof, no provision has been made in its financial statements. Class action suits may reach high amounts, since a major part of the residents of Israel are DBS subscribers, and a claim relating to a small amount of damage to a single subscriber could grow into a material claim against DBS if certified as a class action applicable to all or a large proportion of those subscribers.

5.18.3 DBS specific risks

5.18.3.1 Restrictions caused by ownership structure

DBS is restricted in joint ventures with the Company with respect to offering communications service bundles that has a material impact on DBS's business status and competitive ability (see section 5.14.3).

5.18.3.2 Restrictions due to eligibility conditions

Cross-holdings, direct or indirect, of DBS shareholders, and a decrease in the rate of holdings of Israeli citizens or residents in DBS may result in failure to comply with the eligibility conditions of its broadcast license (including due to the minimum requirement for Israeli held holdings, see section 5.14.1.1).

5.18.3.3 Cash flow

DBS is required to maintain sufficient cash flows to comply with its long term business plan. The absence of sufficient cash flows, including through investment or financing from the Company, may adversely affect DBS's business and make it more difficult for it to face the competitive threats in view of technological developments and changes in consumption patterns in the sector.

DBS estimates that it is expected to continue to accumulate operating losses in the coming years, and therefore without the Company's support, it will be unable to meet its obligations and continue operating as a going concern. DBS believes that the sources of financing available to it include, among others, the working capital deficit and credit limits and capital investments from the Company as set out in section 5.12, will be sufficient for the needs of DBS's operations for the coming year.

5.18.3.4 Satellite malfunction, damage, unavailability or termination of satellite services

DBS’s satellite broadcasts are carried out via space segments of satellites located at the same point in space. Malfunction of one of the satellites, damage to one of them or unavailability of space segments on any of the satellites, including unavailability of the satellite scheduled to replace one that has ceased to broadcast or provide services to DBS, could disrupt and materially reduce the volume of DBS broadcasts via the satellite, unless an alternative is found for such unavailable space segments, taking into account the time taken until the foregoing alternative is implemented. Nonetheless, the duplication of the satellites via which broadcasts are transmitted to subscribers as at the reporting date, also in view of the partial backup mechanism prescribed in the Spacecom agreement, significantly reduces the risk entailed by damage, failure or unavailability of one of them, and improves the sustainability of the broadcast. In the event of a satellite being unavailable as aforesaid, it would be possible, through space segments made accessible for DBS on another satellite, to broadcast the major channels broadcast by DBS (all or a large part thereof) (for information about the Spacecom agreement, including the alternative mechanisms set out in it, see section 5.15.1). Nonetheless, DBS estimates that such duplication of satellites is expected to end at the beginning of 2025, and from then forward DBS will operate with one satellite - see section 5.15.1. DBS is not insured against loss of revenues caused by satellite malfunction.

Termination of receipt of satellite services, for any reason (including due to expiration of the agreement),so long as a significant part of DBS subscribers are still satellite subscribers, may result in material impairment of DBS's revenues.

Progress in or acceleration of the migration to OTT broadcasting may reduce the foregoing adverse effects arising from malfunction, damage, non-availability or termination of the satellite services

DBS's foregoing assessment in this section is forward-looking information as defined in the Securities Law. This assessment is based on Spacecom providing space segments and Spacecom's assessment with regard to the continuing life of the satellite, the new satellites starting to operate and the end of the operation of the existing satellites and exercising of the agreements with regard thereto, and termination of the option of leasing space segments from Spacecom. This estimate may not materialize or may materialize partially or differently if there will be changes in the life expectancy of the satellites or exercising the option of leasing them or if Spacecom does not provide DBS with alternative segments due to unavailability or malfunction of the space segments or the satellites.

5.18.3.5 Dependence on the rights holder of the space segments

DBS is materially dependent on Spacecom, as the exclusive holder of the rights and the sole provider of space segments used by DBS, which is also responsible for operation of the space segments. With regard to Amos 7, availability of space segments is dependent on a third party that owns the satellite and the organization responsible for operating it, and with which Spacecom has an agreement (see section 5.15) and the execution of its agreement with Spacecom regarding this satellite until the end of the period set in a way that will enable the continued smooth proper leasing of the space segments in this satellite.

5.18.3.6 Dependence on suppliers of software, equipment, content, infrastructure and services

DBS is dependent on certain vendors of software and equipment, and providers of certain content (see section 5.7.2 and 5.9.2), including broadcast encryption services (see section 5.7.5). Failure to receive the products or services they provide could harm DBS's ability to function and results. Furthermore, inability to purchase streamers or to receive support services from the current supplier, is expected to involve a period of preparation that will require alternative agreements and modifications in the supply chain and their support.

5.18.3.7 Damage to broadcasting centers and the logistic center

Damage to a broadcasting center's operations may cause a significant difficulty for continuing broadcasts, however, splitting of broadcasts into two broadcasting centers (Kfar Saba and Ella Valley) reduces the risk involved if one sustains damage and improves the survivability of some of the broadcasts. In the event of damage to one of the broadcasting centers, DBS will be able to continue broadcasting from the other broadcasting center only part of its channels as part of the satellite broadcasting format, as well as all VOD broadcasts. All the broadcasting centers have identical encryption systems and therefore full backup is also available for the encryption system in the event of damage to one of the broadcasting centers. If the operations at the Kfar Saba site are discontinued, it will not be possible to provide the OTT service at all, and if the operations only at the secondary site are discontinued, it will be possible to continue most of the OTT services through the Kfar Saba site, including the broadcasting of some channels and VOD service. Damage to DBS's logistics center could also be a cause of disruption of its operations and particularly the installation and maintenance of terminal equipment.

DBS's foregoing assessment in this section is forward-looking information as defined in the Securities Law. This estimate is based on the provision of services from the supplier that operates the secondary broadcasting site in the event of damage to the Kfar Saba broadcasting center. Malfunction of DBS's computer systems - A significant malfunction in DBS's central computer systems is liable to wreak havoc with its operational capability.

5.18.3.8 Malfunction of DBS's IT Systems

A significant malfunction in DBS's central computer systems is liable to significantly affect its operational capability. However, DBS has a remote backup site designated primarily for storing information and providing limited internal computing service in the event of malfunction so that in the event of a failure in the IT systems of DBS's site in Kfar Saba, it will be possible to reactivate the central systems through the backup site.

DBS's foregoing assessment concerning the foregoing backup capacity in this section is forward-looking information as defined in the Securities Law. This estimate is based on the functioning of the remote backup site. This estimate might not be realized or might be realized to some or other extent if this functioning is not enabled.

5.18.3.9 Cyber risks

DBS is exposed to the risk of actions that are intended to harm the use of computers or material stored on the computers ("Cyber Attack"). Such types of attacks are liable to cause disruption of business, theft of information/funds, damage to databases and subscriber information, impairment of goodwill, damage to systems and leaking of information and/or content, which could also be caused maliciously or accidentally by internal entities. As a company operating in the subscriber television broadcasting sector, DBS is the target of cyber-attacks that are handled by its information security and cyber protection teams.

DBS defined a cyber risk management policy that sets out guiding criteria for implementing cyber protection, which relate, among other things, to information confidentiality, reliability and availability with regard to the implementation of cyber protection from the following aspects: organizational structure, cloud computing, human and security resources, physical and logical cyber protection for processes, systems and infrastructures. The person responsible for implementing policies at DBS is the information systems manager. DBS implements a cyber risk management and information protection standards, as well as a protection policy that contains layers of protection, from a layer of procedures and policies to a physical layer of security systems in a configuration that effectively integrates with DBS's operational needs in order to protect its infrastructures and systems and to reduce the possibility of illegal exploitation of its resources. It also applies attack and detection tools for information security weaknesses, which run automatically and help in detecting information security loopholes and weaknesses.

DBS has an annual work plan for minimizing exposure due to cyber risk by implementing control and monitoring actual implementation.

DBS also conducts periodic information security surveys, risk surveys, hacking tests, attack drills and additional actions to test the effectiveness of its risk management policy for dealing with and minimizing cyber risk, and controls for testing how cyber risks are managed by internal audit. DBS also allocated resources for cyber risk management by establishing an information security system that is made up of professionals in this area.

DBS's board of directors is also involved and supervises cyber risk management at DBS as part of its involvement in DBS's overall risk management policy.

Notwithstanding DBS's investments and efforts in various means for reducing such risks, it is unable to guarantee that these measures will actually succeed in preventing a cyber-attack and/or damage and/or disruption of the Systems and the information linked to them.

5.18.3.10 Technical limitation that prevents offering of integrated services

DBS's satellite infrastructure is technically limited compared to the HOT infrastructure. This technical inferiority prevents DBS from providing telephony and internet services, and various interactive services, including VOD, via its infrastructure; and therefore, depends on third parties for providing them.

5.18.3.11 Malfunction or circumvention of the encryption system

DBS's satellite and OTT broadcasts are based on broadcast encryption and encoded satellite broadcasts via smart cards that are installed in the decoders in subscribers' homes. Defects in the encryption system or its enforcement or a breach thereof could make it possible to view broadcasts without payment to DBS, thereby causing a reduction in revenues and a breach of the agreements between DBS and its content suppliers.

5.18.3.12 Lack of exclusivity on frequencies

The spectrum of frequencies used by DBS to transmit its broadcasts from the broadcasting satellites to the satellite dishes installed in subscriber homes, and which is allocated in accordance with the license from the Ministry of Communications, is defined as a frequency spectrum with a secondary allocation, such that an Israeli party that is allowed to make authorized primary use the frequency spectrum. If the foregoing owner of the primary allocation uses the frequency spectrum, this may cause adverse impact on the quality and/or availability of DBS broadcasts to its subscribers, which may adversely affect the financial results of DBS. At the date of this report, to the best of DBS's knowledge, the primary allocation holder has not made use of said frequencies in a manner that caused any real and/or lengthy disruptions to DBS broadcasts.

5.18.3.13 Disturbances in broadcasts

Broadcast disturbances - as DBS's satellite broadcasts are wireless transmissions from broadcasting centers to broadcasting satellites and from them to the receiver dishes in subscriber homes, the broadcast of wireless signals in the same frequency spectrum, whether or not they originate in Israel, and extreme weather conditions of heavy rain, hail or snow could cause disruptions to the quality and/or availability of the broadcasts provided by DBS to its subscribers and may cause material harm to its financial results. With regard to OTT broadcasts, there may be disruptions in the quality and availability of the broadcasts due to disruptions or unavailability of the internet infrastructure.

5.18.3.14 Labor relations

DBS is party to a collective agreement with the General Federation of Workers and the employees' committee that could minimize its managerial flexibility (see section 5.10.3). Furthermore, labor disputes at DBS, including such disputes at the Company's subsidiaries, could cause damage to the ongoing operations of DBS.

5.18.3.15 Loss of knowledge and information

The changes taking place in the labor market in Israel and globally, together with the organizational changes, entail a risk of losing key employees, loss of knowledge due to employee churn, difficulties in recruiting workers, among others.

5.18.3.16 Delay in improving internet browsing speeds

Delay in improving internet browsing speed - as the Company's plans for transition to OTT broadcasts (see section 5.17.4) is also based on improved internet browsing speeds, with nationwide deployment, failure to improve internet speeds by deploying optical fibers or by implementing another technology solution, by the Company or by other communications operators, may delay the implementation of the outline plan or impair it implementation.

DBS estimates that the internet speeds required to enable OTT broadcasts as planned, in a manner that enables the operation of multiple decoders in a customer's home, are forward-looking information. These estimates are based on the expected development of internet speeds, taking into consideration, among other things, the anticipated requirements in the customers' homes and the expected mix of broadcasts. These estimates may not materialize or may materialize differently if there is a delay in improving internet speeds or changes in the needs of the customers or of DBS.

Breakdown of risk factors ranked according to their impact, in the opinion of DBS management. It should be noted that DBS's assessments of the extent of the impact of a risk factor reflect the scope of the effect on DBS of such risk factor, on the assumption that it the risk factor will be realized and the foregoing does not express an assessment or give weight to the chances of its realization as aforesaid. Likewise, the order of appearance of the risk factors above and below is not necessarily based on the risk involved in each risk factor, or the probability of its occurrence[87]:

[87] See footnote 48.

Summary of risk factors - multi-channel television

	Extent of Impact		
	Major	**Moderate**	**Minor**
Macro risk			
Financial risks		X	
Recession / economic downturn / security situation			X
Pandemic		X[88]	
Damage due force majeure, war, disaster	X		
Sector-specific risk			
Dependence on licenses	X		
Regulation	X		
Competition	X		
Technological developments and changes		X	
Alternative infrastructures		X	
Unlawful viewing		X	
Legal proceedings		X	
Company-specific risk			
Restrictions caused by ownership structure		X	
Restrictions due to eligibility conditions	X		
Cash flow	X		
Satellite malfunction and damage	X		
Dependence on space segment supplier	X		
Dependence on suppliers of content, equipment and infrastructure	X		
Damage to broadcasting centers	X		
Malfunction of computer systems	X		
Cyber failures	X		
Technical limitation that prevents offering of integrated services		X	
Malfunction or circumvention of the encryption system	X		
Lack of exclusivity on frequencies		X	
Disturbances in broadcasts	X		
Labor relations			X
Loss of knowledge and information		X	
Delay in improving internet browsing speeds	X		

The information included in this section 5.18 and the assessments of DBS regarding the impact of the risk factors on DBS's operations and business constitute forward-looking information as defined in the Securities Law. The information and estimates are based on data published by regulatory agencies, DBS assessments of the market situation and the structure of competition, possible developments in the market and the Israeli economy, and the factors mentioned above in this section. Actual results may differ significantly from these assessments if a change occurs in any of the factors taken into account in the assessments.

March 13, 2023

Date: Bezeq - The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:

Gil Sharon, Chairman of the board of directors

Ran Guron, CEO

[88] The extent of the effect of this risk on DBS's operations was classified as moderate on the assumption that the event would be limited in scope and time. Otherwise, the extent of the effect could be major.

6. Appendix A – List of Terms

A. Names of laws in the report

Communications Law	-	Communications Law (Telecommunications and Broadcasts), 1982
Communications Order	-	Communications Order (Telecommunications and Broadcasts) (Determination of Essential Service Provided by Bezeq The Israel Telecommunication Corp. Ltd), 1997
Communications Rules	-	Communications Rules (Broadcasting Licensee), 1987
Companies Law	-	Companies Law, 1999
Consumer Protection Law	-	Consumer Protection Law, 1981
Economic Competition Law	-	Economic Competition Law, 1988
General Permit Regulations	-	Communications Regulations (Telecommunications and Broadcasts) (General Permit for the Provision of Telecommunications Services), 2022
Interconnect Regulations	-	Communications Regulations (Telecommunications and Broadcasts) (Interconnect Fees), 2000
Israel Securities Law	-	Israel Securities Law, 1968
Market Concentration Law	-	Law to Promote Competition and Reduce Concentration, 2013
Non-Ionizing Radiation Law	-	Non-Ionizing Radiation Law, 2006
Planning and Building Law	-	Planning and Building Law, 1965
Planning and Building Regulations (Exempt from Permit)	-	Planning and Building Regulations (Works and Buildings Exempt from Permit), 2014
Prospectus Details Regulations	-	Securities Regulations (Details, Structure, and Form of a Prospectus and a Draft Prospectus) (Amendment), 1969
Satellite Broadcasting License Regulations	-	Communications Regulations (Telecommunications and Broadcasts) (Proceedings and Conditions for Granting a Satellite Broadcasts License), 1998
Second Authority Law	-	Second Authority for Television and Radio Law, 1990
Telegraph Ordinance	-	Wireless Telegraph Ordinance [New Version], 1972
Use Regulations	-	Communications Regulations (Telecommunications and Broadcasts) (Use of a Domestic Carrier's Public Network), 2014

B. Technological terms and other key terms in the report[89]

Advanced network	-	A fiber network reaching a network termination point at the enduser's apartment, or an equivalent network in terms of the level of service that can be provided on it according to standards prescribed by the Minister and published on the website of the Ministry of Communications; for this purpose, "apartment"– a room or unit, or a set of rooms or units intended for use as a complete and separate unit for residence, for a business, or for any other purpose, including a private house
Authorized provider	-	A holder of a telecommunications license or a registered entity operating in accordance with Section 4A1 of the Communications Law
B Communications	-	B Communications Ltd.
Bezeq International	-	Bezeq International Ltd.
Bezeq Online	-	Bezeq Online Ltd.
Bitstream Access (BSA)	-	Managed broadband access allowing service providers to connect to the network of the infrastructure owner and offer broadband services to subscribers
Broadcasting license	-	License for satellite television broadcasting
Cellcom	-	Cellcom Israel Ltd. and corporations under its control
Cellular license	-	General license for providing MRT services by the cellular method
Council	-	Cable and Satellite Broadcasting Council
Data transmission service	-	Transmission of signals over a telecommunications network other than through the Internet, for another person, including the transmission of electromagnetic signals between facilities of authorized providers or holders of broadcast licenses or between terminal equipment
DBS	-	DBS Satellite Services (1998) Ltd.
Domestic carrier	-	An entity providing fixed-line domestic telephony services under a general or special domestic carrier license
Domestic carrier license	-	A general license or a special general license for providing fixed-line domestic telecommunications services
DTT	-	Digital terrestrial television – wireless digital transmission of television channels using terrestrial relay stations
Eurocom Communications	-	Eurocom Communications Ltd.
Eurocom DBS	-	Eurocom DBS Ltd.
Fiber project	-	The Company's plan for deployment of ultra-broadband fixed-line infrastructure, which includes massive wide-scale deployment of fiber optics nationwide for ultra-fast internet services
General consolidated license/consolidated license	-	A general license which is one of the following or a license that combines several of them: (1) Special general license (2) General cellular telephony license on another network 3) General license for providing international telecommunications services (4) Special license for providing NEP services (5) Special license for providing internet services

[89] It should be noted that the definitions are for reader convenience only and are not necessarily identical to the definitions in the Communications Law or its Regulations.

Golan Telecom	-	Golan Telecom Ltd.
GSM	-	A global system for mobile communications – international standard for cellular communications (second generation)
HD	-	High definition TV – high resolution (separate) TV broadcasts
Histadrut	-	The Histadrut New Federation of Labor
HOT	-	HOT Communications Systems Ltd. and other broadcasting (multi-channel television) corporations under its control
HOT Mobile	-	HOT Mobile Ltd. (formerly Mirs Communications Ltd.) and corporations under its control
HOT Telecom	-	HOT Telecom Limited Partnership
HOT-Net	-	HOT-Net Internet Services Ltd.
HSPA	-	High speed packet access – cellular technology succeeding the UMTS standard, enabling data transfer at high speeds (3.5G)
IBC	-	IBC Israel Broadband Company (2013) Ltd.
ICT	-	Information and communications technology
ILA	-	Israel Land Authority
Interconnect	-	Interconnect allows the transmission of telecommunications messages between subscribers of different license holders, or services provided by one license holder to the subscribers of another license holder; interconnection is made possible by means of a connection between a public telecommunications network of one license holder (for example, the Company) and a public network of another license holder (for example, a cellular operator); see also the definition of interconnect fees.
Interconnect fees	-	Interconnect fees (also called “connectivity fees” or "call completion fees") are paid by one carrier to another for interconnection (see definition below)
Internet access service	-	A service provided to subscribers for a consideration, in cash or cash equivalent to money, which allows them a connection to the endpoints of the internet network accessible to the general public
Internet Gold	-	Internet Gold Golden Lines
IP	-	Internet protocol allowing unity between voice, data, and video services using the same network
IPVPN	-	Virtual private network based on internet protocol (IP) located the public internet, through which it is possible to: (a) connect to the enterprise network by remote access , and (b) connect between the branches of the enterprise (intranet)
ISP	-	Internet service provider – a holder of a special license to provide internet access services The internet access provider is the entity allowing the end user to connect to a TCP/IP protocol linking to the global internet
LTE	-	Long term evolution – A standard for wireless communication of high speed data for mobile devices such as a cellphone
Mpbs	-	Megabits per second – a unit of measure for the speed of data transfer
MRT or cellular	-	Mobile radio-telephone; cellular telephony
MVNO	-	Mobile virtual network operator – a virtual cellular operator using the existing communication infrastructure of cellular carriers without the need for its own infrastructure
NEP	-	Network end point – the physical point where a telecommunications network ends and from which it can be accessed by a telecommunications network user

NGN	-	Next generation network – the Company's communications network, based on IP architecture
On-demand streaming services	-	Services for viewing content, other than when it is broadcasted, including VOD, Catch Up (viewing content that has already broadcasted, subject to a time limit since its original broadcast date), Start Over (the option to restart a live broadcast from the beginning), recording, and saving content in the cloud
Partner	-	Partner Communications Ltd. and corporations under its control
Pelephone	-	Pelephone Communications Ltd.
Rami Levy	-	Rami Levy Cellular Communications Ltd.
Reporting period	-	The twelve months ended December 21, 2022
Roaming	-	Services allowing customers of one communications network to receive services from another communications network that is not their home network (the network of the license holder to which they are subscribed), based on roaming agreements between the home network and the host network
Second Authority	-	The Second Authority for Television and Radio
Spacecom	-	Space Communications Ltd.
Switching	-	In the context of a communications network – a telephony system supporting the connection of equipment for passing calls between end units
TASE	-	The Tel Aviv Stock Exchange Ltd.
Telecommunications service	-	A service provided to the general public or to part of it through a telecommunications network, which is one of the following: (1) Telephony services (2) Internet access service Data transmission service (4) Another service listed in the first addendum
Telephony service	-	A service for sending or receiving a telecommunications message based on a number according to the numbering plan
Traditional network	-	A telecommunications network that is not an advanced network
UMTS	-	Universal mobile telecommunications system – international standard for cellular communications developed from the GSM standard (3G)
VoB	-	Voice over broadband – telephony and associated services in IP technology using fixed-line broadband access services
VOD	-	Video on demand – television services according to subscriber demand
VoIP	-	Voice over internet protocol – technology allowing the transfer of voice messages (telephony services) by means of IP
Walla	-	Walla! Communications Ltd. and corporations under its control
Wi-Fi	-	Wireless fidelity – wireless access to the internet within the local space
xDSL	-	Digital subscriber line Technology using copper telephone lines for faster data transmission by frequencies that are higher than the voice frequency, therefore allowing simultaneous call and data communication.
2022 Financial Statements	-	The Company's consolidated financial statements for the year ended December 31, 2022

7. Appendix B – Financial Indicators and Key Performance Indicators

7.1 General

The following indicators, which are noted in the chapters of the Company's Periodic Report, are undefined financial indicators or set out in generally accepted accounting principles included in the financial statements. The definition and/or calculation method of the indicators may change from time to time, they do not replace indicators based on generally accepted accounting principles, and they may not be calculated in the same way as parallel indicators in other companies.

Below are details of these indicators, including according to the revised Israel Securities Authority Resolution 99-6 regarding the use of financial indicators that are not based on generally accepted accounting principles.

7.2 Financial indicators

7.2.1 EBITDA

EBITDA is defined as earnings before interest, taxes, depreciation and amortization. The EBITDA indicator is generally accepted in the Company's area of operations that counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. The Company’s EBITDA is calculated as operating profit before depreciation, amortization, and impairment (ongoing losses from the impairment of fixed assets and intangible assets). As from January 1, 2019, and for the proper presentation of economic activity, the Company presents ongoing losses from the impairment of fixed assets 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 operating and general expenses (in the statement of income).

7.2.2 Free cash flow (FCF)

The Company’s free cash flow is calculated as cash from operating activities less cash for the purchase/sale of fixed assets and intangible assets, net, and from 2018, with the application of IFRS 16, lease payments are also deducted. The FCF indicator is a generally accepted indicator in the Company’s area of operation in general and presents the cash that the Company is able to generate after the investment required to maintain or expand its asset base.

7.3 Key performance indicators

7.3.1 Average revenue per user (ARPU)

The ARPU indicator reflects the average monthly revenue per line/subscriber/household and is calculated as a division of the relevant average total monthly revenues for a period by the average number of active lines/subscribers/households in the same period, as the case may be. It should be clarified that the Group has four main areas of operation, which are parallel to the corporate division between the Group companies and the definition of an active subscriber differs between areas of operation.

7.3.2 Churn rate

The churn rate reflects the Company’s ability to maintain its customer base and is calculated by dividing the number of lines/subscribes/ households disconnected from the Company’s services in a period by the average number of active lines/subscribers/households in the same period, as the case may be. It should be clarified that the Group has four main areas of operation, which are parallel to the corporate division between the Group companies and the definition of an active subscriber differs between areas of operation.

Chapter B -

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

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

We hereby present the Board of Directors' Report on the state of affairs of Bezeq - The Israel Telecommunication Corporation Ltd. (the "Company") and the consolidated Group companies (the Company and the consolidated companies, jointly – the "Group") for the year ended December 31, 2022.

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

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

1. **Domestic fixed-line communication**
2. **Cellular communication**
3. **ISP, International Communications, NEP Services and ICT Solutions**
   hereinafter: ("**Bezeq International Services**")
4. **Multi-channel television**

For further information, see Note 28 to the financial statements.

Breakdown of the Group's results:

	2022	2021	Change	
	NIS million		NIS million	%
Net profit	1,000	1,183	(183)	(15.5)
EBITDA *	3,505	3,759	(254)	(6.8)
Adjusted EBITDA *	3,736	3,709	27	0.7

* Regarding non-GAAP based financial measures, see below.

The decrease in net profit was mainly due to a decrease in capital gains from the sale of real estate properties and an increase in expenses with respect to a provision for legal claims in the Domestic Fixed Line Communications segment and an increase in expenses for early retirement and voluntary redundancy severance pay and the Group's collective agreements. The decrease was moderated due to an increase in profit in the Cellular Communications segment.

For further information see section 1.2 below.

*** Non-GAAP based Financial Measures**

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

Breakdown of these measures:

Measure	Calculation and objectives of the measure
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Defined as earnings before financing expenses/income, taxes, depreciation and amortization. The EBITDA is a generally accepted measure used in the Group's area of operations, which offsets effects arising from the variance in the capital structure, various taxation aspects, and the depreciation method and period for fixed and intangible assets. The Group's EBITDA is calculated as operating profit before depreciation, amortization and impairment (including ongoing losses from impairment of fixed and intangible assets, as described in Notes 3.10.2, 10.5 and 10.6 to the financial statements).
Adjusted EBITDA	Calculated as EBITDA net of other operating expenses/income, one-time losses/gains from impairment/appreciation, and equity compensation plan expenses. The index enables comparison of operating performance of various periods by adjusting the effects of irregular non-recurring expenses/income. It should be noted that the EBITDA measure should not be compared to measures similarly designated by other companies due to a possible difference in the way the measure is calculated.

Breakdown of the calculation of these measures:

	2022	**2021**
	NIS million	
Operating income	**1,637**	1,870
Net of depreciation, amortization and impairment	**1,868**	1,889
EBITDA	**3,505**	3,759
Net of other operating expenses (income), net	**220**	(77)
Net of expenses for equity based compensation	**11**	27
Adjusted EBITDA	**3,736**	3,709

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

1.1 Financial position - Assets

	December 31, 2022	December 31, 2021	Change		Explanation
	NIS million			%	
Cash and current investments	**1,651**	1,927	(276)	(14.3)	For further information see section 1.4 below.
Current and non-current trade and other receivables	**2,188**	2,571	(383)	(14.9)	The decrease was mainly due to bringing forward credit card companies' crediting dates and proceeds deferred from 2021 due to sanctions by employees in the cellular communications and Bezeq International services segments.
Inventories	**85**	74	11	14.9	
Broadcasting rights	**57**	60	(3)	(5.0)	
Right-of-use assets	**1,746**	1,828	(82)	(4.5)	
Fixed assets	**6,542**	6,312	230	3.6	The increase is mainly from the Domestic Fixed-Line Communications segment, among other things, due to the progress made in the fiber network deployment project, see Note 9.4 to the financial statements.
Intangible assets	**912**	912	-	-	
Deferred expenses and non-current investments	**231**	226	5	2.2	
Deferred tax assets	**-**	24	(24)	(100)	See Note 7.5 to the financial statements.
Total assets	**13,412**	**13,934**	**(522)**	**(3.7)**	

1.1 Financial position (contd.) - Liabilities and equity

	December 31, 2022	December 31, 2021	Change		Explanation
	NIS million			%	
Debt to financial institutions and debenture holders	**7,273**	8,062	(789)	(9.8)	The decrease in the debt is due to repayment (including early redemption) of debentures and repayment of loans, offset by receipt of loans in the Domestic Fixed Line Communications segment. For further information, see Note 13 to the financial statements.
Liability for leases	**1,908**	1,977	(69)	(3.5)	
Trade and other payables	**1,590**	1,748	(158)	(9.0)	The decrease is mainly due to payments for 5G frequencies in the Cellular Communications segment. For further information, see Note 14 to the financial statements.
Employee benefits	**600**	753	(153)	(20.3)	The decrease is mainly due to employee severance payments and an increase in the discounted interest of employee liabilities in the Domestic Fixed Line Communications segment, offsetting an increase in provisions for early retirement and voluntary redundancy severance pay. See Note 16.5 to the financial statements.
Provisions	**205**	118	87	73.7	The increase is mainly due to an increase in provisions for legal claims in the Domestic Fixed-Line Communications segment, see Notes 15 and 17 to the financial statements.
Deferred tax liabilities	**61**	38	23	60.5	
Derivatives and other non-current liabilities	**151**	142	9	6.3	
Total liabilities	**11,788**	12,838	(1,050)	(8.2)	
Total equity	**1,624**	1,096	528	48.2	Equity constitutes 12.1% of the total balance sheet compared to 7.9% of the total balance sheet as at December 31, 2021. The increase in capital is due to profits offsetting the distribution of dividends.
Total liabilities and equity	**13,412**	**13,934**	**(522)**	**(3.7)**	

1.2 Results of operations

1.2.1 Highlights

	2022	2021	Change		Explanation
	NIS million			%	
Revenues	**8,986**	8,821	165	1.9	The increase is mainly due to the Domestic Fixed Line Communications and Cellular Communications segments, offset by a decrease in revenues in the "Others" segment.
General and operating expenses	**3,389**	3,257	132	4.1	The increase is from all the Group's key segments, other than the Cellular Communications segment.
Salaries	**1,872**	1,882	(10)	(0.5)	The decrease in payroll expenses in the "Others" segment is offset by the increase in the Domestic Fixed Line Communications and Multichannel Television segments. For further information, see Note 23 to the financial statements.
Depreciation, amortization and impairment	**1,868**	1,889	(21)	(1.1)	The decrease in the Group's expenses was offset in part due to an increase in expenses in the Domestic Fixed Line Communications segment.
Other operating expenses (income), net	**220**	(77)	297	-	The change was mainly due to a decrease in capital gains from the sale of real estate properties in the Domestic Fixed Line Communications segment, from an increase in provisions for legal claims compared to a decrease in such provisions in the corresponding year, and from an increase in expenses due to early retirement and voluntary redundancy severance pay and collective agreements in the Group. See Note 24 to the financial statements.
Operating profit	**1,637**	1,870	(233)	(12.5)	
Financing expenses, net	**301**	305	(4)	(1.3)	For further information, see Note 25 to the financial statements.
Income taxes	**336**	382	(46)	(12.0)	
Profit for the year	**1,000**	1,183	**(183)**	**(15.5)**	

1.2.2 Operating segments

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

	2022		2021	
	NIS million	**% of total revenues**	**NIS million**	**% of total revenues**
Revenue by operating segment				
Domestic Fixed Line Communications	**4,306**	**47.9**	4,182	47.4
Cellular communications	**2,399**	**26.7**	2,289	25.9
Bezeq International Services	**1,239**	**13.8**	1,237	14.0
Multi-channel television	**1,277**	**14.2**	1,270	14.4
Others and adjustments	**(235)**	**(2.6)**	(157)	(1.7)
Total	**8,986**	**100**	**8,821**	**100**

	2022		2021	
	NIS million	**% of revenue segment**	**NIS million**	**% of revenue segment**
Operating profit (loss) **Revenue by operating segment**				
Domestic Fixed Line Communications	**1,460**	**33.9**	1,748	41.8
Cellular communications	**193**	**8.0**	42	1.8
Bezeq International Services	**(30)**	**(2.4)**	22	1.8
Multi-channel television *	**(48)**	**(3.8)**	(41)	(3.2)
Others and adjustments	**62**	**-**	99	-
Consolidated operating profit / % of the Group's revenues	**1,637**	**18.2**	1,870	21.2

* Results of the Multichannel Television segment are presented net of the total effect of impairment recognized from 2018. This, in accordance with the way the Group's COO assesses the performance of the segment and decides about the allocation of resources for the segment. In addition, see Note 31.3 to the financial statements for selected condensed information from the financial statements of DBS.

1.2.2 Operating segments

B. Domestic Fixed-Line Communications

	2022	2021	Change		
	NIS million			%	
Internet services	**1,789**	1,624	165	10.2	The increase is due to an increase in the retail ARPU, which was mainly from services and installations for fiber network subscribers, supplementary terminal equipment, and the provision of ISP services since April 2022, as well as an increase in wholesale internet rates and in the volume of wholesale market activities.
Fixed line telephony	**780**	913	(133)	(14.5)	The decrease is due to lower average revenue per telephone line (ARPL), owing primarily to a reduction in telephony rates by the Ministry of Communications since April 2022, as well as a decrease in the number of lines.
Data transmission, communications and others	**1,406**	1,327	79	5.9	The increase is mainly due to an increase in revenues from paid for work and transmission services for businesses.
Cloud and digital services	**331**	318	13	4.1	The increase is due to, among others, virtual exchanges and cloud services
Total revenue	**4,306**	4,182	124	3.0	
General and operating expenses	**759**	667	92	13.8	The increase is mainly due to an increase in subcontractor expenses and materials mainly due to the fiber network deployment and paid for work.
Salaries	**970**	934	36	3.9	The increase is mainly from the hiring of new employees due to the fiber network deployment project and revision of wages, offset by employee resignation.
Depreciation and amortization	**1,005**	938	67	7.1	The increase is mainly due to an increase in depreciation costs of subscriber equipment and an increase in the balance of investments in the fiber network deployment project.
Other operating expenses (income), net	**112**	(105)	217	-	The change is due to recording high capital gains from the sale of real estate properties in the corresponding year, and an increase in costs of provisions for legal claims compared to a decrease in these costs in the corresponding year. See Note 8 to the separate financial information.
Operating profit	**1,460**	1,748	(288)	(16.5)	
Financing expenses, net	**332**	342	(10)	(2.9)	The decrease in net financing expenses is mainly due to financing income for employee benefits that were recognized as a result of the rise in the discounting interest rate, a decrease in interest expenses due to a decrease in debt and income from hedging transactions on the USD exchange rate. The decrease was offset by an increase in debenture linkage differentials due to the increase in CPI and an increase in early redemption costs compared with the corresponding year.
Income taxes	**279**	343	(64)	(18.7)	
Segment profit	**849**	1,063	(214)	(20.1)	

1.2.2 Operating segments

C. Cellular Communications

	2022	2021	Change		
		NIS million		%	
Services	**1,791**	1,642	149	9.1	The increase is primarily due to recovery from the effects of the COVID-19 pandemic that is reflected in an increase in revenue from roaming services and continued growth in the subscriber base, including subscribers to 5G bundles.
Sale of terminal equipment	**608**	647	(39)	(6)	The decrease is mainly due to a decrease in the number of units sold and a decrease in wholesale sales.
Total revenue	**2,399**	2,289	110	4.8	
General and operating expenses	**1,327**	1,346	(19)	(1.4)	The decrease is mainly due to a decrease in costs of terminal equipment together with a decrease in revenues, expenses for the integration of a cloud computing system in the corresponding year, decrease in interconnect fees and decrease in repair service costs. The decrease was partially offset by an increase in roaming costs parallel to the increase in revenue, and due to an increase in doubtful debt expenses.
Salaries	**314**	315	(1)	(0.3)	
Depreciation and amortization	**532**	577	(45)	(7.8)	The decrease is mainly due to a decrease in costs of right-of-use assets at the cellular sites and fully amortized assets, as well as a revision of the estimated dismantling and clearing sites assets.
Other operating expenses, net	**33**	9	24	266.7	The increase is due to the effect of the collective agreement with respect to employee bonus and severance expenses.
Operating profit	**193**	42	151	359.5	
Financing income, net	**26**	42	(16)	(38.1)	The decrease in net financing income is primarily due to an increase in exchange rate differential expenses due to the increase in the exchange rate and financing costs for interest and linkage differentials, offsetting the increase in interest revenue from loans provided to the parent company.
Income tax expenses	**54**	20	34	170.0	
Segment profit	**165**	64	101	157.8	

1.1.2 Operating segments

D. Bezeq International Services

	2022	2021	Change		
		NIS million		%	
Revenues	**1,239**	1,237	2	0.2	The increase in revenue from business services was due to an increase in revenues from cloud licensing and the initial consolidation of CloudEdge operations, as well as an increase in international calls that were offset by a decrease in revenue from ISP services resulting mainly from a decrease in the number of subscribers in the wake of the ISP reform.
Operating, general and impairment expenses	**827**	799	28	3.5	The increase is due to business services expenses resulting mainly from the consolidation of CloudEdge operations, as well as an increase in cloud licensing expenses and an increase in payments to mobile network operators due to an increase in call volume and rates. On the other hand, there was a decrease in domestic capacity expenses mainly due to a decrease in retail internet operations together with a decrease in revenue.
Salaries	**237**	237	-	-	The decrease in salary expenses was due to the continuous downsizing of the Company's workforce, offset by the increase in salary expenses following the initial consolidation of CloudEdge, as well as wage revisions and termination of discounting of sales incentives due to discontinuation of ISP service sales in the private sector.
Depreciation, amortization and impairment	**134**	173	(39)	(22.5)	The decrease is due to a decrease in impairment of assets (see Note 10.6 to the financial statements) and a decrease in the subscriber acquisition asset amortization expenses due to, among others, the foregoing termination of discounting and decrease in amortization of other long term assets.
Other operating expenses, net	**71**	6	65	-	The increase is mainly due to provision for early retirement and voluntary redundancy.
Operating profit (loss)	**(30)**	22	(52)	-	
Financing expenses, net	**1**	2	(1)	(50)	
Income taxes	**1**	12	(11)	(91.7)	The decrease is due to the tax expenses recorded in the corresponding year with respect to previous years.
Segment profit (loss)	**(32)**	8	(40)	-	

1.2.2 Operating segments

E. Multichannel television (DBS) (proforma) *

	2022	2021	Change		
		NIS million		%	
Revenues	**1,277**	1,270	7	0.6	The increase is mainly due to an increase in revenue from the sale of content to external entities, offset by the effects of the changes in the subscriber mix from premium to discount.
General and operating expenses	**855**	825	30	3.6	The increase is mainly due to an increase in the volume of content costs and in ISP costs.
Salaries	**193**	182	11	6	The increase is mainly due to an increase in employment costs and the effects of the collective labor agreement.
Depreciation and amortization	**274**	292	(18)	(6.2)	The decrease is mainly due to fully depreciated assets (mainly satellite decoders)
Other operating expenses	**3**	12	(9)	(75.0)	The decrease is mainly due to expenses recorded with respect to the new 2021 collective agreement.
Operating Loss	**(48)**	(41)	(7)	17.1	
Financing expenses (income), net	**(6)**	1	(7)	-	The change is mainly due to the effect of USD exchange rate hedging transactions.
Income taxes	**1**	1	-	-	
Segment loss	**(43)**	(43)	-	-	

* Results of the Multichannel Television segment are presented net of the total effect of impairment recognized from 2018. See Proforma profit & loss below.
This is in accordance with the way the Group's COO assesses the performance of the segment and decides about the allocation of resources for the segment.
For further information, see Notes 10.5 and 28 to the financial statements. In addition, see Note 31.3 to the financial statements for selected condensed information from the financial statements of DBS.

DBS Results - Comparison between accounting profit or loss and proforma profit or loss

	2022		2021	
	Accounting profit or loss	Proforma profit or loss	Accounting profit or loss	Proforma profit or loss
	NIS million			
Revenues	**1,277**	**1,277**	1,270	1,270
General and operating expenses	**867**	**855**	835	825
Salaries	**200**	**193**	188	182
Depreciation and amortization	**199**	**274**	203	292
Other operating expenses	**3**	**3**	12	12
Operating profit (loss)	**8**	**(48)**	32	(41)
Financing expenses (income) net	**(6)**	**(6)**	1	1
Income tax	**1**	**1**	1	1
Profit (loss) for the year	**13**	**(43)**	30	(43)

1.3 Key data from the Group's consolidated quarterly statements of income (NIS millions)

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022	Explanation
Revenues	2,255	2,225	2,262	2,244	8,986	
Operating expenses	1,795	1762	1796	1996	7,349	The increase in the fourth quarter is mainly due to expenses with respect of early retirement and voluntary redundancy severance costs and collective agreements in the Group, see Note 16.5 to the financial statements.
Operating income	460	463	466	248	1,637	
Financing expenses, net	85	67	73	76	301	The first quarter includes early redemption costs with respect to debentures (Series 9) in an amount of NIS 26 million.
Profit after financing expenses, net	375	396	393	172	1,336	
Income taxes	93	89	91	63	336	
Profit for the period	282	307	302	109	1,000	

1.4 Cash flows

	2022	2021	Change		
	NIS million			%	
Net cash flow from operating activities	**3,503**	2,839	664	23.4	The increase in net cash flows from operating activities is due to changes in working capital, mainly due to bringing forward crediting dates of the credit card companies, and due to the deferral of collection from customers from the fourth quarter of 2021 through the first quarter of 2022 resulting from sanctions by employees in the Cellular Communications segment and the Bezeq International Services segment, and a decrease in income tax paid in the Domestic Fixed Line Communications.
Net cash used for investing activities	**(1,585)**	(1,646)	61	(3.7)	The increase in net cash flows used in investing activities is mainly due to an increase in net proceeds from redemption of bank deposits offsetting a decrease in proceeds from the sale of fixed assets in the Domestic Fixed Line Communications segment.
Net cash used for financing activities	**(2,150)**	(1,060)	(1,090)	102.8	The increase in net cash flows used for financing activities is mainly due to the payment of a dividend in the amount of NIS 534 million, an increase in redemption of debentures (including early redemption) offsetting a decrease in loan repayments and due to the inclusion of issuing of Debentures (Series 13 and 14) in the corresponding year.
Net increase (decrease) in cash	**(232)**	133	(365)	-	

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

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 7,860 million.

Supplier credit: NIS 951 million; Short-term customer credit: NIS 1,541 million; Long-term customer credit: NIS 278 million.

Working capital

The Group's working capital deficit as at December 31, 2022 amounted to NIS 70 million, compared with surplus working capital in the amount of NIS 366 million at December 31, 2021.

As at December 31, 2022, the Company had (based on the separate financial information) a working capital deficit in the amount of NIS 62 million, compared with surplus working capital in the amount of NIS 161 million at December 31, 2021.

The change in the working capital is due to a decrease in trade receivables and in cash and investment reserves, offset by a decrease in current liabilities.

The Company's Board of Directors reviewed, among other things, the existing and expected cash sources and needs in the foreseeable future of the Company and of the Group, the investment needs of the Company and the Group, the sources of credit available to the Company and the Group, and reviewed sensitivity analysis for unexpected adverse events on the businesses of the Company and the Group. In this regard, the Company's Board of Directors decided that the foregoing working capital deficit does not indicate a liquidity problem in the Company and in the Group, and that there is no reasonable concern that the Company and the Group will fail to meet their existing and expected liabilities when they fall due. The Company and the Group are able to meet their existing and expected cash needs in the foreseeable future, also in the event of any unexpected deterioration in their businesses, by using the cash reserves that they have as well as by generating cash from operations, by using net liquid resources from subsidiaries, and by raising and recycling a significant scope of debts from banking and non-banking sources.

The foregoing information includes forward-looking information based on the Company's estimates regarding liquidity. Actual figures may differ significantly from the foregoing estimates if a change occurs in any of the factors taken into account in the assessments.

1.5 Pandemic - outbreak of Covid-19

At the beginning of 2020 the Covid-19 pandemic broke out worldwide and in Israel (the "Pandemic"). Following the Pandemic, many countries, including Israel, adopted various measures and restrictions in an attempt to contain the spread of the virus. In 2022 there was a significant decline in outbreaks of the virus and the effects of the Pandemic, and the implications on the Group in 2022 was reflected mainly in the impairment of Pelephone roaming revenues (impairment that gradually decreased over the year and through to the date of publication of this report), and without significant adverse effects on the other operating areas. As at publication of this report the Pandemic has not had any special effects on all the Group's operating areas.

For further information, see the analysis of the results of operations of the Cellular Communications segment in section 1.2.2, subsection C.

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

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

In 2022, the CPI increase affected the Group's financing expenses by NIS 95 million (NIS 72 million after hedging), compared to the corresponding year. It should be noted that the net impact of the interest rate increase in the market on the results of the Group's operations was not substantial in the reporting period.

Based on the volume of the Group's CPI linked debt as at December 31, 2022, every 1% increase in the CPI is expected to cause an increase in the Group's financing expenses of NIS 25 million, before weighting the effect of the hedging transactions. Furthermore, every 1% change in the Bank of Israel interest rate is expected to increase the Group's annual financing costs by NIS 7 million and accordingly, is not expected to have a material effect on the results of the Group's operations.

2. Aspects of Corporate Governance

2.1 Community involvement and donations by Group companies

Under the social involvement and community outreach policy approved by the Company's Board of Directors, Bezeq contributes to the community out if its profound commitment to social responsibility, through cash donations, by donating services and telecom infrastructure, and encouraging employees to volunteer in community projects.

The major part of its contribution Bezeq focuses on reducing the digital gap in Israel by donating communication services to non-profits and disadvantaged populations, support for programs that promote digital equality through training, providing skills and assistance, and harnessing other partners. At the same time, Bezeq endeavors to create a social impact by providing a framework for initiatives, meaningful actions and community volunteering.

In 2022 Bezeq Group donated a total amount of NIS 6.4 million, that includes a financial donation of NIS 1.8 million, donation of telecom services and infrastructures to non-profits and disadvantaged populations amounting to NIS 3 million and a wage donation in the amount of NIS 1.6 million.

2.2 Disclosure concerning independent auditor's fees

Fees paid to the auditors of the Group's key consolidated companies for auditing and audit-related services (NIS thousands):

Company name:	Auditors	Details	2022	2021
Bezeq - The Israel Telecommunications Corp. Ltd.	Somekh Chaikin	Audit and audit-related services, including Audit related tax consultancy	1,530	1,530
		Other services[1]	485	684
Pelephone Communications Ltd.	Somekh Chaikin	Audit and audit-related services, including Audit related tax consultancy	603	642
		Other services[1]	434	366
Bezeq International Ltd.	Somekh Chaikin	Audit and audit-related services, including Audit related tax consultancy	379	1483
		Other services[1]	403	519
DBS Satellite Services (1998) Ltd.	Somekh Chaikin	Audit and audit-related services, including Audit related tax consultancy	612	671
		Other services[1]	283	83
Total			4,749	5,978

The independent auditor's fees are discussed by the Board of Directors' committee for reviewing the financial statements and are approved by the Board of Directors of the Company and the boards of directors of each of the Group's companies. The fees set are based on the number of hours and the hourly rate in the preceding year that are adjusted for changes and events that occurred in the reporting year.

[1] Other services provided to the Group's key companies in 2021 and 2022 included, among others, tax consultancy and accounting services that are not audit related, and special permits

2.3 Directors with accounting and financial expertise and independent directors

Information concerning directors with accounting and financial expertise and independent directors is included in sections 2 and 9 of the corporate governance questionnaire and section 14 of Chapter D of the periodic report.

2.4 Disclosure concerning the internal auditor of a reporting company

Details	
Name of internal auditor	Lior Segal:
Date of commencement of term of office:	January 24, 2011
Compliance with statutory requirements	The internal auditor complies with the conditions as set out in Sections 3(a) and 8 of the Internal Audit Law, and the provisions of section 146(b) of the Companies Law.
Method of employment	Company employee
Manner of appointment	**<u>Manner of appointment and summary of reasons for approving the appointment:</u>** The appointment was approved by the Board of Directors on January 24, 2011, following the Audit Committee's recommendation. Prior to his appointment, the internal auditor served as manager of internal processes and controls and as corporate governance compliance officer. The appointment was based on his qualifications and professional experience. **<u>Duties, powers, and tasks of the internal auditor:</u>** The powers and responsibilities of the Company's internal auditor are set out in the Company's internal audit procedure that is approved by the Company's Audit Committee. According to the procedure, the internal auditor's responsibilities and powers are as follows: To examine propriety of actions carried out by the Company, its officers and personnel, to examine the integrity of financial and operating information, and of financial and liability management, the Company's IT systems and its information security set-up. The internal auditor is also charged with investigating employee complaints according to the arrangements set out by the Audit Committee, pursuant to Section 117(6) to the Companies Law, 1999. The internal auditor is authorized to receive any information, explanation, and document required for the performance of his duties; he has right of access to all regular or computerized data bank, database, and automated or non-automated data processing work plan of the Company and its units; and to be granted entry to all Company property. The internal auditor is also entitled to be invited to all management, Board of Directors and committee meetings
The organizational supervisor of the internal auditor	Chairman of the Board of Directors
Work plan	The annual work plan for 2022 was taken from the work plan for 2022-2024. **<u>Considerations for determining the internal audit work plan</u>** The guiding principle underlying the internal audit work plan is the inherent risk in the Company's processes and operations. To assess these risks, the internal audit referred to the risk survey conducted by the Company, and to other sources that affected the risk assessment of those processes, such as talks with management, findings from previous audits, and other relevant actions. The key considerations taken into account in formulating the work plan are: reasonable coverage of most of the Company's operating segments based on exposure to material risks, considering existing controls in the Company's operating segments and previous audit findings. **<u>Parties involved in formulating the work plan</u>** The internal auditor, management, CEO, the Board of Directors' Audit Committee and Chairman of the Board of Directors.

2.4 Disclosure concerning the internal auditor of a reporting company (cont.)

Details	
Work Plan (Cont.)	**<u>The party accepting and approving the work plan</u>** The Board of Directors' Audit Committee, after discussion on the matter with the Chairman of the Board of Directors. **<u>The auditor's discretion to deviate from the work plan</u>** The Chairman of the Board of Directors or the Chairman of the Audit Committee may propose issues that raise the need for conducting an urgent audit and may recommend narrowing the scope or terminating an audit on a matter that was approved in the work plan. The internal auditor has the discretion to deviate from the work plan. **<u>Examination of material transactions</u>** The internal auditor attends discussions at Board of Directors' meetings where material transactions are approved, and reviews the relevant material sent in preparation for these discussions.
Audit review of material investees	The work plan for the Company's internal audit unit does not include an audit of material investees. A single internal auditor is employed to oversee the material investees (as an employee of Pelephone and also provides services to yes and Bezeq International), and three additional employees as part of the efforts to consolidate the internal auditing activities of these investees. Investee audit reports are discussed by the boards of these companies, which include directors who also serve as directors of the Company. The internal auditor may, under the Company's internal audit policy and at his discretion, obtain the audit reports of these subsidiaries and he is required to meet with each of the subsidiaries' internal auditors at least once a year to discuss the audit plan and its implementation in the subsidiary. The internal auditor routinely conducts these meetings and receives audit reports from the subsidiaries' auditor.
Scope of employment	In 2022, the scope of the internal auditor's employment was 7,850 hours, which includes the work hours of the audit unit employees, including the internal auditor, and by external third parties. In 2022, the internal audit team comprised three full-time internal auditors, in addition to the internal auditor. The scope of employment is based on the audit work plan, which is formulated in accordance with the scope and complexity of the various operations of the Company. <u>Scope of internal audit activities in material investees of the Company (as described above) in 2022:</u> Pelephone – 2,600 hours; Bezeq International – 2,600 hours; DBS - 2,600 hours.
Conducting of the audit	The internal audit is conducted in accordance with the Companies Law, 1999, and the Internal Audit Law, 1992, and complies with generally accepted auditing standards set by the international Institute of Internal Auditors (IIA). The internal auditor is certified as an Internal Audit Quality Assessment Reviewer (QAR) and Certified Internal Auditor (CIA), he has Certification in Risk Management Assurance (CRMA) from the international Institute of Internal Auditors (IIA), and is certified as a Certified Information Systems Auditor (CISA), Certified Information Systems Manager, Certified Data Privacy Solutions Engineer (CDPSE) and has Certification in Risk and Information Systems Control (CRISC) from the Information Systems Audit and Control Association (ISACA), and has in-depth knowledge of internal audit standards. Internal audit activities are also subject to periodic review The internal auditor has updated the Audit Committee and the Board of Directors regarding the standards used in the internal audit activities
Access to information	The internal auditor was provided with documents and information as set out in Section 9 of the Internal Audit Law, and was granted ongoing and direct access to the Company's information systems, including financial data.

2.4 Disclosure concerning the internal auditor of a reporting company (cont.)

Details	
Internal auditor's report	The internal auditor regularly submits written audit reports throughout the reporting year to the Chairman of the Board, the CEO, and the chairman and members of the Audit Committee. Reports are submitted close to the date of discussion by the Committee (usually three days before this date). The Audit Committee discussed audit reports and audits conducted by the internal auditor on the following dates: January 12, 2022; February 28, 2022; March 30, 2022; May 3, 2022; August 1, 2022; August 14, 2022; September 7, 2022; October 23, 2022 and December 7, 2022. In addition to the audit reports, the auditor submitted reviews and reports to the Audit Committee on various matters as requested by the Committee, and briefed the Committee on the implementation of the decisions in the audit reports that were discussed by the Committee (partly in meetings held in addition to the ones noted above). For information concerning the main issues audited by the internal auditor see the Corporate Governance Questionnaire.
The Board of Directors' assessment of the internal auditor's work	The Board of Directors believes that the scope of the Company's audits, the nature and continuity of the internal auditor's activities as well as the audit work plan, are reasonable under the circumstances and can achieve the goals of the audit.
Remuneration	The terms of the internal auditor's employment were discussed and approved by the Company's Audit Committee and Board of Directors on March 20, 2017, and March 29, 2017, respectively, and have been revised as follows: Total monthly salary of NIS 50,000 and annual bonus based on targets set by the Audit Committee and approved by the Board of Directors, of up to 62.5% of the annual salary, excluding ancillary costs. Furthermore, on February 14, 2021, the internal auditor was allotted 300,000 options. On March 13, 2023, the Company's Board of Directors approved the bonus for the Company's internal auditor for 2022 in the amount of NIS 325 thousand (54.2% of his annual salary). The Board of Directors believes that the compensation paid to the internal auditor did not affect his professional judgment.

3. Disclosure concerning the Company's Financial Reporting

3.1 Disclosure concerning valuations

Below is a breakdown concerning very material valuations and a material valuation pursuant to Regulation 8B(9) of the Securities Regulations (Periodic and Immediate Reports), 1970.

A very material valuation of the Company as at December 31, 2022 is not attached to the report as the Company is satisfied that underlying any reasonable change in the key assumptions used to determine the recoverable value of a cash-generating unit, no very material impairment was recognized.

	Pelephone Material valuation as at December 31, 2022 See section 3.1.3 below	The Company (Bezeq) Very material valuation as at December 31, 2022	DBS Very material valuation as at December 31, 2022 - attached to the financial statements as at December 31, 2022 See sections 3.1.1 and 3.1.3 below	Bezeq International Very material valuation as at December 31, 2022 attached to the financial statements as at December 31, 2022 See section 3.1.3 below
Subject of valuation	Value in use of Pelephone to test for impairment of goodwill recognized in the Company's financial statements pursuant to IAS 36.	Value in use of Bezeq to test for impairment of goodwill recognized in the Company's financial statements pursuant to IAS 36.	Test for impairment of assets of DBS Satellite Services (1998) Ltd. as at December 31, 2022	Test for impairment of assets of Bezeq International Ltd. as at December 31, 2022
Date of valuation	December 31, 2022 The valuation was signed on March 5, 2023	December 31, 2022 The valuation was signed on March 6, 2023	December 31, 2022 The valuation was signed on March 9, 2023	December 31, 2022 The valuation was signed on March 9, 2023
Value shortly prior to the valuation date had GAAP, including depreciation and amortization, not required re-evaluation based on the valuation	Carrying amount of NIS 920 million for Pelephone's net operating assets (*) (NIS 76 million - goodwill)	Carrying amount of NIS 5,987 million for the net operating assets of Bezeq (NIS 265 million - goodwill)	Carrying amount prior to impairment as at December 31, 2022 is a negative amount of NIS 18 million	Carrying amount prior to impairment as at December 31, 2022 is NIS 2 million.

(*) Pelephone's net operating assets are not included under trade receivables due to the sales of terminal equipment in installments that are presented at present value

3.1 Disclosure concerning valuations (cont.)

	Pelephone Material valuation as at December 31, 2022 See section 3.1.3 below	The Company (Bezeq) Very material valuation as at December 31, 2022	DBS Very material valuation as at December 31, 2022 - attached to the financial statements as at December 31, 2022 See sections 3.1.1 and 3.1.3 below	Bezeq International Very material valuation as at December 31, 2022 attached to the financial statements as at December 31, 2022 See section 3.1.3 below
Value based on the valuation	NIS 2,533 million The Company concluded that there is no impairment that requires a write-down of goodwill recognized in the Company's books.	NIS 17,819 million The Company concluded that there is no impairment that requires a write-down of goodwill recognized in the Company's books.	Total value of DBS operations is negative NIS 103 million. Given the negative value of operations, the net value of DBS assets and liabilities was set at the higher of their fair value or zero. Accordingly, the recoverable amount of DBS, which is obtained by stating the balance sheet items at fair value, net of selling costs, in accordance with IAS 36 requirements, amounted to a negative amount of NIS 88 million. Based on the valuation, in 2022 the Group recognized an impairment loss in the amount of NIS 275 million.	Total value of operations of Bezeq International is negative in the amount of NIS 166 million. Given the negative value of operations, the net value of Bezeq International Ltd. assets and liabilities was set at the higher of their fair value or zero. Accordingly, the recoverable amount of Bezeq International, which was obtained by stating the balance sheet items at fair value, net of selling costs, in accordance with IAS 36 requirements, amounted to a negative amount of NIS 22 million. Based on the valuation, in 2022 the Group recognized an impairment loss in the amount of NIS 104 million.
Valuator's identity and profile	The valuation was prepared by Prof. Hadas Gelander, Partner and Head of Valuations and Economic Modeling in the Economic Department at Ernst Young (Israel) Ltd. Prof. Gelander holds a BA in Accounting from the College of Management – Academic Studies, Rishon LeZion; MBA from the Hebrew University of Jerusalem; PhD (with honors) from the Ben Gurion University, Beer Sheva; and is a Certified Public Accountant in Israel. In her position, Prof. Gelander oversees projects for leading companies in Israel and worldwide, in diverse sectors such as: technology, finance, pharmaceuticals, energy, infrastructures, real estate and industry. As part of her duties, she assists and advises companies in the preparation of valuations for business purposes (fair value valuations and opinions) and for accounting purposes (purchase price allocation, valuation of intangible assets, valuation of employee options, etc.), and has provided professional financial opinions as an expert court witness. The valuator is not dependent on the Company. The Company undertook to indemnify the valuator for any damages in excess of three times her fee, other than if she acted with malicious intent or gross negligence.			

3.1. Disclosure concerning valuations (cont.)

	Pelephone **Material valuation as at December 31, 2022** **See section 3.1.3 below**	**The Company (Bezeq)** **Very material valuation as at December 31, 2022**	**DBS** **Very material valuation as at December 31, 2022 - attached to the financial statements as at December 31, 2022** **See sections 3.1.1 and 3.1.3 below**	**Bezeq International** **Very material valuation as at December 31, 2022** **attached to the financial statements as at December 31, 2022** **See section 3.1.3 below**
Valuation model	Discounted Cash Flow model (DCF).	Discounted Cash Flow model (DCF).	First stage - the value in use is calculated using the DCF method Second stage - the net fair value was established of DBS assets and liabilities, net of selling costs, as at December 31, 2022.	First stage - the value in use is calculated using the DCF method Second stage - the net fair value was established of Bezeq International's net assets and liabilities, net of selling costs as at December 31, 2022.
Assumptions used by the Valuator in the valuation	Discount rate - 10% (after tax); Permanent growth rate - 1.5% Scrap value percentage of total value set in the valuation - 73.7%	Discount rate - 8% (after tax); Permanent growth rate - 1% Scrap value percentage of total value set in the valuation - 74.8%	Discount rate - 10% (after tax); Permanent growth rate - 1% Scrap value percentage of total value set in the valuation - N/A In addition, assumptions were made concerning the fair value, net of selling costs, of DBS assets.	Discount rate - 10.3% (after tax); Permanent growth rate - 3% Scrap value percentage of total value set in the valuation - N/A In addition, assumptions were made concerning the fair value, net of selling costs, of Bezeq International assets.

3.1 Disclosure concerning valuations (cont.)

3.1.1 Notwithstanding the negative value of DBS operations, the Company supports DBS by approving credit facilities or investing in DBS's equity (see Note 12.2.2 to the financial statements). The Company's support of DBS as aforesaid is due, among other things, to the Multichannel Television segment's current and expected contribution to Bezeq Group's overall operations.

3.1.2 In the Company's consolidated financial statements as at December 31, 2022, the value of Bezeq - The Israel Telecommunications Corporation Ltd. segment, Pelephone Communications Ltd., DBS Satellite Services (1998) Ltd., and Bezeq International exceeded 25% of the Company's assets. Accordingly, the valuator constitutes a very material valuator pursuant to the position of the Israel Securities Authority's legal staff 30-105 ("Legal Staff Position"). For disclosure concerning the valuator as required under the Legal Staff Position, see the valuations attached to the financial statements.

3.1.3 Information pursuant to Regulation 10(b)(8) of the Securities Regulations (Periodic and Immediate Reports), 1970

A. With regard to Pelephone's valuation as of December 31, 2020, which was attached to the 2020 financial statements, the Company studied actual free cash flow data for 2022 regarding Pelephone's free cash flows compared to the forecast for 2022 as included in the foregoing valuation and found that Pelephone's free cash flows[2], based on the 2022 financial statements, are significantly higher than the forecast in the foregoing valuation. The main gap is due to collection in 2022 of trade receivables of 2021 resulting from industrial sanctions in 2021 that caused a delay in the amounts and collection dates from customers, and also due to higher revenues from services than forecasted and timing differences in investment flows.

B. With regard to the valuation of DBS as of December 31, 2021, which was attached to the 2021 financial statements, the Company reviewed actual free cash flow data for 2022 compared to the free cash flow forecast for 2022 as included in the foregoing valuation and found that DBS's free cash flows, based on the 2022 financial statements, are lower than the forecast in the foregoing valuation. The gap is due to the timing of content payments, higher operating costs than forecast (salaries and content), offsetting higher revenues than forecast (higher numbers of subscribers and premium subscriber mix than forecast).

For further information see Appendix H to the attached valuation of DBS as at December 31, 2022.

C. With regard to the valuation of Bezeq International as of December 31, 2021, which was attached to the 2021 financial statements, the Company studied actual free cash flow data for 2022 regarding Bezeq International's free cash flows compared to the forecast for 2022 as included in the foregoing valuation and found that Bezeq International's free cash flows, based on the 2022 financial statements, are significantly higher than the forecast in the foregoing valuation. The gap is due to a decrease in investments and a decrease in income dependent operating and general expenses.

For further information see Appendix G to the attached valuation of Bezeq International as at December 31, 2022.

3.1.4 For further information, see Note 10 to the financial statements.

[2] Free cash flows in this matter are cash flows from operating activities less capital investments and changes in interest bearing trade receivables for terminal equipment sold in installments (financial instrument).

3.2 Due to the materiality of the legal claims filed against the Group and which at this stage cannot be assessed or for which exposure cannot be calculated, the auditors drew attention to these claims in their opinion on the financial statements.

3.3 Material events during the reporting period and subsequent material events

For further information concerning material events during the reporting period and subsequent to the date of the financial statements, see Notes 32 and 18.2 to the financial statements.

4. Information concerning a debenture series

In January 2022, the Company repaid by partial early redemption, at its initiative, Debentures (Series 9) in a par value amount of NIS 370 million.

Debentures (Series 6 and 7) were redeemed by final repayment in December 2022.

Breakdown of data concerning the Company's outstanding debentures as at December 31, 2022:

		Debentures (Series 9)	Debentures (Series 10)	Debentures (Series 11)	Debentures (Series 12)	Debentures (Series 13)	Debentures (Series 14)
A	Date of issue (excluding expansions)	October 15, 2015	October 15, 2015	July 10, 2019	July 10, 2019	December 23, 2021	December 23, 2021
B.	Total par value at issue date (including expansions) in NIS	2,144,968,000	881,683,808	834,766,000	1,269,240,000	200,000,000	200,000,000
C.	Par value in NIS	1,597,471,353	793,515,427	834,766,000	1,269,240,000	200,000,000	200,000,000
D.	The par value revalued to reporting date (CPI linked) in NIS	1,597,471,353	857,085,535	834,766,000	1,348,153,728	200,000,000	210,557,200
E.	Accrued interest revalued to reporting date in NIS	4,858,975	1,573,583	2,226,043	1,912,630	465,000	101,916
1	Fair value as included in financial statements in NIS	1,586,608,548	871,994,103	787,852,151	1,326,228,876	165,880,000	175,060,000
G.	Stock exchange value in NIS	1,586,608,548	871,994,103	787,852,151	1,326,228,876	165,880,000	175,060,000
H.	Type of interest	Fixed 3.65%	Fixed 2.2%	Fixed 3.2%	Fixed 1.7%	Fixed 2.79%	Fixed 0.58%
I.	Principal repayment dates	December 1 of each year 2022 through 2025	December 1 of each year 2022 through 2025	June 1 of each year 2026 through 2030	June 1 of each year 2026 through 2030	December 1 of each year 2031 through 2035	June 1 of each year 2031 through 2035
J.	Interest payment dates	Jun 1 and Dec 1 of each year from Dec 1, 2015 through Dec 1, 2025	Jun 1 and Dec 1 of each year from Dec 1, 2015 through Dec 1, 2025	Jun 1 and Dec 1 of each year from Dec 1, 2019 through Jun 1, 2030	Jun 1 and Dec 1 of each year from Dec 1, 2019 through Jun 1, 2030	Jun 1 and Dec 1 of each year from Jun 1, 2022 through Dec 1, 2035	Jun 1 and Dec 1 of each year from Jun 1, 2022 through Jun 1, 2035

4. Information concerning debenture series (cont.)

		Debentures (Series 9)	Debentures (Series 10)	Debentures (Series 11)	Debentures (Series 12)	Debentures (Series 13)	Debentures (Series 14)
K.	Linkage	Unlinked	Principal and interest linked to CPI increases (base index - Aug 2015)	Unlinked	Principal and interest linked to CPI increases (base index - May 2019)	Unlinked	Principal and interest linked to CPI increases (base index - Nov 2021)
L.	Total liability compared to Company's total liabilities	Material	Material	Material	Material	Immaterial	Immaterial
M.	Trustee	Trustee - Reznik Paz Nevo Trusts Ltd. Contact - Yossi Reznik, CPI email - yossi@rpn.co.il, Tel: 03-6389200, Fax: 03-6389222 Address - 14 Yad Harutzim St., Tel Avi					
N.	Rating	The debentures are rated by S&P's Maalot Ltd. as il/AA-/Stable, and by Midroog Ltd. as Aa3.il with stable outlook. On May 10, 2022 Maalot ratified the il/AA-/Stable rating of the Company and its debentures (see immediate report Ref. No.: 2022-01-046005). Furthermore, on May 15, 2022, Midroog ratified the Aa3.il rating with stable outlook for the Company's debentures (see immediate report Ref. No.: 2022-01-047508).					
O.	Compliance with terms of deeds of trust	On December 31, 2022, the Company issued to the trustee of all the debenture series, confirmation of its compliance with the terms of the deeds of trust in 2022. Furthermore, prior to each of the two dividend payments in 2022, confirmation was given to the trustee of compliance with the terms of the deeds of trust for making such payments.					
P.	Pledges	With regard to all the debenture series, the Company undertook not to create additional pledges on its assets unless the Company simultaneously creates pledges in favor of the debenture holders and lending banks (negative pledges), subject to exceptions as set out in Note 13.3 to the financial statements.					

5. Miscellaneous

For further information concerning the liabilities of the Company and the companies consolidated in its financial statements as at December 31, 2022, see the reporting form posted by the Company on the MAGNA website on March 14, 2023.

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

Gil Sharon	Ran Guron
Chairman of the Board of Directors	CEO

Date of Signature March 13, 2023

Part C:
Consolidated Financial Statements for the Year Ended December 31, 2022

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

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Somekh Chaikin
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Auditors' Report to the Shareholders of
"Bezeq" – The Israeli Telecommunication Corporation Ltd.

We have audited the accompanying consolidated statements of financial position of Bezeq – The Israel Telecommunication Corporation Ltd. ("the Company") as of December 31, 2022 and 2021 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2022. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2022 and 2021 and results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2022, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements) - 2010.

Without qualifying our aforementioned opinion, we draw attention to Note 1.3 in the financial statements regarding the Israel Securities Authority's (ISA) and the Israel Police investigation of suspected offenses under the Securities Law and Penal Law, involving inter alia transactions related to the former controlling shareholder, and the announcement by the Tel Aviv District Attorney's Office (Taxation and Economics Division) that it was considering prosecuting the Company and holding a hearing on suspicions of bribery and reporting with intent to mislead a reasonable investor, as well as that stated in said note regarding the filing of an indictment against the Company's former controlling shareholder on various offenses, among others, bribery and causing a misleading particular to be included in an immediate report, and regarding the filing of an indictment against the Company's former controlling shareholder and former senior officers in the Bezeq Group, charging the defendants with receiving something fraudulently and reporting violations under the Securities Law. Additionally, further to the institution of the above investigation, several civil actions were filed against the Company, against former officers of the Company, and against companies from the group of the Company's former controlling shareholder, including motions to certify class action lawsuits. As noted in the aforementioned note, 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 their preparation, if any.

In addition, without qualifying our abovementioned opinion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 17.

Key Audit Matters

Key audit matters described below are those matters that were communicated, or were required to be communicated, to the Company's Board of Directors and, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters include, among others, any matter that: (1) is related to or may be related to significant accounts or disclosures in the financial statements and (2) our professional judgment in regards to this matter was challenging, subjective or especially complex. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. The communication of these matters below does not change our opinion on the consolidated financial statements as a whole, and we do not provide, through this communication, a separate opinion on these matters or on the accounts or disclosures they are related to.

Impairment measurement of cash-generating units of DBS Ltd. and Bezeq International Ltd.

Why was this matter determined to be a Key Audit Matter in the audit

As described in Notes 3.10.2, 10.2, 10.5 and 10.6 to the consolidated financial statements, as of December 31, 2022, the recoverable amount of the cash generating units, DBS Ltd. and Bezeq International Ltd. (hereinafter: the "Units") is negative in the amount of (88) and (22) million NIS, respectively, and the total loss from the impairment in the value of these units for the year ending December 31, 2022 amounts to (378) million NIS.

In accordance with International Accounting Standard 36 ("IAS 36), the recoverable amount is the greater of the value in use of a cash-generating unit, which is measured by the company's future cash flow forecast measurement method (DCF), and the fair value less costs of disposal. Allocation of the impairment value to the company's assets is carried out in accordance with the fair value less costs of disposal of each of the unit's assets.

The audit of the impairment of the units required us to use judgement when assessing the reasonableness of the assumptions and estimates used by the management and external experts on its behalf, for the purpose of recoverable amount measurement and impairment allocation. Accordingly we have identified the impairment measurement of the units as a key audit matter.

The Response to the Key Matter in the Audit

The main procedures we carried out in connection with this key matter as part of our audit included, among others: checking the completeness and accuracy of the databases used to calculate the fair value less the realization costs of the company's assets, checking the reasonableness of the significant assumptions and estimates used in creating the forecasted cash flows by comparing them to historical results, multi-year plans and updated market data. We also checked the adequacy of the information presented in notes 3.10.2, 10.2, 10.5 and 10.6 to the consolidated financial statements, we made inquiries of the relevant parties in the company involved in the process and checked the design, implementation and operating effectiveness of certain internal controls related to the assessment of the recoverable amount of the units.

For carrying out these procedures, we used experts with skills and knowledge in fair value evaluations in order to assist in assessing the adequacy of the evaluation method, assessing the reasonableness of the discount rate and the growth rate, as well as in performing arithmetic tests for calculating the value in use of the units and fair value less costs of disposal of the units' assets.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel “An Audit of Components of Internal Control over Financial Reporting”, the Company’s components of internal control over financial reporting as of December 31, 2022, and our report dated March 13, 2023 included an unqualified opinion on the effective maintenance of those components.

Somekh Chaikin

Certified Public Accountants (Isr.)

March 13, 2023

Somekh Chaikin
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Tel Aviv 6100601, Israel
+972 3 684 8000

Auditors' Report to the Shareholders of Bezeq – The Israel Telecommunication Corporation Ltd. regarding the Audit of Components of Internal Control over Financial Reporting in accordance with paragraph 9B(c) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Bezeq – The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter "the Company") as of December 31, 2022. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company's internal control components over financial reporting accompanying the periodic report as of the above date. Our responsibility is to express an opinion on the Company's internal control components over financial reporting based on our audit.

Audited Internal control components over financial reporting were determined in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel: "Audit of Internal Control Components over Financial Reporting", and its amendments (hereinafter "Auditing Standard (Israel) 911"). These components are:

(1) Entity level controls, including controls over the financial reporting preparation and closing financial reporting process and general information technology controls;

(2) Controls over the revenue process;

(3) Controls over the salary process;

(4) Controls over the fixed assets process;

(5) Controls over the procurement process;

We conducted our audit in accordance with Auditing Standard (Israel) 911. This standard requires us to plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting, therefore our opinion refers to the audited control components only. Our audit also did not refer to mutual effects between audited control components and non-audited control components, therefore our opinion refers to the audited control components only. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2022.

As described in the report on the effectiveness of internal controls over financial reporting and disclosure for the year ended December 31, 2022 of Bezeq – The Israel Telecommunication Corporation Ltd. ("the Company"), regarding investigations conducted by the Israel Securities Authority and the Israel Police as detailed in section 1.1.6 of Chapter A, Description of the Company Operations of this report, the Company does not have complete information concerning these investigations, their content, the materials and evidence in the possession of the legal authorities on this matter. Accordingly, the Company is unable to assess the impact of the investigations, their findings and their results on the Company, and on the financial statements of the Company and the estimates used in preparing these statements, if at all.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company’s consolidated financial statements as of December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2021, and our report, dated March 13, 2023, expressed an unqualified opinion on those financial statements, Said report also drew attention to Note 1.3 in the financial statements regarding the Israel Securities Authority’s (ISA) and the Israel Police investigation of suspected offenses under the Securities Law and Penal Law, involving inter alia transactions related to the former controlling shareholder, and the announcement by the Tel Aviv District Attorney's Office (Taxation and Economics Division) that it was considering prosecuting the Company and holding a hearing on suspicions of bribery and reporting with intent to mislead a reasonable investor, as well as that stated in said note regarding the filing of an indictment against the Company's former controlling shareholder on various offenses, among others, bribery and causing a misleading particular to be included in an immediate report, and regarding the filing of an indictment against the Company's former controlling shareholder and former senior officers in the Bezeq Group, charging the defendants with receiving something fraudulently and reporting violations under the Securities Law. Additionally, further to the institution of the above investigation, several civil actions were filed against the Company, against former officers of the Company, and against companies from the group of the Company's former controlling shareholder, including motions to certify class action lawsuits. Attention was also drawn to that stated in Note 17 regarding lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated.

Somekh Chaikin

Certified Public Accountants (Isr.)

March 13, 2023

Consolidated Statements of Financial Position as at December 31

		2022	2021
Assets	**Note**	**NIS million**	**NIS million**
Cash and cash equivalents	3.3, 4	**741**	973
Investments	3.3, 5	**910**	954
Trade receivables	3.3, 6	**1,440**	1,859
Other receivables	3.3, 6	**288**	279
Inventory	3.9	**85**	74
Total current assets		**3,464**	4,139
Trade and other receivables	3.3, 6	**460**	433
Broadcasting rights	3.4	**57**	60
Right-of-use assets	3.7, 8	**1,746**	1,828
Fixed assets	3.5, 9	**6,542**	6,312
Intangible assets	3.6, 10	**912**	912
Deferred expenses and non-current investments	11	**231**	226
Deferred tax assets	3.16, 7	**-**	24
Total non-current assets		**9,948**	9,795
Total assets		**13,412**	13,934

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

Consolidated Statements of Financial Position as at December 31 (Cont.)

		2022	2021
	Note	NIS million	NIS million
Debentures, loans and borrowings	3.3, 13	**921**	980
Current maturities of lease liabilities	3.7, 8	**456**	466
Trade and other payables	14	**1,590**	1,748
Employee benefits	3.11, 16	**399**	510
Provisions	3.12, 15	**168**	69
Total current liabilities		**3,534**	3,773
Loans and debentures	3.3, 13	**6,352**	7,082
Lease liabilities	3.7, 8	**1,452**	1,511
Employee benefits	3.11, 16	**201**	243
Derivatives and other liabilities	14	**151**	142
Deferred tax liabilities	3.16, 7	**61**	38
Provisions	3.12, 15	**37**	49
Total non-current liabilities		**8,254**	9,065
Total liabilities		**11,788**	12,838
Equity attributable to shareholders of the Company			
Share capital		**3,878**	3,878
Share premium		**384**	384
Reserves		**396**	391
Equity deficit		**(3,035)**	(3,557)
Total equity attributable to shareholders of the Company		**1,623**	1,096
Non-controlling interests		**1**	-
Total equity	20	**1,624**	1,096
Total liabilities and equity		**13,412**	13,934

Gil Sharon	**Ran Guron**	**Tobi Fischbein**
Chairman of the Board of Directors	CEO	CFO Bezeq Group

Date of approval of the financial statements: March 13, 2023

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

Consolidated Statements of Income for the Year Ended December 31

		2022	2021	2020
	Note	NIS million	NIS million	NIS million
Revenues	3.13, 21	**8,986**	8,821	8,723
Operating expenses				
General operating expenses	22	**3,389**	3,257	3,173
Salaries	23	**1,872**	1,882	1,891
Depreciation, amortization and impairment	8, 9,10,11	**1,868**	1,889	1,837
Impairment loss	10	**-**	-	293
Other operating expenses (income), net	24	**220**	(77)	74
Total operating expenses		**7,349**	6,951	7,268
Operating profit		**1,637**	1,870	1,455
Financial expenses	3.15, 25			
Financial expenses		**424**	349	416
Financial income		**(123)**	(44)	(45)
Financial expenses, net		**301**	305	371
Profit before income tax		**1,336**	1,565	1,084
Income tax	3.16, 7	**336**	382	288
Profit for the year attributable to the shareholders of the Company		**1,000**	1,183	796
Earnings per share (NIS)	27			
Basic and diluted earnings per share (NIS)		**0.36**	0.43	0.29

Consolidated Statements of Comprehensive Income for the Year Ended December 31

	2022	2021	2020
	NIS million	NIS million	NIS million
Profit for the year	**1,000**	1,183	796
Remeasurement of a defined benefit plan, net of tax (items that will not be reclassified to profit or loss)	**56**	(1)	(9)
Additional items of other comprehensive income (loss)in respect of hedging, net of tax	**(6)**	37	(5)
Total comprehensive income for the year attributable to shareholders of the Company	**1,050**	1,219	782

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

Consolidated Statements of Changes in Equity for the Year Ended December 31

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Capital reserve for employee options	Other reserves	Accumulated deficit	Total	Non-Controlling Interests	Total Equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to Shareholders of the Company								
Balance as at December 31, 2019	3,878	384	390	-	(58)	(5,526)	(932)	-	(932)
Profit for 2020	-	-	-	-	-	796	796	-	796
Other comprehensive loss for the year, net of tax	-	-	-	-	(5)	(9)	(14)	-	(14)
Total comprehensive income (loss) for 2020	-	-	-	-	(5)	787	782	-	782
Balance as at December 31, 2020	3,878	384	390	-	(63)	(4,739)	(150)	-	(150)
Profit for 2021	-	-	-	-	-	1,183	1,183	-	1,183
Other comprehensive income (loss) for the year, net of tax	-	-	-	-	37	(1)	36	-	36
Total comprehensive income for 2021	-	-	-	-	37	1,182	1,219	-	1,219
Transactions with shareholders recognized directly in equity									
Share-based payment (Note 26)	-	-	-	27	-	-	27	-	27
Balance as at December 31, 2021	3,878	384	390	27	(26)	(3,557)	1,096	-	1,096
Profit for 2022	**-**	**-**	**-**	**-**	**-**	**1,000**	**1,000**	**-**	**1,000**
Other comprehensive income (loss) for the year, net of tax	**-**	**-**	**-**	**-**	**(6)**	**56**	**50**	**-**	**50**
Total comprehensive income (loss) for 2022	**-**	**-**	**-**	**-**	**(6)**	**1,056**	**1,050**	**-**	**1,050**
Transactions with shareholders recognized directly in equity									
Dividend for shareholders of the Company (Note 20.2)	**-**	**-**	**-**	**-**	**-**	**(534)**	**(534)**	**-**	**(534)**
Share-based payment (Note 26)	**-**	**-**	**-**	**11**	**-**	**-**	**11**	**-**	**11**
Business combination	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Balance as at December 31, 2022	**3,878**	**384**	**390**	**38**	**(32)**	**(3,035)**	**1,623**	**1**	**1,624**

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

Consolidated Statements of Cash Flows for the Year Ended December 31

		2022	2021	2020
	Note	NIS million	NIS million	NIS million
Cash flow from operating activities				
Profit for the year		**1,000**	1,183	796
Adjustments:				
Depreciation, amortization and impairment loss	8,9,10,11	**1,868**	1,889	1,837
Impairment loss of assets	10	**-**	-	293
Capital gain, net	24	**(8)**	(175)	(40)
Financial expenses, net	25	**351**	324	403
Share-based payment	26	**11**	27	-
Income tax expenses	7	**336**	382	288
Change in trade and other receivables	6	**342**	(229)	57
Change in inventory		**(21)**	(19)	13
Change in trade and other payables	14	**(56)**	(41)	17
Change in provisions	15	**24**	(47)	(8)
Change in employee benefits	16	**(91)**	(65)	(192)
Change in other liabilities		**18**	(5)	(1)
Net income tax paid		**(271)**	(385)	(243)
Net cash provided by operating activities		**3,503**	2,839	3,220
Cash flow for investing activities				
Purchase of fixed assets	9	**(1,353)**	(1,328)	(1,133)
Investment in intangible assets and deferred expenses	10,11	**(346)**	(363)	(366)
Investment in bank deposits		**(1,835)**	(1,031)	(1,335)
Proceeds from repayment of bank deposits		**1,895**	800	1,786
Proceeds from the sale of fixed assets		**40**	278	148
Payment to the Communications Ministry for frequencies		**(88)**	-	-
Government grant received for frequencies		**74**	-	-
Sale of Walla, net		-	-	44
Miscellaneous		**28**	(2)	17
Net cash used in investing activities		**(1,585)**	(1,646)	(839)

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

Consolidated Statements of Cash Flows for the Year Ended December 31

		2022	2021	2020
	Note	NIS million	NIS million	NIS million
Cash flow for financing activities				
Issue of debentures and receipt of loans	13	**400**	695	718
Repayment of debentures and loans	13	**(1,320)**	(1,067)	(1,828)
Payments of principal and interest for leases	8	**(420)**	(387)	(391)
Interest paid	13	**(232)**	(254)	(314)
Dividend paid	20	**(534)**	-	-
Costs for early repayment of loans and debentures	13	**(26)**	(15)	(65)
Payment for expired hedging transactions		**(18)**	(30)	(57)
Miscellaneous		**-**	(2)	(4)
Net cash used in financing activities		**(2,150)**	(1,060)	(1,941)
Net increase (decrease) in cash and cash equivalents		**(232)**	133	440
Cash and cash equivalents as at January 1		**973**	840	400
Cash and cash equivalents as at the end of the year		**741**	973	840

The accompanying notes are an integral part of the consolidated 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 Group as at December 31, 2022 include the statements of the Company and its subsidiaries (“the Group”) and the Group’s interests in associates. The Group is a principal provider of communication services in Israel (see also Note 28 – Segment Reporting).

1.2 Control of the Company

As from April 14, 2010, the holder of the control permit for the Company is B Communications Ltd. ("B Communications") which was under the indirect control of Eurocom Communications Ltd. until 2019.

On December 2, 2019, the Company received notice from B Communications regarding the completion of a transaction with Searchlight II BZQ LP and a company controlled by the Fuhrer family (TNR Investments Ltd.), in which control of B Communications and the Company was transferred to these entities, following the liquidation of Eurocom Communications Ltd, in the framework of which the holdings of its subsidiary Internet Gold – Golden Lines in B Communications were sold.

B Communications is an Israeli public company whose shares are traded on the Tel Aviv Stock Exchange Ltd.

1.3 Investigation by the Israel Securities Authority and the Israel Police

1.3.1 In the course of 2017 and 2018, the Israel Securities Authority (“ISA”) and the Israel Police conducted investigations into suspected offenses under the Securities Law and the Penal Law, 1977 ("the Penal Law"), with respect to transactions related to the Company's former controlling shareholder and former Chairman of its Board of Directors, Shaul Elovitch ("Elovitch"), involving the purchase of shares of DBS Satellite Services 1998 Ltd. ("DBS") and provision of satellite communication services to DBS, the conduct of the Ministry of Communications vis-à-vis the Company ("the DBS case"), as well as suspicions of the exercise of authority by the Prime Minister, Mr. Benjamin Netanyahu, to promote matters related to the business of Elovitch and to his economic interests and those of the Bezeq Group ("Case 4000"). Further to the investigations, indictments were filed and notices were received as follows:

1.3.1.1 On January 28, 2020, an indictment was filed with the Jerusalem District Court against Elovitch for various offenses, including bribery and misleading information in an immediate report, in connection with suspicions of the exercise of authority by the Prime Minister, Mr. Benjamin Netanyahu, to promote matters related to the business of Elovitch and to his economic interests and those of the Bezeq Group.

1.3.1.2 On December 23, 2020, the Company received a notice from the Tel Aviv District Attorney's Office (Taxation and Economics Division) that consideration was being given to prosecuting the Company and summoning it to a hearing in Case 4000 ("the Notice"), based on the following:

A. Following an examination of the evidence presented to him, the Attorney General is considering filing an indictment on suspicions of bribery (an offense under section 291 of the Penal Law together with section 23 of the Penal Law) and reporting with intent to mislead a reasonable investor (an offense under section 53(a)(4) of the Securities Law together with section 23 of the Penal Law).

B. According to the Notice, the suspicion of criminal liability against the Company for the reporting offense arises from the acts and criminal intent of Elovitch, who was an organ of the Company in the period relevant to the suspicions.

C. In addition, according to the Notice, the suspicion of criminal liability against the Company for the reporting offense arises from the acts and criminal intent of Shaul Elovitch, who was an organ of the Company in the period relevant to the suspicions, and the acts and criminal intent of Stella Handler (the former CEO of the Company), who was an organ of the Company during the relevant period (see Note 1.3.1.3.B). According to the allegations in this regard, the Company reported a letter from the Director General of the Ministry of Communications which allegedly included a misleading representation (of which Shaul Elovitch and Stella Handler were aware), and only after the intervention of senior officials in the Attorney General's Office was the letter amended and the amendment reported by the Company to the general public.

D. It should be noted that Walla (a former subsidiary of the Company) received a similar notice, according to which, following an examination of the evidence presented to him, the Attorney General is considering filing an indictment against Walla as well, on suspicions of bribery (an offense under section 291 of the Penal Law together with section 23 of the Penal Law),with the suspicion of criminal liability against Walla for the bribery offense arising from the acts and criminal intent of Shaul Elovitch, who was an organ of the company during the period relevant to the suspicions.

E. Further to the above, on July 8, 2021, the Company and Walla submitted written pleadings for a hearing, and on August 12, 2021, a hearing was held for the companies before the Deputy State Prosecutor (Criminal Enforcement) and the team of prosecutors handling the case. As of the report publication date, the state prosecution and the Attorney General had not decided regarding the filing of an indictment in light of the arguments presented in the hearing, and the companies have not been informed of an expected date for the decision.

1.3.1.3 On December 23, 2020, to the best of the Company’s knowledge, the Tel Aviv District Attorney's Office published a notice, according to which, inter alia, its Taxation and Economics Division had filed on the same day with the Economic Department of the Tel Aviv District Court an indictment against Elovitch, as well as against former senior officers in the Bezeq Group and in DBS – Or Elovitch, Amikam Shorer, Linor Yochelman, Ron Eilon and Miki Neiman, in the DBS case. According to the publication:

A. The indictment attributes to the defendants offenses of fraudulently receiving something under aggravating circumstances, fraud and breach of trust in a corporation as well as reporting violations under the Securities Law, and relates to two cases: fraud with respect to the payment of the consideration for the purchase of shares of DBS by the Company, and fraud with respect to the conduct of the independent committees set up in the Company for the purpose of examining transactions of the Company in which Elovitch had a personal interest.

B. The Taxation and Economics Division had entered into a conditional stay of proceedings arrangement, upon terms in accordance with the Securities Law, with Stella Handler, in the framework of which Handler admitted that she was involved in the inclusion of a misleading particular in the Company’s reports. As stated in the arrangement, the DBS case was closed with respect to Stella Handler.

C. The investigation files against other suspects who were investigated in the aforementioned cases, including against the former VP of Regulation of the Company and against Or Elovitch and Amikam Shorer, had been closed (with respect to the latter two – except as regards the DBS case, as noted at the beginning of this section).

1.3.1.4 On July 20, 2022, the Economic Division of the Tel Aviv-Yafo District Court issued a decision on the motion filed by some of the defendants to dismiss charges in the case ("the Decision"). Pursuant to the Decision, charges two and three in the indictment (fraud relating to the conduct of the independent committees in the Bezeq-yes transaction and yes-Spacecom transaction) were dismissed against all the defendants charged with these charges: the former controlling shareholder of the Company, Shaul Elovitch; former officers of the Company – Or Elovitch, Amikam Shorer and Linor Yochelman; and the companies charged with said charges – Eurocom Group companies. The Decision further states that Shaul Elovitch's claim that the indictment reveals no culpability with regard to charge one (fraudulent receipt of advance payments on account of the second contingent consideration in the Bezeq-yes transaction) is not acceptable. The Decision also emphasizes that in no way does it influence the civil aspect of the case and the pending proceedings in this regard. The Company is studying the Decision and its implications. On September 6, 2022, an announcement was released by the Ministry of Justice, stating that the Criminal Department of the State Attorney's Office filed an appeal against the Decision on the same day.

1.3.1.5 As regards DBS, which on November 20, 2017 received a "notice to suspect," according to which the Investigation file in which it was being investigated as a suspect had been sent to the Tel Aviv District Attorney's Office for review – according to a notice received by DBS from the Tel Aviv District Attorney's Office, following a review of the ISA file in which it was investigated as a suspect, it was decided on January 11, 2021 to close the case against it, without filing an indictment.

1.3.2 It should be noted that following the opening of the aforementioned investigations, several civil legal proceedings were instituted against the Company and DBS, officers of the Company in the relevant period, and companies in the group of the former controlling shareholder of the Company, including motions to certify class action lawsuits and motions for disclosure of documents prior to filing a motion to certify a derivative claim. For further information on these proceedings, see Note 17.

1.3.3 The Company does not yet have complete information about the investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter (although in January 2021 the Company received the core of the investigation material in connection with Case 4000, in the framework of the hearing in this matter, as set out in section 1.3.1.2 above). Accordingly, the Company is not able to assess the effects of the investigations, their findings and their outcome on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

1.4 Outbreak of the COVID-19 pandemic

In the wake of the global outbreak of the COVID-19 pandemic at the beginning of 2020, many countries, Israel among them, imposed various measures and restrictions in an attempt to prevent the spread of the virus. The year 2022 saw a significant decline in the pandemic and its impacts, the main effect on the Group's operations during 2022 being a decrease in revenue from Pelephone's roaming services (an effect that gradually diminished over the year up to the time of publication of this report), with no significant negative effects on other operating segments. As of the publication date of this report, the COVID-19 pandemic has had no notable impact on any of the Group's operating segments.

1.5 Definitions

In these financial statements:

The Company: Bezeq – The Israel Telecommunication Corporation Limited.

The Group: Bezeq – The Israel Telecommunication Corporation Limited and its subsidiaries, as follows:

Subsidiaries: Companies the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company, as set out in Note 12.

Associates: Companies in which the Group’s investment is included, directly or indirectly, in the consolidated financial statements on equity basis.

Investees: Subsidiaries or associates.

Related parties: As defined in IAS 24, Related Party Disclosures.

Interested parties: As defined in paragraph (1) of the definition of an “interested party” in a corporation in section 1 of the Securities Law, 1968

2. Basis of Preparation

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and in accordance with the Securities Regulations (Annual Financial Statements), 2010

The consolidated financial statements were approved by the Board of Directors on March 13, 2023.

2.2 Functional currency and presentation currency

The consolidated financial statements are presented in NIS, which is the Group’s functional currency, and have been rounded to the nearest million. NIS is the currency that represents the principal economic environment in which the Group operates.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

* Derivative financial instruments, including financial derivatives, at fair value through profit or loss
* Inventories measured at the lower of cost and net realizable value
* Deferred tax assets and liabilities
* Provisions
* Assets and liabilities for employee benefits

For further information about the measurement of these assets and liabilities see Note 3, Significant Accounting Policies.

2.4 Operating cycle

The Group’s operating cycle is up to one year. As a result, current assets and current liabilities include items the realization of which is intended and anticipated to take place within one year from the date of the financial statements.

2.5 Classification of expenses recognized in the statement of income

Costs and expenses in the statement of income are presented and analyzed on the basis of the function of the expenses. The classification is compatible with the understanding of the Group’s businesses, which include a wide range of services using common infrastructure. All of the costs and expenses are used to provide services.

2.6 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the Group's management to make judgments and use estimates 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant estimates and judgments, for which changes in the assessments and assumptions could potentially have a material effect on the financial statements of the next fiscal year:

Subject	Key assumptions	Possible effects	Reference
Measurement of recoverable amounts of cash-generating units	Assumption of expected cash flows from cash-generating units	Recognition of impairment loss or impairment reversal	Note 10
Useful life of fixed assets, intangible assets, and other long-term assets	Assumptions of the useful life of groups of fixed assets, intangible assets, and additional assets	Change in the value of fixed assets, intangible assets, additional assets, and depreciation and amortization expenses	Notes 9, 10, 11
Determination of lease period	In determining the lease period, the Group takes into account the period in which the lease may not be cancelled, including extension options which it is reasonably certain will be exercised or cancellation options which it is reasonably certain will not be exercised	An Increase or decrease in the measurement of a right-of-use asset and lease liability and in the depreciation and financial expenses in subsequent periods.	Note 8
Uncertain tax positions	The extent of the certainty that the Group’s tax positions will be accepted (uncertain tax positions) and the risk of it incurring any additional tax and interest expenses. This is based on an analysis of a number of matters including interpretations of tax laws and the Group’s past experience	Recognition or reversal of income tax expenses	Note 7
Provisions and contingent liabilities, including levies	Assessment of the likelihood of claims against Group companies and measuring potential liabilities attributable to claims The Company’s assessments of the estimated payment to the authorities for the levies on the real estate asset in the Sakia property	Reversal or creation of a provision for a claim, recognition of income/expenses and recognition of profit or loss for such change, respectively Change in capital gain for the sale of a real estate asset in the Sakia property.	Note 15 and Note 17 Note 6.6
Employee benefits	Actuarial assumptions such as discount rate, future salary increases and churn rate	An increase or decrease in liabilities for employee benefits and a liability for early retirement	Note 16
Deferred taxes	Assumption of anticipated future realization of the tax benefit, including assumption that it is more likely than not that the carryforward tax losses in DBS will not be utilized.	Recognition of a deferred tax asset and an effect on income tax expenses.	Note 7

2.7 Determining fair value

When preparing the financial statements, the Group is required to determine the fair value of certain assets and liabilities. Further information about the assumptions made in determining fair values is disclosed in Note 30.7 regarding fair value.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

In this Note, where the Group has chosen accounting alternatives permitted in accounting standards and/or in accounting policy where there is no explicit provision in accounting standards, such disclosure is presented in ***bold and italics***. This does not attribute greater importance compared to other accounting policies that are not presented in bold and italics.

3.1 Consolidation of the financial statements

3.1.1 Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date of loss of control.

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

3.1.2 **Transactions eliminated on consolidation**

Intra-group balances and income and expenses arising from intra-group transactions, are eliminated in the consolidated statements.

3.1.3 **Contingent consideration for business combinations**

Subsequent to the acquisition date, the Group recognizes changes in fair value of contingent consideration recognized under business combinations, classified as a financial liability ***in the statement of income under financial expenses***.

3.2 Foreign currency transactions

Transactions in foreign currency are translated into the functional currency of the Group at the exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate at that date.

3.3 Financial instruments

3.3.1 **Non-derivative financial assets**

Non-derivative financial assets comprise mainly investments in deposits, trade and other receivables, and cash and cash equivalents.

The Group initially recognizes financial assets at the date at which the Group becomes a party to contractual provisions of the instrument, meaning the date that the Group undertakes to buy or sell the asset.

A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Classification of financial assets into categories and the accounting treatment in each category

Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost; or fair value through profit or loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

A. It is held within a business model whose objective is to hold assets so as to collect contractual cash flows.

B. The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

All financial assets of the Group that are not classified as measured at amortized cost are measured at fair value through profit or loss.

The Group classifies its financial assets as follows:

Cash and cash equivalents

Cash comprises cash balances available for immediate use and call deposits. Cash equivalents comprise short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

Trade and other receivables and deposits

The Group has balances of trade and other receivables and deposits that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Subsequent measurement and gains and losses

Financial assets at amortized cost are measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss.

3.3.2 **Non-derivative financial liabilities**

Non-derivative financial liabilities include debentures issued by the Group, loans and borrowings from banks and other credit providers, and trade and other payables.

The Group initially recognizes debt instruments as they are incurred. Other financial liabilities are recognized at the time of the transaction. Financial liabilities are recognized initially at fair value less any attributable transactions costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Modification in terms of debt instruments

An exchange of debt instruments having substantially different terms, between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. The difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financial income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative criterion, the Group examines, among other things, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments.

In a non-substantial modification in terms (or exchange) of a debt instruments at fixed interest, the new cash flows are discounted using the original effective interest rate, and the difference between the present value of the new financial liability and the present value of the original financial liability is recognized in profit or loss under ***financial expenses (income)***.

According to the accounting policy applied by the Group, when the portfolio of the financial liabilities with similar characteristics is repaid/exchanged, the profit/loss from the derecognition/exchange is based on the FIFO method.

3.3.3 **CPI-linked assets and liabilities that are not measured at fair value**

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is revaluated in each period according to the actual increase in the CPI.

3.3.4 **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.3.5 **A. Hedge accounting**

The Group holds derivative financial instruments to hedge cash flows for risks to future changes in the CPI in respect of the debentures issued by the Group.

At the inception of the hedging relationship, the Group documents its risk management objective and its hedging strategy. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and the hedging instrument are expected to offset each other.

Derivatives are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and the effective portion of changes in fair value of the hedging instrument is recognized in a hedge reserve under other comprehensive income. The effective portion of changes in fair value of a derivative, recognized in other comprehensive income, is limited to the cumulative change in fair value of the hedged item (based on present value), from inception of the hedge. The change in fair value in respect of the ineffective portion is recognized immediately in profit or loss.

B. Economic hedges

In addition, the Group holds derivative financial instruments to hedge cash flows for foreign currency risks. Hedge accounting is not applied for these instruments. The derivative instruments are recognized at fair value; changes in fair value are recognized in profit and loss as incurred, ***as a financial income or expense***.

3.4 Broadcasting rights

Broadcasting rights are stated at cost, net of rights exercised and impairment losses.

The costs of broadcasting rights acquired for the broadcasting of content include the amounts paid to the rights provider, plus direct costs for adjusting the rights to the broadcast, as well as the costs of locally produced content. Broadcasting rights are amortized on a straight-line basis over the shorter of the period of the rights agreement and the estimated economic life.

Broadcasting rights are assessed for impairment as part of the cash-generating unit to which the broadcasting rights are attributed (see Note 10).

The net adjustment of the broadcasting rights is presented as an adjustment of earnings as part of the ongoing operations in the statements of cash flows.

3.5 Fixed assets

3.5.1 **Recognition and measurement**

The Group elected to measure items of fixed assets at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor wages, contractors' costs and financing costs that were capitalized, as well as any other cost directly attributable to bringing the asset to the condition for its use intended by the management, and the estimated costs of dismantling and removing the items and restoring the site on which they are located when the Group has an obligation to vacate and restore the site. The cost of purchased software that is integral to the functionality of the related equipment is recognized as part of the cost of the equipment.

Spare parts, servicing equipment and stand-by equipment are classified as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise to be classified as inventory.

When major parts of the fixed assets have different useful lives, they are accounted for as separate items (major components) of the fixed assets.

Gain or loss from the disposal of a fixed asset item is determined by comparing the proceeds from disposal of the asset with its carrying amount. ***Gain or loss from the***

sale of fixed assets is recognized under other income or other expenses, as the case may be, in the statement of income.

3.5.2 **Subsequent expenditure**

The cost of replacing part of a fixed asset item and subsequent costs are recognized in the carrying amount of the item if it is probable that the future economic benefit embodied in the new item will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing are recognized in the statement of income as incurred.

3.5.3 **Depreciation**

Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful life of each part of a fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

An asset is depreciated when it is ready for use, meaning when it reaches the location and condition necessary for it to be capable of operating in the manner intended by management.

Leasehold improvements are generally depreciated over the shorter of the lease term (including the extension option held by the Group, which the Group assesses as more likely than not to be exercised) and the useful life of the leasehold improvements.

The estimated useful lives for the current period are as follows:

	Years
Fixed-line and international network equipment (switches, transmission, power)	2-10
Fixed-line network	9-33
Equipment and infrastructure for multichannel television	1-7
Subscriber equipment and installations	3-8
Vehicles	6-7
Office and general equipment	5-14
Electronic equipment, computers and internal communication systems	3-7
Cellular network	4-10
Passive radio equipment at cellular network sites	Up to December 31, 2042
Buildings	25
Seabed cable	10-25

Depreciation methods, useful lives and residual values are reviewed at least in each reporting year and adjusted as required.

3.6 Intangible assets

3.6.1 **Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is measured at least once a year to assess impairment. See also Note 10.

3.6.2 **Software development costs**

Software development costs are recognized as an intangible asset only if the development costs can be measured reliably; the software is technically and commercially applicable; and the Group has sufficient resources to complete the development and intends to use the software. The costs recognized as an intangible asset include the cost of the materials, direct labor and overhead expenses directly attributable to preparation of the asset for its intended use. Other development costs are recognized in the statement of income as incurred.

Capitalized development costs are measured at cost less amortization and accumulated impairment losses.

3.6.3 **Software**

Software that is an integral part of the hardware, which cannot function without the programs installed on it, is classified as fixed assets. However, licenses for standalone software which add functionality to the hardware are classified as intangible assets.

3.6.4 **Rights to frequencies**

Rights to frequencies refer to frequencies assigned to Pelephone for cellular activities, after it won the dedicated tenders of the Ministry of Communications. Depreciation of the asset is recognized in the statement of income based on the **"*straight line*"** method over the term of the allocation of frequencies, starting from use of the frequencies. 3G frequencies (UMTS/HSEA) are amortized until the end of 2030. 4G frequencies (LTE) and 5G frequencies will be amortized until September 2032.

The amortization of rights in frequencies is recognized under depreciation and amortization in the statement of income.

3.6.5 **Other intangible assets**

Other intangible assets acquired by the Group, which have a definite useful life, are measured at cost less amortization and accumulated impairment losses.

3.6.6 **Subsequent expenditure**

Subsequent expenditure is recognized as an intangible asset only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure relating to generated goodwill and brands, is recognized in the statement of income as incurred.

3.6.7 **Amortization**

Amortization of intangible assets is recognized in the statement of income on a straight-line basis, over the estimated useful life of the intangible assets, from the date on which the assets are available for use. Goodwill is not systematically amortized but is tested for impairment at least once a year.

Estimated useful lives for the current period are as follows:

Type of asset	Amortization period
Frequency usage right	3G frequencies – until December 2030. 4G frequencies and 5G frequencies – until August 2032.
Computer programs and software licenses	1-7 years depending on the term of the license or over the estimated time of use of the software

Amortization methods and useful lives are reviewed at least at each reporting year and adjusted if appropriate.

3.7 Leases

3.7.1 **Determining whether an arrangement contains a lease**

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

A. The right to essentially obtain all the economic rewards associated with the use of the identifiable asset

B. The right to direct the use of the identifiable asset

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

3.7.2 **Leased assets and lease liability**

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

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

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

3.7.3 **The lease term**

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

3.7.4 **Variable lease payments**

Variable lease payments that are linked to the CPI are initially measured using the index or currency rate at the inception of the lease and are included in the measurement of the lease liability. When there is a change in the cash flows of the future lease payments arising from the change in the index, the liability is adjusted against the right-of-use asset.

3.7.5 **Depreciation of a right-of-use asset**

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

Type of asset	Weighted average of the agreement period as at December 31, 2022 (years)
Cellular communications sites	6.1
Buildings	14.4
Vehicles	1.8

3.7.6 **Subleases**

In leases in which the Group sublets the underlying asset, the Company assesses the classification of the sublease as a finance or operating lease, for the right-of-use received in the primary lease. The Group assessed the existing subleases on the initial application date, in accordance with the balance of their contractual terms as at that date.

3.8 Rights of use of capacities

Transactions for acquiring an indefeasible right of use (IRU) of seabed cable capacities are accounted for as service transactions. The prepaid expense is amortized on a straight-line basis as stated in the agreement including an extension option the Company expects to exercise, and no more than the expected estimated useful life of those capacities.

Identifiable capacities which serve the Group exclusively were recognized under fixed assets. The asset is depreciated on a straight-line basis as stated in the agreement and no more than the expected estimated useful life of those capacities. Rights of use of capacities are presented net of accumulated impairment losses.

3.9 Inventory

The cost of inventories includes the cost of purchase and cost incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost or net realizable value. The Group elected to base the cost of inventories on the moving average principle.

The inventories include terminal equipment and accessories intended for sale and service, as well as spare parts used for repairs in the repair service provided to its customers.

Slow-moving inventory of terminal equipment, accessories and spare parts are stated net of the provision for impairment.

3.10 Impairment

3.10.1 Non-derivative financial assets

The Group has elected to measure the provision for expected credit losses in respect of trade receivables at an amount equal to the full lifetime credit losses of the instrument.

Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial instrument.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive and are discounted at the effective interest rate of the financial asset.

Expected credit losses for receivables in significant amounts are tested individually. Other financial assets are assessed for expected credit losses collectively in groups that share similar credit risk characteristics, taking into account past experience.

The provision for expected credit losses is recognized net of the gross carrying amount of the receivables.

For bank deposits, for which the credit risk did not increase significantly from the date of initial recognition, the Group measures the provision for expected credit losses in an amount equal to the expected credit losses for an event of default in a 12 month period.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available with no undue cost or effort. Such information includes quantitative and qualitative information, and an analysis, based on the Group’s past experience and informed credit assessment, and it includes forward looking information.

3.10.2 Non-financial assets (see also Note 10)

Timing of impairment testing

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated.

The Group assesses the recoverable amount of cash-generating units that include goodwill, once a year on a set date, or more frequently if there are indications of impairment.

Determining cash-generating units

For the purpose of impairment testing, the assets are grouped together into the smallest group of assets that generates cash from continuing use that are largely independent of other assets or groups of assets (cash-generating unit).

Measurement of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the cash generating unit (for which future cash flows were not adjusted).

Allocation of goodwill to cash-generating units

For purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes, but in any event is not larger than an operating segment. Goodwill acquired in a business combination is allocated for the purpose of impairment testing to cash-generating units that are expected to generate benefits from the synergies of the combination.

Recognition of impairment loss

An impairment loss of cash generating units is recognized when the carrying amount of the cash generating unit, including goodwill, where relevant, exceeds its recoverable amount and is recognized in the statement of income. An impairment loss recognized in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amounts of the other assets in the cash-generating unit. To allocate an impairment loss, the assets are not impaired below the higher of their fair value less costs of disposal and their value in use (if determinable) or zero.

An impairment loss arising from a non-recurring adjustment of forecasts for the coming years is classified under "impairment loss" in the statement of income. On the other hand, an impairment loss of assets arising from the continuous adjustment of non-current assets of the Group companies to their fair value, less costs of disposal (arising due to the expected negative cash flow and negative operating value of those companies) is classified in the statement of income 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, in the statement of income, the continuing impairment of the broadcasting rights is presented under "general operating expenses", while the continuing impairment of fixed assets, intangible assets and rights of use of capacities is presented under "depreciation, amortization and impairment."

3.11 Employee benefits

3.11.1 **Post-employment benefits**

The Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies and they are classified as defined contribution plans and defined benefit plans.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

The Group’s obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of income in the periods during which services are rendered by employees.

Defined benefit plans

The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is presented at its present value, and the fair value of any plan assets is deducted. The calculation is performed annually by a qualified actuary. The discount rate is the yield on high-quality corporate debentures at the reporting date, denominated in or linked to the currency of the paid benefit, with maturity dates approximating the terms of the Group’s obligations.

Net interest costs on a defined benefit plan are calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability.

The Group elected to recognize the interest costs that were recognized in profit or loss under financial expenses.

Remeasurement of the net defined benefit liability comprises actuarial gains and losses and the return on plan assets (excluding interest). Remeasurements are recognized immediately directly in ***retained earnings*** through other comprehensive income.

When the benefits of a plan are improved or curtailed, the portion of the increased or curtailed benefit relating to past service by employees is recognized immediately in profit or loss when the plan improvement or curtailment occurs.

3.11.2 **Other long-term employee benefits**

The Group's net obligation in respect of long-term employee benefits (such as an obligation for accumulated vacation days and sick leave) other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The amount of these benefits is stated at its present value. The discount rate is the yield at the reporting date on high-quality linked corporate debentures denominated in NIS, with maturity dates approximating the terms of the Group's obligations. Actuarial changes are recognized in the statement of income in the period in which they arise***. Any actuarial changes arising from a change in the discount rate are recognized in the financial expenses item, while the other differences are recognized in salary expenses.***

3.11.3 **Early retirement and termination benefits**

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy and the offer has been accepted or the Company is no longer able to withdraw the offer.

Expenses for early retirement and termination recognized in the statement of income are presented under other operating expenses (income). The actuarial changes arising from a change in the discount rate, long-term benefits for early retirement and termination, are recognized under financial expenses, while the other actuarial changes are recognized under other operating expenses (income).

3.11.4 **Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on the date when the benefits are expected to be to be wholly settled,

In the statement of financial position, the employee benefits are classified as current benefits or as non-current benefits according to the time the liability is due to be settled.

3.11.5 **Share-based payment transactions**

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

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

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

3.12 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.12.1 Legal claims

Contingent liabilities are accounted for according to IAS 37 and its related provisions. Accordingly, the claims are classified by likelihood of realization of the exposure to risk, as follows:

A. More likely than not – more than 50% probability

B. Likely – probability higher than unlikely and less than 50%

C. Unlikely – probability of 5% or less

For claims which the Group has a legal or constructive obligation as a result of a past event, which are more likely than not to be realized, the financial statements include provisions which, in the opinion of the Group, based, among other things, on the opinions of its legal advisers retained in respect of those claims, are appropriate to the circumstances of each case, despite the claims being denied by the Group companies. There are also a small number of legal proceedings, most of which were received recently, for which the risks cannot be assessed at this stage, therefore no provisions have been made.

Note 17 describes the amount of additional exposure due to contingent liabilities that are likely to be realized.

3.12.2 Site dismantling and clearing costs

The provision in respect of an obligation to dismantle and clear sites is recognized for those rental agreements where Pelephone has an undertaking to restore the rental property to its original state at the end of the rental period, after dismantling and transferring the site, and restoring the site when required. The provision is measured by discounting the future cash flows by risk-free discounted interest reflecting the time until the expected termination of the contract for dismantling of the site by Pelephone. The carrying amount of the provision is adjusted in each period to reflect the time that has passed and is recognized as a financial expense.

3.12.3 Onerous contracts

A provision for onerous contracts is recognized when the unavoidable costs of a contract exceed the benefits expected to be received from the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the unavoidable costs (net of the revenues) of continuing with the contract. ***Unavoidable costs are costs that the Group cannot avoid as they are subject to a contract***.

3.13 Revenues

3.13.1 The Group recognizes revenues when the customer gains control over the goods or services. The income is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the transfer of goods or services promised to the customer, other than amounts collected in favor of third parties.

The model for recognizing revenues from contracts with customers includes five steps for analyzing transactions so as to determine when to recognize revenues and in what amount:

Identifying the contract with the customer.

Identifying separate performance obligations in the contract.

Determining the transaction price.

Allocating the transaction price to separate performance obligations.

Recognizing revenues when the performance obligations are satisfied.

3.13.2 **Identifying the contract**

The Group accounts for a contract with a customer only when the following conditions are met:

1. The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them.
2. The Group can identify the rights of each party in relation to the goods or services that will be transferred.
3. The Group can identify the payment terms for the goods or services that will be transferred.
4. The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract).
5. It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

3.13.3 **Identifying performance obligations**

On the inception date of the contract, the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

(1) Goods or services (or a bundle of goods or services) that are distinct; or

(2) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

Option to purchase additional goods or services

An option that confers on the customer a right to purchase additional goods or services constitutes a separate performance obligation in the contract, only if the option gives the customer a significant right that he would not have received, had he not entered into the original contract.

3.13.4 **Determining the transaction price.**

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the transfer of goods or services promised to the customer, other than amounts collected in favor of third parties. When determining the transaction price, the Group takes into account the effects of all the following: variable consideration, the existence of a significant financing component in the contract, non-cash consideration and consideration to be paid to the customer.

3.13.5 **Existence of a significant financing component**

In order to measure the transaction price, the Group adjusts the amount of the promised consideration in respect of the effects of the time value of money if the timing of the payments agreed between the parties provides to the customer or the Group a significant financing benefit. In these cases, the contract contains a significant financing component. When assessing whether a contract includes a significant financing component, the Group examines, among other things, the expected length of time between the date the Group transfers the promised goods or services to the customer and the date the customer pays for these goods or services, as well as the difference, if any, between the amount of the consideration promised and the cash selling price of the promised goods or services.

When the contract contains a significant financing component, the Group recognizes the amount of the consideration using the discount rate that would be reflected in a separate financing transaction between it and the customer on the inception date of the contract. The financing component is recognized as interest income or expenses over the period, which are calculated according to the effective interest method.

In cases where the difference between the time of receiving payment and the time of transferring the goods or services to the customer is one year or less**, *the Group applies the practical expedient included in the standard and does not separate a significant financing component***.

3.13.6 **Existence of performance obligations**

Revenues are recognized when the Group satisfies a performance obligation by transferring to the customer control over promised goods or services.

Measuring progress in the fulfillment of a performance obligation

The Group recognizes revenue over time by measuring the progress towards full fulfillment of the performance obligation in a manner that reflects the Group's performance in transferring to the customer control over promised goods or services.

3.13.7 **Contract costs**

Incremental costs of obtaining a contract with a customer such as sales fees to agents, are recognized as an asset when the Group is likely to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognized as an expense as incurred, unless the customer can be billed for those costs.

Capitalized costs are amortized in the income statement on a systematic basis that is consistent with the expected average duration of subscribers and with their average projected churn rate based on the type of subscriber and the service received (mainly over a period of one to four years).

In each reporting period the Group assesses whether the carrying amount of the asset recognized as aforesaid exceeds the consideration the Group expects to receive in exchange for the goods or services to which the asset relates, less the costs directly attributable to the provision of these goods or services that were not recognized as expenses, and if necessary an impairment loss is recognized in profit or loss

3.13.8 **Principal supplier or agent**

When another party is involved in providing goods or services to the customer, the Group examines whether the nature of its promise is a performance obligation to provide the defined goods or services itself, which means the Group is a principal and therefore recognizes revenues in the gross amount of the consideration, or to arrange that another party provide the goods or services which means the Group is an agent and therefore recognizes revenue in the amount of the net commission.

The Group is a principal when it controls the promised goods or services before their transfer to the customer. Indicators that the Group controls the goods or services before their transfer to the customer include the following: the Group is the primary obligor for fulfilling the promises in the contract; the Group has inventory risk before the goods or services are transferred to the customer; and the Group has discretion in setting the prices of the goods or services.

3.14 Government grants

A government grant for a frequency tender is initially recognized at fair value when it is more likely than not that it will be received and that the Group will meet the eligibility conditions for the grant. Government grants received for the purpose of purchasing an asset ***are presented as deferred income in the statement of financial position that is released to the statement of income over the useful life of the asset*. *The released income is recognized in the item "other operating income" in the statement of income.***

3.15 Financial income and expenses

Financial income comprises mainly interest income accrued using the effective interest method in respect of the sale of terminal equipment in installments, interest income from deposits and changes in the fair value of financial assets at fair value through profit or loss.

Financial expenses include mainly interest and linkage expenses on borrowings received and debentures issued, expenses for early repayment of the debt, and financial expenses for employee benefits.

In the statements of cash flows, interest received is presented as part of cash flows from investing activities. The Group elected to present interest and linkage differences paid for loans and debentures under cash flows used for financing activities.

3.16 Income tax expenses

Income tax expenses include current and deferred taxes and are recognized in the statement of income or in other comprehensive income to the extent that the expenses relate to items recognized in other comprehensive income.

Current taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years.

Offsetting of current tax assets and liabilities

The Group offsets current tax assets and liabilities, if there is a legally enforceable right to offset current tax assets and liabilities, and there is an intention to settle current tax assets and liabilities on a net basis or simultaneously.

Uncertain tax positions

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more likely than not that the Group will have to use its economic resources to pay the obligation

Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group does not recognize deferred taxes for the following temporary differences:

1. Initial recognition of goodwill
2. Differences arising from investment in subsidiaries and associates, if it is probable that they will not reverse in the foreseeable future and if the Group controls the date of reversal.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for carryforward losses, tax benefits and deductible temporary differences, to the extent that it is probable that there will be future taxable profits against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized (see also Note 7).

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it is probable that there will be future taxable profits against which they can be utilized.

Offsetting of deferred tax assets and liabilities

The Group offsets deferred tax assets and liabilities, when there is a legally enforceable right to offset current tax liabilities and assets, and these are attributable to the same taxable income that is taxed by the same tax authority in the same taxable entity, and there is an intention to settle current tax assets and liabilities on a net basis or simultaneously.

Presentation of tax expenses in the statement of cash flows

Cash flows arising from taxes on income are classified in the statement of cash flows as cash flows from operating activities, unless they can be specifically identified with investing and financing activities.

3.17 Earnings per Share

The Group presents basic and diluted earnings per share with respect to its ordinary share capital. Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the Company's ordinary shares by the weighted average number of ordinary shares in circulation during the year.

Diluted earnings per share is determined by adjusting the profit or loss attributable to the owners of the Company's ordinary shares and the weighted average number of ordinary shares in circulation, for the effects of all dilutive potential ordinary shares, which include the options granted to the employees.

3.18 Dividends

An obligation relating to a dividend proposed or declared subsequent to the reporting date is recognized only in the period in which the declaration was made (approval of the general meeting). In the statements of cash flows, ***a dividend that has been paid is recognized under financing activities***.

3.19 New standards applied during the reporting period:

Amendment to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" with respect to onerous contracts ("the Amendment")

The Group started applying Amendment to IAS 37 concerning onerous contracts on January 1, 2022. The Amendment specifies that in assessing whether a contract is onerous, the costs of fulfilling a contract that should be taken into account are the costs that relate directly to the contract, including the following:

Incremental costs; and also

Allocation of other costs that relate directly to fulfilling a contract (such as the depreciation charge for fixed assets used in fulfilling the contract being assessed and other additional contracts).

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

3.20 New standards not yet adopted

3.20.1 Amendment to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current" and subsequent amendment "Non-Current Liabilities with Covenants"

The amendment together with the subsequent amendment replaces certain classification requirements of liabilities as current or non-current. The amendment will be effective for reporting periods beginning on January 1, 2024, with early application permitted. The amendment and subsequent amendment will be effective retrospectively, including reconciliation of comparative information.

The Group is examining the effects of the application of the amendment.

3.20.2 Amendment to IAS 1 "Presentation of Financial Statements: Disclosure of Accounting Policies"

The amendment requires entities to disclose their material accounting policy information, instead of significant accounting policies. According to the amendment, accounting policy information is material if, when considered together with other information included in the financial statements, it can reasonably be expected to influence the decisions that users of the financial statements make based on those financial statements.

The amendment to IAS 1 also clarifies that accounting policy information is likely to be material, if the absence of such information would prevent the users of an entity's financial statements from understanding other material information in the financial statements. In addition, the amendment clarifies that there is no need to disclose immaterial accounting policy information.

The amendment will be effective for reporting periods beginning on January 1, 2023, with early application permitted.

The Group is examining the effects of the amendment on the financial statements, with no intention of early adoption.

4. Cash and Cash Equivalents

As at December 31, 2022, cash and cash equivalents include mainly bank deposits for an average period of 90 days and current account balances.

5. Investments

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Bank deposits in shekels(1)	**734**	934
Investment in securities	**151**	-
Derivatives	**15**	-
Bank deposits in foreign currency (2)	**10**	20
	910	954

(1) Bank deposits in shekels are repayable until December 2023.

(2) Bank deposits in US dollars are repayable until March 2023.

6. Trade and Other Receivables

6.1 Composition of trade and other receivables

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Trade receivables*		
Open accounts and checks receivable	**673**	849
Credit cards	**191**	473
Revenues receivable	**242**	238
Current maturities of long-term receivables	**333**	297
Related parties and interested parties	**1**	2
	1,440	1,859
Other receivables and current tax assets		
Current tax assets	**28**	56
Frequencies grant receivable (see Note 10.1)	**-**	74
Other receivables	**224**	114
Prepaid expenses	**36**	35
	288	279
Long-term trade and other receivables		
Trade receivables – open accounts*	**305**	256
Long-term other receivables and government authorities (in respect of real estate sales)**	**155**	177
	460	433
	2,188	2,571

* The amounts of trade receivables are stated net of the provision for forecast credit losses.
** See Note 6.6.

6.2 Discount rates for long-term trade receivables are based the estimated credit risk of the trade receivables. The discount rates used by the Group in 2022 are 2.36%-4.93% (in 2021: 2.49%-4.38%).

6.3 Expected payment dates for long-term trade and other receivables:

Expected payment dates	December 31, 2022
	NIS million
2024	**242**
2025	**84**
2026 onwards	**134**
	460

6.4 Aging of trade receivables at the reporting date:

	December 31, 2022		December 31, 2021	
	Trade receivables, gross	Provision for forecast credit losses	Trade receivables, gross	Provision for forecast credit losses
	NIS million	NIS million	NIS million	NIS million
Not past due	**1,621**	**(7)**	1,922	(4)
Past due up to one year	**141**	**(24)**	175	(21)
Past due one to two years	**15**	**(7)**	56	(20)
Past due more than two years	**32**	**(26)**	30	(23)
	1,809	**(64)**	2,183	(68)

6.5 Change in provision for forecast credit losses in the year:

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Balance as at January 1	**68**	80
Impairment loss recognized	**29**	6
Bad debts	**(33)**	(18)
Balance as at December 31	**64**	68

6.6 Long-term other receivables and authorities include receivables of NIS 106 million in respect of permit fees and betterment tax paid by the Company to the Israel Land Authority and the Or Yehuda local authority for the sale of the Sakia property in 2019. In addition, the Company provided guarantees for a total of NIS 126 million pursuant to demands by the Israel Land Authority and the Or Yehuda Local Authority for payment of the balance of permit fees and betterment tax.

The Company recognized in its financial statements for 2019 a capital gain before tax of NIS 403 million on the sale of the Sakia property. Recognition of the capital gain is based on the Company's estimates of the final amount that will be paid to the authorities. It should be noted that if the Company's estimates are not realized, the final amount of the capital gain will be between NIS 250 million and NIS 450 million.

A legal proceeding is underway between the parties since 2021.

7. Income Tax

7.1 Corporate tax rate

Current taxes for the reported periods and the balances of deferred taxes as of December 31, 2022 are calculated at the tax rate applicable to the Group, which is 23%.

7.2 Final tax assessments

7.2.1 The Company has final tax assessments up to and including 2018.

On September 15, 2016, parallel to signing the assessment agreement ending the dispute between the Company and the tax assessor regarding the financial income from the shareholder loans to DBS, the Tax Authority granted approval for tax purposes for the merger of DBS with and into the Company, in accordance with section 103(B) of the Income Tax Ordinance. According to the approval, the losses of DBS as at the merger date may be offset against the profits of the absorbing company, provided that in each tax year, it will not be permissible to offset an amount exceeding 12.5% (spread over eight years) of the total losses of the transferring company and the absorbing company, or 50% of the taxable income of the absorbing company in that tax year prior to offsetting the loss from previous years, whichever is lower.

The approval was granted in accordance with the applicable tax laws at the time it was issued. Without detracting from the amount of the losses determined in the assessment agreement, should there be any change in the applicable tax laws, the Income Tax Authority will review the tax ruling in light of the tax laws applicable at the merger date. However, it was made clear that the approval is effective until December 31, 2019. The Tax Authority will extend the validity of the approval each year by an additional year, subject to the declaration of the Company and DBS that there has been no material change in their business affairs and in the terms of the tax ruling, and subject to the interpretation given to the tax laws, provided that such interpretation is published in writing. Any change in the tax laws that does not require a change in the approval will not result in any such change. The tax ruling has been extended several times since then.

On December 11, 2022, the Company received a letter from the Tax Authority which, at the Company's request, extends the validity of the tax ruling by one additional year, that is, until December 31, 2023. It should be noted that the Tax Authority's letter states, as it already has in its previous letter from last year, that since no material developments had occurred with respect to the cancellation of the structural separation between the Company and DBS from the date of issue of the tax ruling until the date of grant of this extension, and in view of the length of time since the tax ruling was issued, and following an examination of all the Company's arguments on this issue, the Tax Authority would consider not extending the validity of the tax ruling beyond December 31, 2023, insofar as there would not be any material developments in 2023 in connection with the cancellation of the structural separation between the Company and DBS.

The tax losses of DBS as at December 31, 2022 amount to NIS 5.3 billion. See Note 7.6 below regarding deferred taxes not recognized in respect of carryforward losses.

7.2.2 Pelephone has received final tax assessments up to and including 2018.

7.2.3 Bezeq International has received final tax assessments up to and including 2019.

7.2.4 DBS has received final tax assessments up to and including 2016.

7.2.5 Bezeq Online has received final tax assessments up to and including 2017.

7.3 Components of income tax expenses

	Year ended December 31		
	2022	**2021**	**2020**
	NIS million	**NIS million**	**NIS million**
Current tax expenses			
Expenses for the current year	**293**	289	273
Adjustments for prior years	**-**	14	57
Total current tax expenses	**293**	303	330
Deferred tax expenses			
Creation and reversal of temporary differences	**43**	42	(5)
Use (creation) of deferred taxes for tax losses from the sale of a subsidiary	**-**	37	(37)
Total deferred tax expenses (income)	**43**	79	(42)
Income tax expenses	**336**	382	288

7.4 Reconciliation between theoretical tax on pre-tax profit and tax expenses

	Year ended December 31		
	2022	**2021**	**2020**
	NIS million	**NIS million**	**NIS million**
Profit before income tax	**1,336**	1,565	1,084
Statutory tax rate	**23%**	23%	23%
Income tax at the statutory tax rate	**307**	360	249
Expenses not recognized for tax purposes and other expenses and losses for which no deferred taxes were created, net	**29**	22	**(9)**
Creation of deferred taxes for tax losses from the sale of a subsidiary	**-**	-	(37)
Temporary differences for impairment of assets for which no deferred tax assets were created	**-**	-	54
Write-off of a tax asset due to no expectation of future profits	**-**	-	31
Income tax expenses	**336**	382	288

7.5 Recognized deferred tax assets and tax liabilities and changes therein

	Deferred tax assets for employee benefit plans	Deferred tax liabilities for fixed assets and intangible assets	Tax asset for tax loss from the sale of a subsidiary	Other deferred taxes	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2021	261	(280)	37	58	76
Changes recognized in the statement of income:					
Creation and reversal of temporary differences	(11)	(9)	(37)	(22)	(79)
Changes recognized in other comprehensive income	1	-	-	(12)	(11)
Balance as at December 31, 2021	251	(289)	-	24	(14)
Changes recognized in the statement of income:					
Creation and reversal of temporary differences	**(23)**	**11**	**-**	**(31)**	**(43)**
Changes recognized in other comprehensive income	**(6)**	**-**	**-**	**2**	**(4)**
Balance as at December 31, 2022	**222**	**(278)**	**-**	**(5)**	**(61)**

Carrying amount	**December 31**	**December 31**
	2022	**2021**
	NIS million	**NIS million**
Deferred tax assets	**-**	24
Deferred tax liabilities	**(61)**	(38)
Balance as at December 31	**(61)**	(14)

7.6 Unrecognized deferred tax assets and liabilities

The Company has an approval from the Tax Authority for the utilization of the carryforward tax losses when it merges with DBS. The approval is subject, inter alia, to the receipt of approval from the Ministry of Communications for the cancellation of the structural separation between the two companies. Additionally, the approval needs to be extended by the Tax Authority for an additional year every year until the actual merger, as described in Note 7.2.1 above.

As at the date of the financial statements, deferred taxes for carryforward tax losses of DBS in the amount of NIS 5.2 billion were not recognized, and deferred taxes for an impairment loss of assets in DBS and in Bezeq International were not recognized (see Note 10), since they are not expected to be utilized, according to the Company's assessment as at the date of the financial statements.

In addition, in the calculation of deferred taxes, the taxes that would be applicable in the case of disposal of investments in subsidiaries were not recognized, since the Group intends and is able to retain these investments. Likewise, deferred taxes in respect of a profit distribution in subsidiaries were not recognized, since inter-company dividends are not taxable.

8. Leases

Under the lease agreements, the Group leases mainly cellular communications sites, structures (including offices, warehouses, communication rooms, and points of sale), and vehicles.

8.1 Right-of-use assets

	Communications sites	Buildings	Vehicles	Total
	NIS million	NIS million	NIS million	NIS million
Cost				
Balance as at January 1, 2021	1,190	1,095	325	2,610
Additions*	155	149	126	430
Derecognition for expired or terminated agreements	(83)	(50)	(120)	(253)
Balance as at December 31, 2021	1,262	1,194	331	2,787
Additions*	**111**	**90**	**107**	**308**
Derecognition for expired or terminated agreements	**(85)**	**(17)**	**(46)**	**(148)**
Balance as at December 31, 2022	**1,288**	**1,267**	**392**	**2,947**
Amortization and impairment losses				
Balance as at January 1, 2021	415	218	173	806
Amortization for the year	168	106	118	392
Derecognition for expired or terminated agreements	(68)	(27)	(118)	(213)
Changes in agreements and other	(5)	1	(23)	(27)
Impairment	-	-	1	1
Balance as at December 31, 2021	510	298	151	959
Amortization for the year	**156**	**111**	**129**	**396**
Derecognition for expired or terminated agreements	**(73)**	**(15)**	**(44)**	**(132)**
Changes in agreements and other	**(8)**	**(1)**	**(11)**	**(20)**
Impairment	**-**	**-**	**(2)**	**(2)**
Balance as at December 31, 2022	**585**	**393**	**223**	**1,201**
Carrying amount				
Balance as at January 1, 2021	775	877	152	1,804
Balance as at December 31, 2021	752	896	180	1,828
Balance as at December 31, 2022	**703**	**874**	**169**	**1,746**

* Additions for new agreements and changes to existing agreements

8.2 Lease liabilities

	Communica-tions sites	Buildings	Vehicles	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2021	833	895	179	1,907
Additions*	162	145	150	457
Disposals	(14)	(24)	(2)	(40)
Financial expenses for lease liabilities	17	21	2	40
Lease payments	(164)	(102)	(121)	(387)
Balance as at December 31, 2021	834	935	208	1,977
Additions*	**118**	**93**	**115**	**326**
Disposals	**(16)**	**(2)**	**-**	**(18)**
Financial expenses for lease liabilities	**17**	**24**	**2**	**43**
Lease payments	**(169)**	**(124)**	**(127)**	**(420)**
Balance as at December 31, 2022	**784**	**926**	**198**	**1,908**
Carrying amount as at December 31, 2021				
Current maturities of a lease liability	250	113	103	466
Long-term lease liabilities	584	822	105	1,511
Total balance as at December 31, 2021	834	935	208	1,977
Carrying amount as at December 31, 2022				
Current maturities of a lease liability	**225**	**110**	**121**	**456**
Long-term lease liabilities	**559**	**816**	**77**	**1,452**
Total balance as at December 31, 2022	**784**	**926**	**198**	**1,908**

* Additions for new agreements and changes to existing agreements

8.3 Analysis of payment dates of Group's lease liabilities (including principal and interest to be paid)

Expected payment dates	**December 31, 2022**
	NIS million
Up to one year	**496**
1-5 years	**880**
More than 5 years	**785**
Total	**2,161**

8.4 Options to terminate or extend a lease

In most of the lease agreements, the Group assumed that it is more likely than not that the extension option in the agreements will be exercised, therefore there are no material liabilities in respect of leases that were not presented in the financial statements. Most of the lease agreements include an option to cancel the agreement with notice and/or payment of a penalty as set out in the agreements. The Group assumed that it is more likely than not that the cancellation options will not be exercised.

8.5 Information about material lease agreements not yet included in the measurement of lease assets and liabilities

On October 7, 2021, Bezeq International signed a hosting services agreement with Server Farm IIF Bnei Zion Limited Partnership ("Server Farm"), according to which Server Farm is to provide Bezeq International with hosting services in a data center that is being built by it. The data center is expected to be used to provide hosting services to business customers. The delivery will be in two phases, with the first phase due to be delivered in March 2023 and the second in March 2024. The agreement is for a period of 15 years with extension options until 2047. The nominal cost of the agreement (without exercising the extension options) is NIS 227 million.

9. Fixed Assets

	Land and buildings	Fixed-line and international network equipment (switches, transmission, power)	Cables and communications infrastructure for fixed-line and international network	Cellular network	Equipment and infrastructure for multichannel television	Subscriber equipment	Office equipment, computers and vehicles	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost								
Balance as at January 1, 2021	1,311	2,876	11,945	3,275	1,593	1,868	813	23,681
Additions	76	248	426	136	115	332	71	1,404
Disposals	(126)	(185)	(29)	(2)	(301)	(336)	(66)	(1,045)
Reclassification from assets held for sale	21	-	-	-	-	-	-	21
Balance as at December 31, 2021	1,282	2,939	12,342	3,409	1,407	1,864	818	24,061
Additions	**43**	**229**	**433**	**145**	**126**	**327**	**79**	**1,382**
Disposals	**(11)**	**(429)**	**(22)**	**(2)**	**(200)**	**(380)**	**(316)**	**(1,360)**
Balance as at December 31, 2022	**1,314**	**2,739**	**12,753**	**3,552**	**1,333**	**1,811**	**581**	**24,083**
Depreciation and impairment losses								
Balance as at January 1, 2021	1,007	1,611	9,145	2,594	1,490	1,086	617	17,550
Depreciation for the year	22	229	182	177	45	278	60	993
Disposals	(39)	(185)	(29)	(1)	(301)	(317)	(65)	(937)
Impairment (reversal of impairment)	13	9	(1)	-	77	8	17	123
Reclassification from assets held for sale	20	-	-	-	-	-	-	20
Balance as at December 31, 2021	1,023	1,664	9,297	2,770	1,311	1,055	629	17,749
Depreciation for the year	**26**	**222**	**200**	**162**	**50**	**307**	**60**	**1,027**
Disposals	**(3)**	**(429)**	**(22)**	**(1)**	**(192)**	**(373)**	**(320)**	**(1,340)**
Impairment (reversal of impairment) (see Note 10)	**13**	**5**	**(5)**	**-**	**60**	**19**	**13**	**105**
Balance as at December 31, 2022	**1,059**	**1,462**	**9,470**	**2,931**	**1,229**	**1,008**	**382**	**17,541**
Carrying amount								
January 1, 2021	304	1,265	2,800	681	103	782	196	6,131
December 31, 2021	259	1,275	3,045	639	96	809	189	6,312
December 31, 2022	**255**	**1,277**	**3,283**	**621**	**104**	**803**	**199**	**6,542**

9.1 The residual value of the Group's copper cables is assessed at the end of each quarter. The residual value amounted to NIS 234 million as at December 31, 2022 and NIS 237 million as at December 31, 2021.

9.2 The Group companies reviewed the useful life of the fixed assets through depreciation committees, in order to determine the estimated useful life of their equipment. Following the findings of the depreciation committees, minor changes were made in the estimated useful life of certain assets. Said change had no material effect on the depreciation expenses of the Group.

9.3 Most of the real estate assets used by the Company are leased under a capitalized lease from the Israel Lands Administration as from 1993 for 49 years, with an option for an extension of another 49 years. Lease rights are amortized over the term of the lease period.

9.4 On September 14, 2020, the Company's Board of Directors approved the launch of the Company's plan for deployment of the fiber optic network. Further to the Board of Directors' decision, the Company began deploying optic fibers to buildings, including the deployment of vertical equipment in buildings, and on March 14, 2021, it announced the rollout of services to its customers on the fiber optic network. On May 25, 2021, the Company's Board of Directors approved the Company's plan for fiber deployment and the plan's submission to the Ministry of Communications in accordance with the Communications Law. As part of the plan, the Company is expected to deploy and operate an ultra-fast fiber network that will cover 76% of the country's population (the Company estimates that this is approximately 80% of Israeli households). On May 31, 2021, the Company submitted to the Ministry of Communications a list of the statistical areas where it has chosen to deploy a fiber network, and on June 15, 2021, the Company received an amendment to its license concerning the establishment of advanced network deployment obligations ("the License Amendment").On October 3, 2022, the Minister of Communications approved the Company's application to deploy an advanced network and provide telecommunication service over additional statistical areas besides those listed in the Company's current license, and to amend the Company's license accordingly. The application is for deployment in another 151 areas with 60,000 households. As set out in the decision of the Minister of Communications, the Company's deployment areas contain 82.5% of households, with the additional deployment to constitute a further 2.3%, ultimately bringing the rate of households in the Company's deployment areas to 84.7%. The License Amendment includes, *inter alia*, the milestones for completing the network's deployment within six years of the Determining Date (March 14, 2021). In this regard, see also Note 18.7 regarding the commitment of the Group companies to pay into the Incentive Fund.

9.5 In accordance with the Telecommunications Order (Telecommunications and Broadcasts) (Determination of Essential Service Provided by Bezeq – The Israel Telecommunication Corp. Ltd.), 1997, approval from the Prime Minister and Minister of Communications is required to confer rights in some of the Company's assets (including switches, cable network, transmission network, and information and databases).

9.6 For information about liens for loans and borrowings, see Note 13. For information about other liens, see Note 19.

9.7 For information about agreements for the purchase of fixed assets, see Note 18.

10. Intangible Assets

	Goodwill	Software and licenses	Right of use of cellular communications frequencies (see 10.1 below)	Customer relations and brand – multi-channel television	Other	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost						
Balance as at January 1, 2021	1,421	2,428	566	1,137	-	5,552
Acquisitions or additions from in-house development	-	237	-	-	-	237
Disposals	-	(40)	-	-	-	(40)
Balance as at December 31, 2021	1,421	2,625	566	1,137	-	5,749
Acquisitions or additions from in-house development	***9**	**229**	**-**	**-**	*** 7**	**245**
Disposals	**-**	**(152)**	**-**	**-**	**-**	**(152)**
Balance as at December 31, 2022	**1,430**	**2,702**	**566**	**1,137**	**7**	**5,842**
Amortization and impairment losses						
Balance as at January 1, 2021	1,080	2,075	331	1,137	-	4,623
Amortization for the year	-	141	22	-	-	163
Impairment	-	91	-	-	-	91
Disposals	-	(40)	-	-	-	(40)
Balance as at December 31, 2021	1,080	2,267	353	1,137	-	4,837
Amortization for the year	**-**	**137**	**21**	**-**	**-**	**158**
Impairment (see below)	**-**	**87**	**-**	**-**	**-**	**87**
Disposals	**-**	**(152)**	**-**	**-**	**-**	**(152)**
Balance as at December 31, 2022	**1,080**	**2,339**	**374**	**1,137**	**-**	**4,930**
Carrying amount						
January 1, 2021	341	353	235	-	-	929
December 31, 2021	341	358	213	-	-	912
December 31, 2022	**350**	**363**	**192**	**-**	**7**	**912**

* See Note 12.3.3

10.1 Right of use of cellular communications frequencies

In 2020, Pelephone won a cluster of frequencies pursuant to the tender for advanced bandwidth cellular services, at a total cost of NIS 88.2 million. The payment was made in September 2022. In September 2020, upon receipt of the frequencies, Pelephone began operating them. In addition, Pelephone was awarded, in accordance with the terms of the tender, a 5G network deployment grant of NIS 74 million. Said grant was received in November 2022.

10.2 Assessment of impairment of cash-generating units

10.2.1 To assess impairment, goodwill was attributed to the Group's operating segments as follows

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Domestic fixed-line communications (Bezeq) (10.4)	**265**	265
Cellular communications (Pelephone) (10.3)	**76**	76
Bezeq International services	***9**	-
	350	341

* See Note 12.3.3

10.2.2 <u>Composition of impairment loss recognized by the Group in 2020-2022:</u>

In 2020, an impairment loss of assets of Bezeq International, due to a one-time revision of forecasts for the coming years, was recognized in the statement of income under the item "impairment loss." An impairment loss of assets resulting from a continuing adjustment of non-current assets (DBS in 2020-2022 and Bezeq International in 2021-2022) to their fair value net of sales costs, was recognized in the statement of income under the same items in which the current expenses in respect of those assets were recognized, as set out in Notes 10.5 and 10.6 below.

	2022	2021	2020
	NIS million	NIS million	NIS million
Impairment loss in the Bezeq International services segment (see Note 10.6 below)	-	-	307
Reversal of impairment loss in respect of Walla	-	-	(14)
	-	-	293

10.3 Assessment of goodwill impairment in cellular communications (Pelephone)

The balance of goodwill attributable to the cash-generating cellular communications unit is NIS 76 million. Accordingly, the Company assessed the recoverable amount of the cash-generating cellular communications unit as at December 31, 2022.

The value in use of the cellular communications cash-generating unit for Bezeq Group as at December 31, 2022 was calculated by discounting future cash flows (DCF method) based on a five year cash flow forecast as at the end of the current period with the addition of the salvage value (representative year). The cash flow forecast is based, among other things, on Pelephone's performance in recent years and assessments regarding the expected trends in the cellular market in the coming years (the level of competition, price level, regulation, and technological developments).

A key assumption underlying the forecast is that competition in the market will continue with high intensity in the short term and that stability and a certain increase will occur in the medium to long term. The revenues forecast is based on assumptions regarding the Company's subscriber base, average revenue per user, and sales of terminal equipment. The operating expenses and investments were adjusted to the projected volume of operations of the Company.

The nominal cost of capital taken into account for the valuation is 10% after tax (12.4% before tax). In 2021, the capitalization rate was 9% after tax (11.1% before tax). In addition, a terminal growth rate of 1.5% was assumed (2021 – 1.5%).

The valuation is sensitive to changes in the terminal growth rate and the discount rate. In addition, the valuation is sensitive to the net cash flow in the representative year in general, and to the average revenue per user (ARPU) and number of users at the end of the range of the forecast (and in the terminal year) in particular (a change of NIS 1 in ARPU throughout the forecast years results in a change in the enterprise value amounting to NIS 318 million; a change of 100,000 users throughout the forecast years (and in the terminal year) results in a change in the enterprise value amounting to NIS 498 million).

The valuation was prepared by an external appraiser. Based on the valuation as explained above, the enterprise value of Pelephone amounted to NIS 2,533 million, compared with a carrying amount of NIS 920 million. Therefore, the Group was not required to record amortization for impairment of a cellular communications cash-generating unit.

10.4 Assessment of goodwill impairment in domestic fixed-line communications (Bezeq)

The balance of goodwill attributable to the domestic fixed line cash-generating unit is NIS 265 million. Accordingly, the Company assessed the recoverable amount of the domestic fixed-line cash-generating unit as at December 31, 2022.

The value in use of the domestic fixed line cash-generating unit for Bezeq Group was calculated by discounting future cash flows (DCF) based on a five year cash flow forecast as at the end of the current period with the addition of the salvage value (representative year).

The cash flow forecast is based, among other things, on the Company’s performance in recent years and assessments regarding the expected trends in the fixed-line market in the coming years (the level of competition, retail and wholesale price levels, regulation aspects, and technological developments).

Main assumptions underlying the forecast: decrease in revenues from telephony (due to a decrease in the number of lines, decrease in call minutes used per line, and the effect of the Ministry of Communication's decision regarding the setting of maximum rates for the Company's retail telephony services);growth in Internet revenues(supported by market growth, penetration of Internet services over the fiber network, and the cancellation of the separation between broadband infrastructure service and Internet access service);decrease in revenues from data communication and transmission (due to an expected decline in transmission revenues from ISPs, and despite expectations for consistent growth in revenues from data communication services), and moderate growth in cloud and digital revenues. Operating expenses, selling and marketing expenses and investments were adjusted to the scope of activity in the segment, with the forecasts including assumptions regarding the Company's workforce and the resulting salary and retirement expenses and assumptions regarding the deployment rate of the fiber infrastructure.

The nominal cost of capital taken into account for the valuation is 8% after tax (10.5% before tax). In 2021, the capitalization rate was 7% after tax (8.3% before tax). In addition, a terminal growth rate of 1% was assumed (2021 – 1%).

The valuation was prepared by an external appraiser. Based on the valuation as explained above, the Group's enterprise value totaled NIS 17,819 million, compared with a carrying amount of NIS 5,987 million. Therefore, the Group was not required to record amortization for impairment of a cash-generating unit of the domestic fixed-line communications segment.

10.5 Goodwill impairment in the multichannel television segment (DBS)

At the end of 2022, DBS revised its forecasts for the coming years, taking into consideration the trends and changes in its operational environment. The value in use of the multichannel television cash-generating unit for Bezeq Group as at December 31, 2022, was calculated by discounting future cash flows (DCF) up to and including 2027 with the addition of the salvage value (representative year). The nominal cost of capital taken into account for the valuation is 10% (after and before tax) (2021 – 8.5%). In addition, a terminal growth rate of 1% was assumed (2021 – 1%).

The cash flow forecast was based, among other things, on the performance of DBS in recent years and assessments of the expected trends in the television market for the years ahead, including technology development, consumer preferences, competitors and the level of competition, price levels and regulatory obligations.

A key assumption underlying the forecast is that the relevant future technology will be interactive and two-way, and that the satellite product will be replaced by the IP product (television broadcasts over the Internet) over time, due to the technological gap between satellite and IP, the gap in customer experience and the lower IP operation and maintenance costs. As a result, the multi-year forecast reflects a plan for gradual migration (from satellite broadcasts to OTT Internet streaming), and accordingly, assumptions include a gradual replacement of satellite converters with IP converters, upgrade of the broadcasting infrastructure, construction of a support system for customer service, and adaptation of content contracts for OTT (Over the Top) broadcasts. As set out above, the forecast period reflects the period of migration from satellite broadcasts to OTT broadcasts, until complete discontinuation of satellite broadcasts. These circumstances, together with expectations for the continuation of intense competition throughout the forecast period and the relatively rigid expenditure structure, resulted in a forecast of operational losses and negative cash flow in some of the forecast years.

On June 30, 2022, DBS launched ISP activity that focuses on offering TV and fiber internet bundles to its customers. Accordingly, sales of TV and fiber internet bundles are expected to contribute positively to revenues throughout the forecast years.

Based on the valuation, which was prepared by an external appraiser, the total enterprise value of DBS as at December 31, 2022 is negative and lower than the net carrying amount and net fair value of its assets and liabilities.

In light of the negative enterprise value, as determined in the valuation at December 31, 2022, DBS wrote down its assets to their net fair value.

Therefore, the Group recognized an impairment loss of NIS 275 million in 2022. The impairment loss was attributed to fixed assets, broadcasting rights, intangible assets, prepaid expenses, and rights of use in leased assets, as set out below, and was included in depreciation, amortization, and impairment expenses and in general operating expenses in the statement of income.

Presented below are details regarding DBS's enterprise value, the net fair value of assets and liabilities, as determined by an external appraiser, and recognized impairment losses:

	Enterprise value of DBS (by the DCF method)	Net fair value of DBS assets and liabilities	Net carrying amount of DBS assets and liabilities, before impairment recognition	Impairment loss
	NIS million	NIS million	NIS million	NIS million
As of December 31, 2022 and for the three months ended on the same date (audited)	**(103)**	**(88)**	**(18)**	**(70)**
As of September 30, 2022 and for the three months ended on the same date (unaudited)	(149)	(81)	(20)	(61)
As of June 30, 2022 and for the three months ended on the same date (unaudited)	(152)	(115)	(36)	(79)
As of March 31, 2022 and for the three months ended on the same date (unaudited)	(282)	(125)	(60)	(65)
Total impairment recognized in the year 2022				**(275)**
As of December 31, 2021 and for the year ended on the same date (audited)	(271)	(109)		(288)

Allocation of impairment loss to DBS assets:

	2022	2021	2020
	NIS million	NIS million	NIS million
Broadcasting rights – less rights utilized *	**149**	146	170
Fixed assets **	**76**	91	112
Intangible assets **	**45**	48	42
Other receivables (prepaid expenses) *	**3**	4	-
Rights of use of leased assets **	**2**	(1)	-
Total impairment recognized	**275**	288	324

* The expense was presented under general operating expenses.

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

It should be noted that the valuation of the value in use for DBS is sensitive to the net cash flow in the representative year in general, and to the average revenue per user (ARPU) and number of users at the end of the range of the forecast in particular. A change of NIS 1 in ARPU throughout the forecast years (and in the terminal year) results in a change in the enterprise value amounting to NIS 79 million, and a change of 5,000 users throughout the forecast years (and in the terminal year) results in a change in the enterprise value amounting to NIS 115 million.

Below is information about DBS's method for measuring the fair value (at Level 3) of the assets which were impaired as set out above:

<u>Broadcasting rights</u>: Measurement of the fair value of broadcasting rights took into account legal restrictions on their sale and based on the production stage, the probability of sale, and the expected rate of return on the investment in them.

<u>Fixed assets</u>: The fair value of fixed asset items that are available for sale to a market participant (mainly converters) is based on their estimated selling value on the valuation date less selling costs.

<u>Intangible assets</u>: Material fair value was not attributed to the intangible assets of DBS, since most of the software and licenses of DBS were specially adapted to DBS, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

Rights of use of leased assets: The fair value of right-of-use assets is affected by the ability to lease the asset underlying the lease to a third party, the lease fees of the property on the market, and the exit penalties in the lease contract.

Other receivables (prepaid expenses) – Material fair value was not attributed to prepaid expenses of DBS for maintenance of its systems, since most of the maintenance agreements were uniquely adapted to DBS, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

10.6 Impairment in the Bezeq International services segment (ISP, international communications and NEP services and ICT solutions)

At the end of 2022, Bezeq International revised its forecasts for the coming years, taking into account trends and changes in its operating environment. The value in use for the Bezeq Group of the Bezeq International services cash-generating unit was calculated as at December 31, 2022 by discounting future cash flows (DCF method) based on a five-year forecast of cash flows from operations from the end of 2022 with the addition of the salvage value (representative year).The nominal cost of capital taken into account for the valuation is 10.3% (after and before tax) (2021 – 8.5%). In addition, a terminal growth rate of 3% was assumed (2021 – 1%).

The cash flow forecast was based, inter alia, on Bezeq International's performance in recent years and assessments regarding future trends in the markets in which it operates (competition, price levels, regulation and technological developments).

The revenue forecast is based on assumptions that Bezeq International's Internet subscriber base, and its revenues from these subscribers, would be significantly adversely affected by the Ministry of Communication's decision to cancel the separation between broadband Internet service and ISP service, as detailed in Note 12.3 below, including assumptions regarding subscribers that do not use ISP services, assumptions regarding Bezeq International's activity in the international communications market, and assessments regarding the development of its activity in the business communications services market, which includes public cloud activity, and assumptions regarding international communications operations.

Operating, selling, marketing and investment costs were adjusted for the scope of operations in the segment, and the forecasts included in this respect assumptions regarding the decrease in the number of employees of Bezeq International and the associated salary expenses, as well as assumptions regarding the development of Internet traffic costs (retail and wholesale rates and the development of Internet television broadcasts, in general, and the expected migration of DBS from satellite television broadcasting to Internet television broadcasting, in particular).

These assumptions, and mainly the significant changes foreseen in Bezeq International's Internet operations, have led to expectations of operating losses and negative cash flows in the coming years.

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

	Enterprise value of Bezeq International (by the DCF method)	Net fair value of Bezeq International assets and liabilities	Net carrying amount of Bezeq International assets and liabilities, before impairment recognition	Impairment loss
	NIS million	NIS million	NIS million	NIS million
As of December 31, 2022 and for the three months ended on the same date (audited)	**(166)**	**(22)**	**2**	**(24)**
As of September 30, 2022 and for the three months ended on the same date (unaudited)	(684)	44	69	(25)
As of June 30, 2022 and for the three months ended on the same date (unaudited)	(692)	(2)	19	(21)
As of March 31, 2022 and for the three months ended on the same date (unaudited)	(174)	(15)	19	(34)
Total impairment recognized in the year 2022				**(104)**
As of December 31, 2021 and for the year ended on the same date (audited)	(196)	(70)		(122)

The valuation is sensitive to the net cash flow in the representative year in general, and to the intensity of changes in Internet activity in particular (users, ARPU, and traffic costs).

The valuation was prepared by an external appraiser. Based on the valuation as described above, the enterprise value of Bezeq International services as at December 31, 2022 amounted to a negative NIS 166 million (as at December 31, 2021, the total enterprise value was a negative NIS 196 million). Given the negative enterprise value, the value of Bezeq International's non-current assets as at December 31, 2022 was set at the higher of their fair value net of costs to sell and zero. The fair value of Bezeq International's assets net of costs to sell as at December 31, 2022 is a negative NIS 22 million. Accordingly, the Group recognized in 2022 an impairment loss amounting to NIS 104 million.

Allocation of impairment loss to assets of Bezeq International:

	2022	2021	2020
	NIS million	NIS million	NIS million
Fixed assets and intangible assets	**71****	75**	154
Short-term and long-term prepaid expenses	**21***	28*	21
Rights of use of leased vehicle assets	**-****	2**	3
Long-term prepaid expenses for capacities	**12****	17**	129
Total impairment recognized	**104**	122	307***

* The expense was presented under general operating expenses.

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

*** Presented under the item "impairment loss" in the statement of income for 2020.

Below is information on Bezeq International's method for measuring the fair value (at Level 3) of the assets less costs to sell:

<u>Fixed assets</u> – The fair value of fixed assets that are available for sale to a market participant was based on the cost approach, which takes into account the cost of replacement with new

equipment less costs of physical wear and tear and technological obsolescence less costs required for making the sale.

Intangible assets – Material fair value was not attributed to intangible assets, since most of the software and licenses of Bezeq International were specially adapted to Bezeq International, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

International capacity – In light of the nature of the agreements that were signed, which allow the assignment of these rights only to the Company or to a fellow subsidiary of Bezeq International, which are not considered a market participant (third party) for the purpose of calculating fair value according to IFRS 13, these right have no fair value.

Short- and long-term prepaid expenses – Material fair value was not attributed to prepaid expenses for maintenance of Bezeq International's systems, as the majority of the maintenance agreements were specially adapted to Bezeq International, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

Rights of use of leased assets – The fair value of right-of-use assets is affected by the ability to lease the asset underlying the lease to a third party, the lease fees of the asset on the market, and the exit penalties in the lease contract.

11. Deferred Expenses and Non-current Investments

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Net subscriber acquisition asset (see 11.1 below)	**156**	151
Deferred expenses (see 11.2 below)	**13**	18
Bank deposit for loans to Company employees (see 11.3 below)	**33**	36
Derivatives	**29**	16
Investments in equity-accounted investees	**-**	5
	231	226

11.1 Subscriber acquisition assets

	Subscriber acquisition assets
	NIS million
Cost	
Balance as at January 1, 2021	477
Additions	131
Disposals	(129)
Balance as at December 31, 2021	479
Additions	**127**
Disposals	**(234)**
Balance as at December 31, 2022	**372**
Amortization and impairment losses	
Balance as at January 1, 2021	312
Depreciation	145
Disposals	(129)
Balance as at December 31, 2021	328
Depreciation	**122**
Disposals	**(234)**
Balance as at December 31, 2022	**216**
Carrying amount	
January 1, 2021	165
December 31, 2021	151
December 31, 2022	**156**

11.2 The balance of deferred expenses is presented net of impairment loss. For information on impairment of assets of Bezeq International see Note 10.6).

11.3 Bank deposit for loans to Company employees with no maturity date.

12. Investees

12.1 Subsidiaries

12.1.1 The place of incorporation of the companies held directly by the Company is Israel. Information about companies held directly by the Company:

Pelephone Communications Ltd.

DBS Satellite Services (1998) Ltd. (see Note 12.2 below)

Bezeq International Ltd. (see Note 12.3 below)

Bezeq Online Ltd.

As at December 31, 2022 and December 31, 2021, the Company holds 100% of the interests in the capital of the subsidiaries listed above. The Company's subsidiaries have investments in other subsidiaries that are not material.

12.1.2 Structural change in the subsidiaries

Pursuant to previous resolutions passed by the Company and by the subsidiaries Bezeq International and DBS ("the Subsidiaries")regarding the structural change plan, according to which Bezeq International's consumer activity was to be merged with DBS and Bezeq International's ICT activity was to be spun off into a new wholly owned subsidiary of the Company ("the Merger/Spin-off Plan"), on March 16, 2022 the Company's Board of Directors decided, pursuant to resolutions passed on that day by the Subsidiaries' boards of directors, to cancel the Merger/Spin-off Plan, and to approve an alternative outline, whereby Bezeq International's ISP activity in the consumer sector would be reduced following the cancellation of the separation of broadband infrastructure service and Internet access (ISP)service, and ISP activity would be established at DBS for the sale of "Triple Play" packages to customers ("the Alternative Outline"), with a view to attaining, as far as possible, the strategic, business and financial objectives that formed the basis for the decision to promote the structural change, namely, adapting the activity to the structure of the industry and to the evolving regulation, focusing on increasing revenues and growth, and enhancing operational synergy and efficiency.

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

The subsidiary Bezeq International has begun implementing the Alternative Outline, while the subsidiary DBS has begun selling Triple Play packages, which combine Bezeq's fiber-optics and television. In addition, agreement has been reached regarding voluntary retirement of employees that would enable reducing expenses.

12.2 DBS Satellite Services (1998) Ltd.

12.2.1 DBS is a wholly owned subsidiary (100%) of the Company. The Company consolidates the financial statements of DBS as from March 23, 2015.

The Company has an assessment agreement and taxation decision from the Tax Authority regarding financial income, shareholder loans, the losses of DBS, and its merger (see also Note 7.2).

12.2.2 As at December 31, 2022, DBS has accumulated since its establishment a loss of NIS 8,237 million, an equity deficit of NIS 32 million and a working capital deficit of NIS 199 million. In addition, as at December 31, 2022, DBS has off-balance sheet liabilities amounting to a cumulative NIS 834 million for the purchase of space segments, content, fixed assets and other assets, up to and including 2026 (see Note 18).

Based on the valuation performed as at December 31, 2022, DBS's total enterprise value is a negative NIS 103 million (compared with a negative enterprise value of NIS 271 million as at December 31, 2021) (see Note 10.5), due, among other things, to

DBS forecasts of the continuing accumulation of operational losses in 2023 and onwards.

In March 2023, the Company's Board of Directors approved a credit facility or capital investment for DBS, totaling NIS 40 million, for 15 months, starting from January 1, 2023 until March 31, 2024, in lieu of previous commitments, the most recent of which was given in November 2022. It should be noted that during 2022, DBS did not utilize the credit facilities provided by the Company.

The management of DBS believes that the financial resources at its disposal, which include, among others, the continuation of the existing policy of a working capital deficit and the credit facility and the capital investments by the Company, will be adequate for the operational needs of DBS until December 31, 2023.

12.2.3 See Note 10.5 regarding an impairment of assets recognized by DBS in the financial statements as at December 31, 2022.

12.3 Bezeq International Ltd.

12.3.1 Cancellation of the separation of broadband infrastructure services and Internet access (ISP) services

On June 20, 2021, the Company received the ruling of the Minister of Communications regarding the separation of broadband infrastructure service and Internet access (ISP) service, including with respect to private customers. According to the ruling, as of the determining date, the prohibition on infrastructure owners offering ISP service to private customers will be revoked. In addition, it will be prohibited to sell services in a split configuration, but customers who currently receive service in a split/semi-split configuration may continue using Internet services in this way. It should be noted that the cancellation of the separation as aforesaid is expected to lead to a reduction in the phenomenon of subscribers who do not use ISP services, as also noted in the Ministry of Communication's publication.

The process, which is expected to adversely affect Bezeq International's results, was taken into account in the cash flow forecast used for the impairment assessment as described in Note 10.6 above.

12.3.2 See Note 10.6 regarding an impairment of assets recognized by Bezeq International in the financial statements as at December 31, 2022.

12.3.3 In February 2022, Bezeq International purchased 77% of the shares of CloudEdge Ltd., which specializes in providing public cloud computing solutions for Microsoft products. The goodwill created by the purchase was fully allocated to CloudEdge operations.

12.3.4 See Note 16.5.4 regarding the voluntary retirement plan at Bezeq International, which was approved by the Board of Directors of Bezeq International.

13. Debentures, Loans and Borrowings

13.1 Composition:

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Current liabilities		
Current maturities of debentures	**835**	897
Current maturities of loans	**86**	83
	921	980
Non-current liabilities		
Debentures	**4,216**	5,259
Loans	**2,136**	1,823
	6,352	7,082
Total debentures, loans and borrowings	**7,273**	8,062

13.2 Debenture and loan terms

	December 31, 2022		December 31, 2021		
	Carrying amount	Nominal value	Carrying amount	Nominal value	Interest rate range
	NIS million	NIS million	NIS million	NIS million	
Bank loans:					
Unlinked loans at fixed interest	**707**	**706**	712	711	3.2% - 4.3%
Unlinked loans at variable interest	**698**	**700**	300	300	Prime + 0.11% – Prime + 0.53%
Total bank loans	**1,405**	**1,406**	1,012	1,011	
Loans from financial institutions:					
Unlinked loans at fixed interest	**817**	**817**	894	894	3.22% - 4%
Total loans from financial institutions	**817**	**817**	894	894	
Total loans	**2,222**	**2,223**	1,906	1,905	
Debentures issued to the public					
Series 6 – linked to the CPI, at fixed interest	**-**	**-**	540	500	3.70%
Series 7 – unlinked, at variable interest	**-**	**-**	36	36	MAKAM (T-bill) for one year +1.4%
Series 9 – unlinked, at fixed interest	**1,616**	**1,597**	2,176	2,145	3.65%
Series 10 – linked to the CPI, at fixed interest	**861**	**794**	912	882	2.20%
Series 11 – unlinked, at fixed interest	**838**	**835**	839	835	3.20%
Series 12 – linked to the CPI, at fixed interest	**1,330**	**1,269**	1,257	1,269	1.70%
Series 13 – unlinked, at fixed interest	**198**	**200**	198	200	2.79%
Series 14 – linked to the CPI, at fixed interest	**208**	**200**	198	200	0.58%
Total debentures issued to the public	**5,051**	**4,895**	6,156	6,067	
Total loans and debentures	**7,273**	**7,118**	8,062	7,972	

* On January 23, 2022, the Company made, at its initiative, partial early repayment of approximately NIS 370 million par value of Debentures (Series 9) of the Company. In addition, the Company's Series 6 and 7 debentures were fully repaid on December 1, 2022.

13.3 Loans and debentures issued by the Company

Below are details of the terms undertaken by the Company for the loans that were received and the debentures that were issued:

13.3.1 For the Company’s overall debt, standard grounds were included for immediate repayment of the debentures and loans, including events of breach, default, dissolution or receivership proceedings, etc. In addition, a right was established to call for immediate repayment if a third-party lender calls for immediate repayment of the Company's debts to it, due to an event of default, in an amount exceeding the amount determined.

In addition, the Company has undertaken not to create additional liens on its assets unless the debenture holders give their prior consent, in a special resolution, permitting the Company to create the lien in favor of the third party, or the Company creates at the same time liens in favor of all the lenders (negative lien). The lien includes exceptions, inter alia regarding a lien on assets that will be purchased or expanded by the Company, if the undertakings underlying the lien are created for the purchase or expansion of those assets, and regarding a token lien.

13.3.2 For the Company’s public debentures, for bank loans with an outstanding balance of NIS 1.4 billion as at December 31, 2022, and for loans from financial institutions with an outstanding balance of NIS 0.8 billion as at December 31, 2022, the Company has undertaken that if the Company makes an undertaking towards any entity in respect of compliance with financial covenants, the Company will also provide the same undertaking to these lenders (subject to certain exceptions).

13.3.3 For the Company’s public debentures, and for loans from financial institutions amounting to NIS 0.8 billion, grounds were included for immediate repayment if telecommunications ceases to be the Group's core activity.

13.3.4 For the Company's public debentures, and for loans from financial institutions amounting to NIS 0.8 billion, the Company has undertaken towards the lenders to act so that, to the extent under its control, the rating of the debentures will be monitored by at least one rating agency, so long as there are outstanding debentures of the relevant series or an outstanding balance of loans, as the case may be.

13.3.5 For Debentures (Series 9-14),and for loans from financial institutions amounting to NIS 0.8 billion, grounds were included for immediate repayment in the event of a change in control, following which the Company's Controlling Shareholders (as defined in the agreements) will cease to be its controlling shareholders and control will be transferred to a third party ("the Transferee"), with the exception of: (1) transfer of control to a Transferee that received approval for control of the Company in accordance with the provisions of the Communications Law and/or the Communications Order; or (2) transfer of control where the Transferee holds control together with the Company's Controlling Shareholders, provided that the holding rate of the Company's Controlling Shareholders in shares of the Company does not fall below 50.01% of the total shares of the Company held by the controlling shareholders together; or (3) a change in control to be approved by a meeting of the debenture holders/the lenders.

13.3.6 In addition, for Debentures (Series 9-14),and for loans from financial institutions amounting to NIS 0.8 billion, grounds were included for immediate repayment of the debentures in the event that a going concern qualification is included in the Company's financial statements for two consecutive quarters, due to a material deterioration in the Company's business compared with its situation at the time of the issue, where there is real concern that the Company will not be able to repay the debentures/loans on time (as set out in section 35I1(a)(1) of the Securities Law).

As at December 31, 2022 and the date of approval of the financial statements, the Company was in compliance with all its obligations, there were no grounds for calling for immediate repayment, and financial covenants were not set as detailed above.

13.4 Reportable credit

Below is information about the Group's reportable credit, in accordance with Legal Bulletin No. 104-15: Reportable Credit Events, issued by the ISA on December 30, 2011, as amended on March 19, 2017 (according to the Group's data, debentures series and loans amount to more than NIS 800 million). The debentures were issued by the Group without a specific purpose. The debenture principal is repayable in equal installments in the number specified in the table, with the interest payable on the outstanding loan principal.

	Debentures Series 9	**Debentures Series 10**	**Debentures Series 11**	**Debentures Series 12**
Debenture issue date	15.10.2015	15.10.2015	10.7.2019	10.7.2019
Final repayment date	1.12.2025	1.12.2025	1.6.2030	1.6.2030
Type of loan	Unlinked shekel, at fixed interest	CPI-linked shekel, at fixed interest	Unlinked shekel, at fixed interest	CPI-linked shekel, at fixed interest
Original amount of the loan or par value (NIS million)	2,145	882	835	1,269
Balance of revalued principal (plus interest payable) as at December 31, 2022 (NIS million)	1,602	859	837	1,350
Number of principal payments per year	1	1	1	1
Principal payments as from	2022	2022	2026	2026
Number of interest payments per year	2	2	2	2
Interest rate as at December 31, 2022	3.65%	2.20%	3.20%	1.70%
Fair value of the liability as at December 31, 2022 (NIS million)	1,587	872	788	1,326
Effective interest rate embedded in fair value as at December 31, 2022	4.22%	1.37%	4.48%	2.05%
Effective interest rate embedded in fair value as at December 31, 2021	0.92%	-1.63%	1.82%	-0.73%
Special conditions	See Note 13.3	See Note 13.3	See Note 13.3	See Note 13.3
Right to early repayment	Yes	Yes	Yes	Yes

13.5 Change in liabilities arising from financing activities

	Debentures (including accrued interest)	Loans (including accrued interest)	Total
	NIS million	NIS million	NIS million
Balance as at January 1, 2021	6,307	2,117	8,424
Changes due to cash flows from financing activities			
Proceeds from the issue of debentures and receipt of loans, less transaction costs	395	300	695
Repayment of debentures and loans	(567)	(500)	(1,067)
Interest paid	(186)	(68)	(254)
Total net cash provided by financing activities	(358)	(268)	(626)
Financial expenses recognized in the statement of income	223	63	286
Balance as at December 31, 2021	6,172	1,912	8,084
Changes due to cash flows from financing activities			
Proceeds from the issue of debentures and receipt of loans, less transaction costs	**-**	**400**	**400**
Repayment of debentures and loans	**(1,237)**	**(83)**	**(1,320)**
Interest paid	**(165)**	**(67)**	**(232)**
Total net cash (used in) or provided by financing activities	**(1,402)**	**250**	**(1,152)**
Financial expenses recognized in the statement of income	**293**	**69**	**362**
Balance as at December 31, 2022	**5,063**	**2,231**	**7,294**

14. Trade and Other Payables

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Trade payables		
Open accounts and expenses payable *	**901**	955
Total trade payables	**901**	955
Other current payables, including derivatives		
Liabilities to employees and other liabilities for wages and salaries	**367**	352
Deferred income	**171**	158
Liability for payment in respect of frequencies **	**-**	87
Institutions	**92**	110
Derivatives	**1**	35
Accrued interest	**23**	22
Current tax liabilities	**12**	5
Other	**23**	24
Total other current payables, including derivatives	**689**	793
Total trade payables and other current payables	**1,590**	1,748
Other non-current payables		
Deferred income from a government grant**	**53**	65
Deferred income	**76**	69
Other	**22**	8
Total other non-current payables	**151**	142
Total trade payables and other current and non-current payables	**1,741**	1,890

* Of which, trade payables that are related parties and interested parties as at December 31, 2022 amount to NIS 2 million (December 31, 2021 – NIS 4 million).

** See Notes 10.1 and 3.14 regarding the frequencies tender and a government grant.

15. Provisions

	Customer claims	Additional legal claims	Dismantling and clearing of cellular sites and warranty	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2022	**64**	**-**	**54**	**118**
Provisions created	**43**	**82**	**3**	**128**
Provisions used	**(20)**	**(7)**	**-**	**(27)**
Provisions cancelled	**-**	**-**	**(14)**	**(14)**
Balance as at December 31, 2022	**87**	**75**	**43**	**205**
Presented in the statement of financial position as:				
Current provisions	**87**	**75**	**6**	**168**
Non-current provisions	**-**	**-**	**37**	**37**
	87	**75**	**43**	**205**

* For further information about legal claims, see Note 17.

16. Employee Benefits

Employee benefits include termination benefits, post-employment benefits, other long-term benefits, and short-term benefits. See also Note 26 regarding share-based payment.

16.1 Composition of liabilities for employee benefits

		2022	2021
	Note	NIS million	NIS million
Current liabilities for:			
Vacation		**108**	126
Sick pay	16.4	**114**	150
Provision for early retirement plan at Bezeq	16.5.1	**93**	98
Provision for early retirement for employees transferred from the civil service at Bezeq	16.5.2	**10**	100
Provision for efficiency plan and early retirement at Pelephone, Bezeq International and DBS	16.5.3-16.5.5	**67**	29
Current maturities of retirement benefits	16.3.3	**7**	7
Total current liabilities for employee benefits		**399**	510
Non-current liabilities for:			
Liability for retirement benefits	16.3.3	**107**	139
Severance pay, net (see composition below)	16.3.1	**52**	60
Early notice and pension	16.3.2	**28**	33
Provision for efficiency plan and early retirement at Pelephone, Bezeq International and DBS	16.5.3	**14**	11
Total non-current liabilities for employee benefits		**201**	243
Total liabilities for employee benefits		**600**	753
Composition of liability for severance pay:			
Obligation for severance pay		**201**	223
Fair value of plan assets		**(149)**	(163)
		52	60

16.2 Defined contribution plans

Liabilities for employee benefits at retirement age in respect of the period of their service in the Company and its subsidiaries, and for employees to which Section 14 of the Severance Pay Law, 1963 ("the Severance Pay Law") applies, are covered in full by regular payments to pension funds and insurance companies

	2022	2021	2020
	NIS million	NIS million	NIS million
Deposits recognized as an expense for a defined contribution plan	**211**	218	221

For certain employees, the Group has an obligation to pay severance in excess of the amount accumulated in the compensation fund which is in the employees' name. See section 16.3.1 below.

16.3 Defined benefit plans

Obligations for defined benefit plans in the Group include the following:

16.3.1 The severance pay obligation for the balance of the obligation not covered by contributions and/or insurance policies in accordance with the existing labor agreements and the Severance Pay Law. For this part of the obligation, there are deposits in the name of Group companies in pension funds and insurance companies. The deposits in pension funds and insurance companies include accrued linkage differences and interest. Withdrawal of the reserve monies is contingent upon fulfillment of the provisions in the Severance Pay Law.

16.3.2 An obligation in accordance with the employment agreements of some of the senior employees in the Group for payment of a benefit for notice upon severance. The Company also has an obligation to a number of senior employees who are entitled to early retirement terms (pension and retirement grants) which are not dependent on the existing retirement agreements for all employees

16.3.3 Company retirees receive, in addition to pension payments, benefits which consist mainly of a holiday gift (linked to the dollar exchange rate), financing for the upkeep of retiree clubs and social activities The Company's liability for these costs accumulates in the employment period. The Company’s financial statements include the liabilities for expected costs in the severance period.

16.4 Provision for sick leave

The financial statements include a provision in respect of redemption and use of sick leave. The right to accumulate sick leave was taken into account for all employees in the Group. Only employees eligible under the terms of the employment agreement may redeem sick leave. The provision was computed on the basis of an actuarial calculation, including the assumption of positive accumulation of days by most of the employees and use of days by the last in first out (LIFO) method.

16.5 Early retirement and termination benefits

16.5.1 According to the collective agreement of December 2006 between the Company and the employees union and the Histadrut – New General Federation of Labor, and according to Amendment No. 6 to the agreement from December 2020, the Company was entitled, at its discretion, to terminate the employment of up to 50 long-time tenured employees in each of the years 2021-2026 (the Company’s right is cumulative over the years), and this is in addition to a retirement quota of approximately 300 tenured employees remaining from the earlier agreement, whose employment the Company may terminate at the end of the current period of the agreement).

The Company recognizes expenses for early retirement when the Company is committed demonstrably, without realistic possibility of withdrawal, to a defined plan to terminate employment before the defined date, according to a defined plan. The collective agreement allows the Company to dismiss employees, but does not create a demonstrable commitment without realistic possibility of withdrawal. Accordingly, the expenses for early retirement are recognized in the Company's financial statements at the approval date of the plan.

On December 28, 2022, the Company's Board of Directors approved, as part of the implementation of the efficiency plan in the Company, the early retirement on pension of 80 long-time tenured employees, at a total cost of up to NIS 95 million. In light of the foregoing, the Company recorded in its financial statements for the fourth quarter of 2022 an expense of NIS 92 million.

16.5.2 On December 16, 2018, an early retirement plan was approved, until the end of 2021, for all employees of the Company who were transferred to the Company from the Ministry of Communications (94 employees). The balance of the provision for the retirement liability for these employees as at December 31, 2022 is NIS 10 million, payable in 2023.

16.5.3 The labor relations at Pelephone are regulated by the collective agreement signed between Pelephone and the Histadrut -General Federation of Labor in Israel/Union of Cellular, Internet and High-Tech Workers ("the Labor Federation") and Pelephone's workers committee. The agreement applies to all Pelephone employees, except senior managers and certain employees in predefined roles

On December 6, 2022, a renewal of the existing collective agreement was signed at Pelephone. The agreement includes salary increments and bonuses, improved fringe benefits, voluntary retirement and elimination of the labor disputes declared by the Histadrut – General Federation of Labor and workers' representative committees, while maintaining industrial peace during the validity period of the agreement with respect to the matters regulated therein, starting from December 6, 2022 until December 31, 2025 ("the Agreement").

In the framework of the Agreement, all open labor disputes were removed, except for the issue concerning the appointment of an employees' representative to Pelephone's Board of Directors, which, as stipulated in the Agreement, is still to be deliberated.

In December 2022, the Group recognized one-time expenses of NIS 32 million, comprising expenses for employee retirement and for one-time signing bonuses.

16.5.4 On October 3, 2022, the Board of Directors of Bezeq International approved the effectuation of the understandings reached with the Labor Federation and with the workers' representative committee of Bezeq International (in the framework of negotiations for the regulation of workers' rights) concerning the voluntary retirement plan for Bezeq International employees during the years 2022-2024 (hereinafter: "the voluntary retirement plan").

Further to the approval of the voluntary retirement plan, on December 6, 2022, the Bezeq International management, the Labor Federation and the workers' committee signed a new collective agreement for Bezeq International, to be in force until the end of 2025.

In the agreement that was signed, the Bezeq International management and the workers' committee reached understandings regarding the process of voluntary retirement and the provision of suitable conditions to the retiring employees, including a retirement bonus of 180%. Additionally, it was agreed on salary increments of 9% during the agreement period (3% each year), a commitment to conduct negotiations regarding the demand of the workers' committee to appoint an employees' representative to the companies' board of directors, greater participation in meals, the grant of a signing bonus and other rights. The estimated cost of the voluntary retirement plan and the estimated cost of the agreement with the workers' committee amount to NIS 70 million and NIS 28 million, respectively. From these amounts the Group recognized expenses of NIS 70 million for 2022 in its financial statements.

16.5.5 DBS entered into a collective agreement with the National Labor Federation and the workers' committees in the Company. The balance of the provision for early retirement in respect of this agreement as at December 31, 2022 is NIS 14 million.

16.6 Actuarial assumptions

The main actuarial assumptions for defined benefit plans at the reporting date are as follows:

16.6.1 Mortality rates and future declines in mortality rates are based on the rates published in Pension Circular 2022-9-18 of the Capital Market Authority.

16.6.2 Churn rates were determined on the basis of the past experience of the Company and the subsidiaries, distinguishing between different employee populations and taking into account the number of years of employment. The churn rates include a distinction between severance with entitlement to full termination compensation and severance without entitlement to full termination compensation.

16.6.3 The discount rate (nominal) is based on the yield on linked high-quality corporate debentures with maturity dates approximating those of the gross obligation.

The main discount rates are as follows:

	December 31, 2022	**December 31, 2021**
	Average discount rate	**Average discount rate**
Severance pay	**5.2%**	3%
Retirement benefits	**5.2%**	3.3%

16.6.4 Assumptions regarding salary increments for calculation of the liabilities were made on the basis of the management's assessments, distinguishing between the groups of employees. The main assumptions (in nominal terms) regarding salary increases of the main employee groups are as follows:

	Annual salary increase assumptions
Long-time tenured employees of the Company	The calculation was based on specific assumptions regarding an expected salary increase for 2023 through to 2026, arising from the collective agreement signed in August 2015 and in December 2020.
New tenured employees of the Company	Average adjustment of 5.8% for young employees, decreasing gradually to 2.7% at the age of 66.
Non-tenured employees of the Company	6.4% for young employees, decreasing gradually to 0.1%, 2% (in real terms) for senior employees
Pelephone, Bezeq International and DBS employees	Salary increase rates were determined based on the collective agreements signed. The annual average salary increase is between 1%-3%.

16.6.5 Average weighted life of liabilities for the main post-employment benefits:

	December 31, 2022	December 31, 2021
	Years	Years
Severance pay	**11**	12
Retirement benefits	**14**	16

16.7 Sensitivity analysis for key actuarial assumptions

Analysis of the possible effect of changes in the main actuarial assumptions on liabilities for employee benefits: The calculation was for each separate assumption, assuming that the other assumptions remained unchanged.

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Discount rate – addition of 0,5%	**(20)**	(32)
Rate of future salary increases – addition of 0.5%	**22**	33
Employee churn rate – addition of 5%	**5**	(14)
Mortality rate assumption – 5% increase	**(2)**	(3)

17. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, among other things, on legal opinions as to the likelihood of success of the claims, the financial statements include adequate provisions (as described in Note 15), where provisions are required to cover the exposure arising from the legal claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond these provisions) as at December 31, 2022 for legal claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 2.5 billion. There is also additional exposure of NIS 2.5 billion for claims, the chances of which cannot yet be assessed.

In addition, motions to certify 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 nominal.

For updates subsequent to the reporting date, see section 17.2 below.

17.1 Following is are details of the Group's contingent liabilities as at December 31, 2022, classified into groups with similar characteristics:

Claims group	Nature of the claims	Balance of provision	Additional exposure	Exposure for claims whose chances cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions (and claims by virtue thereof) on grounds of unlawful collection of payment and faulty service provided by the Group companies.	**87**	**1,809**	**671**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or investments.	(1) **75**	(1)**685**	(2) **1,808**
Miscellaneous	Other legal claims, including claims in tort (excluding claims for which the insurance coverage is not disputed), real estate, infrastructure, trade payables, etc.	**-**	**26**	**4**
Total legal claims against the Company and subsidiaries(3)		**162**	**2,520**	**2,483**

(1) A provision balance was recognized as an indemnification asset in the full amount of the provision, in view of the existence of insurance coverage. The asset was presented under the item "Other receivables" in the statement of financial position as at December 31, 2022, pursuant to the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets." The additional exposure is estimated to be approximately NIS 612 million. The claim was concluded after the date of the financial statements.

(2) The amount includes two motions for certification of a class action for 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 shareholder at the time, regarding the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed in view of the criminal proceeding that is being conducted following the investigation by the Israel Securities Authority (as described in Note 1.3) and at the request of the Attorney General, until July 20, 2023.

(3) See also Note 6.6.

17.2 Subsequent to the date of the financial statements, a motion for certification of a class action was filed against the Group companies, without a financial assessment, as well as claims in the aggregate amount of NIS 40 million. As of the date of approval of the financial statements, the chances of said claims cannot as yet be assessed. In addition, see Note 17.1 (1) above.

18. Commitments

18.1 DBS has agreements for the acquisition of space segments (as detailed in Note 18.2 below), content, and copyrights, up to the end of 2026 and onwards. The amounts of future commitments for these contracts as at December 31, 2022 are as follows:

Year ended December 31	Space segments	Content and copyright	Total
	NIS million	NIS million	NIS million
2023	**88**	**223**	**311**
2024	**88**	**105**	**193**
2025	**67**	**21**	**88**
2026	**11**	**-**	**11**
	254	**349**	**603**

18.2 In accordance with the agreement with Space Communications Ltd. ("Spacecom") of 2013, as amended (including an amendment from January 2023), DBS leases space segments in the Amos satellites ("the Spacecom Agreement").

In accordance with the Spacecom Agreement, DBS leases space segments on the Amos 3 satellite (which is expected to end its service at the beginning of 2026), as well as on the Amos 7 satellite, in which Spacecom has the right to lease out space segments under an agreement with the holder of rights in this satellite, which is leased to DBS until February 2025 (or until the end of its service, whichever the earlier), with the lease on the Amos 7 satellite, starting from September 2024, conditional on Spacecom receiving approval from the Ministry of Communications.

Leased space segments: Under the Spacecom Agreement, and subject to unavailability events, until the end of the period of lease of Amos 7, the Company will lease 12 space segments from Spacecom, according to the distribution among the relevant satellites as determined in the agreement for the different periods, after which DBS will lease ten space segments on Amos 3. The agreement also establishes the positioning of the leased backup space segments in the agreement period, under the terms and within the limitations prescribed in the agreement.

Early termination of the agreement: Under the Spacecom Agreement, DBS is entitled to give notice of early termination of the Spacecom Agreement without cause, subject to advance notice of 12 months and payment of the consideration for the lease of Amos 7 with the addition of a partial payment for the remainder of the lease of space segments on Amos 3.

18.3 The cellular infrastructure equipment in the UMTS/HSPA, LTE and 5G networks is manufactured by LM Ericsson Israel Ltd. ("Ericsson"), which serves as a supplier of Pelephone for the deployment of a 4G radio (LTE) and 5G network. Ericsson is also a material supplier of Pelephone for microwave transmission. Pelephone has multi-year agreements for maintenance, support and upgrade of software for the UMTS/HSPA network and an agreement for acquisition of 4G (LTE) and 5G network equipment with Ericsson, and Pelephone believes that it could be dependent on Ericsson for network support and expansion. As at December 31, 2022, the Company has commitments with Ericsson for the acquisition of terminal equipment and the receipt of services as aforesaid, for a total of NIS 7 million.

18.4 In April 2021, a new agreement came into effect between Pelephone and Apple Distribution International ("Apple") for the purchase and resale of iPhone handsets, in which Pelephone committed to purchase a minimum quantity of iPhone handsets per year, for an additional period of three years, at the manufacturer's prices on the actual date of the purchases.

18.5 For purposes of its operations, Bezeq International purchases from service providers indefeasible rights of use of capacities (IRU). In the first quarter of 2021, Bezeq International signed an agreement with a provider extending the periods of use of the capacities until July 2030. The payments for the rights of use are made by Bezeq International in annual installments over the period of use of the capacities. The balance of the commitment under the agreement as at December 31, 2022 is USD 5.9 million (2021 – USD 10.1 million).

18.6 As at December 31, 2022, the Group companies have commitments for the acquisition of terminal equipment, fixed assets, intangible assets and other assets amounting to NIS 403 million.

18.7 Further to Note 9.4 above concerning deployment of the fiber optic network by the Company, in accordance with the provisions of section 14C of the Communications Law, following the amendment of the Company's license, the telecom companies, among them the Company and its subsidiaries Pelephone, DBS and Bezeq International, are required to pay a rate of 0.5% of their annual revenue during the deployment period, into the Incentive Fund. The Incentive Fund, managed by the Accountant General in the Ministry of Finance, is meant to encourage fiber deployment by participating in its funding in statistical areas that are not included among the deployment areas selected by the Company. The Communications Minister, with the consent of the Finance Minister and the approval of the Economic Affairs Committee, may change this rate.

18.8 For information about transactions with related parties, see Note 29.

19. Securities, Liens and Guarantees

The Group's policy is to provide tender, performance and legal guarantees. In addition, the Company provides bank guarantees, where necessary, for banking obligations of subsidiaries.

19.1 The Group companies provided guarantees of NIS 131 million in favor of the Ministry of Communications to secure the terms of their licenses (of which NIS 58 million is linked to the CPI).

19.2 The Group companies provided bank guarantees totaling NIS 218 million in favor of third parties (including a guarantee of NIS 120 million for the Sakia property – see Note 6.6 for details).

19.3 Restrictions on the creation of liens on assets of the Group companies

19.1.1 In accordance with the Company's license, the license may not be transferred, pledged or attached, in whole or in part. Any transfer, pledge or attachment of any of the license assets that is not explicitly permitted by the license, is subject to the approval of the Minister, who may, in special cases, permit the transfer of the license in conjunction with structural changes, if he is satisfied that the transferee license holder meets all the conditions that were met by the transferor. Furthermore, if a third party has rights in any of the assets used to provide the Company's services, the Company must ensure that the exercise of such rights does not impair the performance of the Company's obligations under the license.

19.1.2 In accordance with its cellular license, Pelephone is not permitted to sell, lease or pledge any of its assets used for the implementation of the license ("the License Assets"), without the consent of the Minister of Communications, given after he was satisfied that the exercise of the rights by the third party will not impair the services provided under the license, except for:

A. A pledge on any of the License Assets in favor of a bank operating lawfully in Israel, to receive bank credit, provided that Pelephone gives the Ministry of Communications notice regarding the pledge it intends to register, specifying that the pledge agreement includes a clause ensuring that in any event, exercise of the rights by the bank will not impair, in any way, the services provided under the license.

B. Sale of items of equipment when implementing an upgrade, including sale of equipment by the trade-in method.

C. Sale, lease, pledge or transfer of the License Assets to a holder of a cellular infrastructure license holder of which Pelephone is a customer.

19.1.3 In accordance with its license, Bezeq International is not permitted to sell, lease or pledge any of the assets required for ensuring the services of the license holder, without the consent of the Minister of Communications, given after he was satisfied that the exercise of the rights by the third party will not impair the services provided under the license. Notwithstanding the foregoing, Bezeq International may pledge any of the license assets in favor of a bank operating lawfully in Israel, to receive bank credit, provided that Bezeq International gives the Ministry of Communications advance notice regarding the pledge it intends to make, and that the pledge agreement includes a clause ensuring that the exercise of the rights by the bank will not impair the services provided under the license.

19.1.4 Regarding DBS's broadcasting license, the Communications Law and the license stipulate restrictions on the transfer, attachment and encumbrance of the license and of any of the license assets. The broadcasting license requires receiving the Minister's approval for certain changes in the holding of means of control in DBS and imposes reporting obligations with respect to the holders of means of control. There are also certain restrictions under the license on the performance of uplink operations ((transfer of broadcasts from DBS’s broadcasting center to the broadcasting satellite and implementation of setup and ancillary operation activities).

19.1 For information on the conditions to which the Company committed with respect to loans and borrowings, see Note 13.

20. <u>Equity</u>

20.1 Share capital

	December 31, 2022	December 31, 2021
	Number of shares	Number of shares
Authorized share capital	**2,849,485,753**	2,849,485,753
Issued and paid-up share capital	**2,765,566,594**	2,765,485,753

20.2 Dividends

20.2.1 **<u>Dividend distribution policy.</u>**

On March 13, 2023, the Company's Board of Directors decided to revise the dividend policy of the Company, so that the Company will distribute every six months, a dividend of 60% of the semi-annual profits (after tax) based on the Company’s consolidated financial statements, starting from the upcoming distribution (for the second half of 2022), and this in view of the steady improvement in the business results, and the continued decrease in the Company's debt, and based on the Company's forecasts regarding the business results for the coming years.

Additionally, the Company will strive to revise the dividend policy to include a distribution of 70% of the semi-annual profits (after tax) based on the Company's consolidated financial statements, subject to maintaining the Company's credit rating in the AA rating class.

Implementation of the dividend distribution policy is subject to the provisions of any law, including the distribution criteria prescribed by the Companies Law, while taking into account the expected cash flow, the Company's needs and obligations, its cash reserves, plans and position, as they may be from time to time, and subject to the approval of the General Meeting of the Company shareholders for each specific distribution, as provided in the Company’s Articles of Association.

Approval of the Company’s dividend policy as aforesaid does not obligate the Company to distribute a dividend to its shareholders, and each specific distribution will be considered on its own merits in accordance with the above terms of implementation of the dividend distribution policy. Furthermore, approval of the policy as aforesaid will not preclude the Company's Board of Directors from reviewing from time to time the dividend distribution policy to the Company's shareholders, taking into account, *inter alia*, the provisions of the law, the Company’s business position and plans as well as its capital structure, while maintaining a balance between ensuring the Company’s financial strength and stability, including its debt level and credit rating, and continuing to create value for the Company's shareholders by regular dividend distributions.

The Board of Directors sees great importance in maintaining a balance between ensuring the Company’s financial strength and stability, including retaining its current rating [AA] over time, and continuing to create value for the Company's shareholders by regular dividend distributions.

The Board of Directors was presented with the analysis and results of a professional study, the forecasts for the Company and the Group, as well as a sensitivity analysis in the event of an unforeseen deterioration in the business of the Company and the Group. After examining all of the above, the Board of Directors determined that this decision reflects the correct balance between these needs, as described above.

20.2.2 **<u>Dividend distribution.</u>**

A. On April 28, 2022, the General Meeting of the Company's shareholders approved (further to the recommendation of the Company's Board of Directors from March 22, 2022) the distribution of a cash dividend to the Company's shareholders totaling NIS 240 million (comprising 0.0867823 per share at the record date of the distribution). The dividend was paid on May 16, 2022.

B. On September 14, 2022, the General Meeting of the Company's shareholders approved (further to the recommendation of the Company's Board of Directors from August 9, 2022) the distribution of a cash dividend to the Company's shareholders totaling NIS 294 million (comprising 0.1063081 per share at the record date of the distribution). The dividend was paid on October 3, 2022.

C. On March 13, 2023 the Company's Board of Directors decided to recommend to the General Meeting of the Company's shareholders the distribution of a cash dividend to the Company's shareholders for a total of NIS 246 million. As of the date of approval of the financial statements, said dividend had not yet been approved by the General Meeting.

21. Revenues

	Year ended December 31		
	2022	2021	2020
	NIS million	NIS million	NIS million
Domestic fixed-line communications (Bezeq fixed-line)			
Internet infrastructure	**1,729**	1,562	1,537
Fixed-line telephony	**762**	891	981
Transmission and data communication	**897**	844	785
Cloud and digital services	**331**	318	288
Other services	**261**	230	222
	3,980	3,845	3,813
Cellular communications – Pelephone			
Cellular services and terminal equipment	**1,755**	1,606	1,550
Sale of terminal equipment	**604**	643	577
	2,359	2,249	2,127
Multichannel television – DBS	**1,277**	1,270	1,286
ISP, international communications and NEP services and ICT services – Bezeq International	**1,183**	1,186	1,217
Other	**187**	271	280
	8,986	8,821	8,723

21.1 Contract with a Customer Recognized over Time

On December 21, 2022, the Company and Partner Communications Ltd. ("Partner") signed a long-term agreement for Bezeq to provide Partner with an indefeasible right of use (IRU) for BSA fiber (wholesale market). Under the agreement, Partner was granted the non-transferable and irrevocable independent right of use to provide service to its customers on 120 thousand fiber cables of the Company at a download speed of 1 Gbps per cable, for 15 years starting on January 1, 2023 (the right of use of the cables will start in gradual batches over a period of up to five years).

The consideration for the service, which includes one-time payments and annual payments, is expected to reach a total amount of NIS 1 billion (NIS 574 million for one-time payments, annual maintenance fees of 4% of the one-time payments for the cables for which the right of use will be granted up to that year, plus interest and/or linkage differences under the terms of the agreement), with most of the consideration expected to be paid in the first nine years of the agreement. In light of these terms, a significant financing component has been identified in the agreement's terms.

The agreement includes an option to increase the number of cables by another 48 thousand cables under the same terms, to upgrade speeds, and to extend the agreement period for two option periods of five years each, at a lower cable cost than in the first agreement period. Expanding the scope of the agreement as aforesaid will lead to a corresponding increase in the total financial scope of the agreement. The agreement also includes a price protection mechanism for Partner that weights the regulatory price of the cable, starting from the sixth year of the agreement. These options do not provide a material right to the customer.

22. General Operating Expenses

	Year ended December 31		
	2022	**2021**	**2020**
	NIS million	**NIS million**	**NIS million**
Interconnectivity and payments to domestic and international telecommunications operators	**743**	717	776
Terminal equipment and materials	**782**	803	747
Content costs	**567**	553	589
Marketing and general expenses	**532**	538	462
Maintenance of buildings and sites	**247**	238	246
Services and maintenance by subcontractors	**454**	348	303
Vehicle maintenance	**64**	60	50
	3,389	3,257	3,173

General operating expenses are presented net of expenses totaling NIS 51 million recognized in 2022 for investments in fixed assets and intangible assets (2021 – NIS 49 million; 2020 – NIS 38 million).

23. Salaries

	Year ended December 31		
	2022	**2021**	**2020**
	NIS million	**NIS million**	**NIS million**
Total salaries and related expenses	**2,391**	2,410	2,439
Share-based payment	**11**	27	-
Less salaries recognized in investments in fixed assets and intangible assets	**(530)**	(555)	(548)
	1,872	1,882	1,891

24. Other Operating Expenses (Income), Net

	Year ended December 31		
	2022	**2021**	**2020**
	NIS million	**NIS million**	**NIS million**
Capital gain (mainly from the sale of real estate)	**(8)**	(175)	(18)
Provision (reversal of provision) for claims	**55**	(23)	11
Receipts from a settlement agreement	**-**	(5)	(9)
Termination expenses for early retirement at the Company (see Note 16.5.1)	**78**	95	64
Termination expenses for early retirement and collective agreement at Pelephone, Bezeq International and DBS (see Note 16.5.3 and 16.5.4)	**102**	37	9
Gain from the sale of an investee	**-**	-	(22)
Provision for collective agreement signing bonus in the Company	**-**	-	40
Other income	**(7)**	(6)	(1)
Other operating expenses (income), net	**220**	(77)	74

25. Financial Expenses (Income), Net

	Year ended December 31		
	2022	**2021**	**2020**
	NIS million	**NIS million**	**NIS million**
Interest expenses for financial liabilities	**211**	230	273
Costs for early repayment of loans and debentures	**26**	15	65
Financial expenses for lease liabilities	**43**	40	30
Linkage and exchange rate differences	**125**	49	22
Change in fair value of financial assets at fair value through profit or loss	**-**	-	11
Financial expenses for employee benefits	**-**	7	8
Other financial expenses	**19**	8	7
Total financial expenses	**424**	349	416
Income from credit in sales	**20**	28	30
Other financial income	**40**	16	15
Financial income from employee benefits*	**40**	-	-
Change in fair value of financial assets at fair value through profit or loss	**23**	-	-
Total financial income	**123**	44	45
Financial expenses, net	**301**	305	371

* Financial income recognized due to update of the discount rate according to which the employee benefit liabilities are calculated as at December 31, 2022.

26. Share-Based Payment

26.1 Plan terms

In 2021, the Company allotted 64 million options to officers, executives and senior employees of the Company and the Subsidiaries. The options were allotted to each offeree in three grants, each for a third of the total number of options allotted to the offeree. Each grant is to vest in four annual tranches, with a different exercise price set for each grant. The exercise of any option is subject to the exercise price conditions being met after the option vesting date (the average of the closing prices of the Company's share on the stock exchange during at least 30 consecutive trading days immediately prior to the test date is equal to or higher than the price set as a condition for exercising the option).

In 2022, the Company allotted 7 million additional options to officers, executives and senior employees of the Company and the Subsidiaries. The options were allotted in two grants, each for half of the total number of options allotted to the offeree. Each grant is to vest in four annual tranches, with a different exercise price set for each grant.

26.2 Change in number of options

	Number of options	**Number of options**
	2022	**2021**
	In millions	**In millions**
Balance outstanding at the beginning of the period	**60**	-
Options granted during the year	**7**	62
Options cancelled during the year due to termination of the offerees	**(10)**	(2)
Balance outstanding at the end of the period	**57**	60
Exercisable as at the end of the period (subject to compliance with the share price condition)	***28**	15

* As at the date of approval of the financial statements, approximately 15 million options met the share price condition and are exercisable.

26.3 Information on fair value measurement of share-based payment plan

The fair value of the options granted in 2021, which was estimated by an external appraiser using the Monte Carlo method, is NIS 46 million, based on the vesting period and terms of exercise of the options as set out above.

The fair value of the options granted in 2022, which was estimated by an external appraiser using the Monte Carlo method, is NIS 13 million, based on the vesting period and terms of exercise of the options as set out above.

26.4 Salary expenses recognized by the Group for share-based payment

	2022	2021	2020
	NIS million	NIS million	NIS million
Salary expenses	**11**	27	-

27. Earnings per Share

	2022	2021	2020
Net profit (NIS million)	**1,000**	1,183	796
Number of shares (millions of shares)	**2,766**	2,765	2,765
Basic and diluted earnings per share (NIS)	**0.36**	0.43	0.29

28. Segment Reporting

28.1 The Group operates in four different segments in the communications sector, such that each company in the Group operates in a separate business segment. Each company provides services in the segment in which it operates, using the fixed assets and the infrastructure it owns (see also Note 21). The infrastructure of each company is used for providing its services. Some of the Group companies use infrastructure owned by other companies in the Group. The primary reporting format, by business segments, is based on the Group's management and internal reporting structure.

The business segments of the Group are as follows:

1. Bezeq The Israel Telecommunication Corp. Ltd.: fixed line domestic communications
2. Pelephone Communications Ltd.: cellular communications
3. Bezeq International Ltd.: ISP, international communications and NEP services and ICT (information and communications systems) solutions ("the Bezeq International services segment")
4. DBS Satellite Services (1998) Ltd.: multichannel television

The other companies in the Group are presented under the "Other" item. Other operations include call center services (Bezeq Online) and online content services (in 2020). These operations are not reported as reportable segments as they do not fulfill the quantitative thresholds in the reported years.

Inter-segment pricing is set at the price determined in transactions in the ordinary course of business.

The results, assets and liabilities of a segment include items directly attributable to that segment, as well as those that can be allocated on a reasonable basis.

The results of the multichannel TV segment are presented net of the impairment losses described Note 10.5. This is in accordance with the manner in which the Group’s chief operating decision maker evaluates the performance of the segments and makes decisions regarding the allocation of resources to the segment.

Segment capital expenditure is the total cost incurred in the period for acquisition of fixed assets and intangible assets.

28.2 Operating segments

	Year ended December 31, 2022						
	Domestic fixed-line communications	Cellular communications	Bezeq International services	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,980	2,359	1,183	1,277	187	-	8,986
Inter-segment revenues	326	40	56	-	6	(428)	-
Total revenues	4,306	2,399	1,239	1,277	193	(428)	8,986
Depreciation, amortization and impairment	1,005	532	134	274	4	(81)	1,868
Segment results – operating profit (loss)	1,460	193	(30)	(48)	6	56	1,637
Financial expenses	424	42	9	8	-	(59)	424
Financial income	(92)	(68)	(8)	(14)	-	59	(123)
Total financial expenses (income), net	332	(26)	1	(6)	-	-	301
Segment profit (loss) before income tax	1,128	219	(31)	(42)	6	56	1,336
Income tax	279	54	1	1	1	-	336
Segment results – net profit (loss)	849	165	(32)	(43)	5	56	1,000
Segment assets	9,020	4,080	751	1,249	90	(2,128)	13,062
Goodwill	-	-	9	-	-	341	350
Segment liabilities	10,465	1,563	570	469	32	(1,311)	11,788
Investments in fixed assets, intangible assets and deferred expenses	1,156	289	122	189	10	-	1,766

* Results of the multichannel television segment are presented net of the total impairment recognized beginning in 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.3 for condensed selected information from the financial statements of DBS.

28.2 Operating segments (cont.)

	Year ended December 31, 2021						
	Domestic fixed-line communications	Cellular communications	Bezeq International services	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,845	2,249	1,186	1,270	271	-	8,821
Inter-segment revenues	337	40	51	-	6	(434)	-
Total revenues	4,182	2,289	1,237	1,270	277	(434)	8,821
Depreciation, amortization and impairment	938	577	173	292	4	(95)	1,889
Segment results – operating profit (loss)	1,748	42	22	(41)	27	72	1,870
Financial expenses	357	23	5	4	-	(40)	349
Financial income	(15)	(65)	(3)	(3)	-	42	(44)
Total financial expenses (income), net	342	(42)	2	1	-	2	305
Segment profit (loss) before income tax	1,406	84	20	(42)	27	70	1,565
Income tax	343	20	12	1	6	-	382
Segment results – net profit	1,063	64	8	(43)	21	70	1,183
Segment assets	9,245	4,452	778	1,293	100	(2,280)	13,588
Investment in associates	-	-	5	-	-	-	5
Goodwill	-	-	-	-	-	341	341
Segment liabilities	11,415	1,753	566	474	37	(1,407)	12,838
Investments in fixed assets, intangible assets and deferred expenses	1,197	289	111	188	5	-	1,790

* Results of the multichannel television segment are presented net of the total impairment recognized beginning in 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.3 for condensed selected information from the financial statements of DBS.

28.2 Operating segments (cont.)

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

* Results of the multichannel television segment are presented net of the total impairment recognized beginning in 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.3 for condensed selected information from the financial statements of DBS.

28.3 Adjustments for segment reporting of revenues, profit or loss, assets and liabilities

	Year ended December 31		
	2022	2021	2020
	NIS million	NIS million	NIS million
Revenues			
Revenues from reportable segments	**9,221**	8,978	8,903
Revenues from other segments	**193**	277	286
Elimination of revenues from inter-segment sales	**(428)**	(434)	(466)
Consolidated revenues	**8,986**	8,821	8,723
Profit or loss			
Operating profit for reportable segments	**1,575**	1,771	1,338
Financial expenses, net	**(301)**	(305)	(371)
Adjustments for the multichannel television segment	**56**	72	81
Profit for operations classified in other categories and other adjustments	**6**	27	36
Consolidated profit before income tax	**1,336**	1,565	1,084

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Assets		
Assets of reportable segments	**15,109**	15,773
Assets attributable to operations classified in other categories	**90**	100
Goodwill not attributable to an operating segment	**341**	341
Less impairment loss of assets (see Note 10), inter-segment assets and other adjustments	**(2,128)**	(2,280)
Consolidated assets	**13,412**	13,934
Liabilities		
Liabilities of reportable segments	**13,067**	14,208
Liabilities attributable to operations classified in other categories	**32**	37
Less inter-segment liabilities	**(1,311)**	(1,407)
Consolidated liabilities	**11,788**	12,838

29. Transactions with Interested and Related Parties

29.1 Identity of interested and related parties

The Company's interested and related parties as defined in the Securities Law and in IAS 24 – Related Party Disclosures include mainly B Communications and related parties of B Communications, affiliated companies, directors and key management personnel in the Company or B Communications and a person who is close to a family member of any of the above parties.

It should be noted that the transactions described below with interested and related parties do not include reference to Note 1.3 regarding the investigations of the Israel Securities Authority and the Israel Police or their possible implications.

29.2 Balances with interested and related parties

	December 31	
	2022	2021
	NIS million	NIS million
Trade and other receivables – associate	**-**	1
Related parties, net	**(1)**	(2)
Rights-of-use asset	**2**	2
Current maturities of lease liabilities	**(1)**	(1)
Non-current lease liabilities	**(2)**	(2)

29.3 Transactions with interested and related parties

	Year ended December 31		
	2022	2021	2020
	NIS million	NIS million	NIS million
Revenues			
From related parties	**4**	10	12
From associates	**-**	1	2
Expenses			
To related parties	**24**	33	28
To associates	**-**	-	2
Fixed assets			
To related parties	**1**	-	-

29.3.1 Negligible transactions procedure

The Company's Audit Committee resolved to adopt rules, guidelines and criteria for classifying a transaction of the Company or its subsidiaries with Company officers or in which a Company officer has a personal interest ("transaction with an officer") and a transaction with a controlling shareholder of the Company or in which a controlling shareholder has a personal interest ("transaction with a controlling shareholder") as a negligible transaction.

The criteria established in the procedure, as revised from time to time in accordance with its provisions, may be used by the Company, *inter alia*, to classify the transaction as a negligible transaction as prescribed in section 41(a3) of the Securities Regulations (Annual Financial Statements), 2010, and as a tool for assessing the negligibility of other business relationships, such as whether a business relationship with a candidate for the office of external or independent director is negligible as provided in the Companies Regulations (Matters Not Constituting a Relationship), 2006, and as provided in section 240(f) of the Companies Law, 1999 ("the Companies Law").

The Company and its subsidiaries from time to time enter into transactions with officers and controlling shareholders of the Company (collectively – "Interested Parties in the Company"), including transactions of the types and with the characteristics set out below:

1. Sales of communications services and products by Group companies – including basic communications services (infrastructure, telephony, transmission and PRI) and hosting at server farms; cellular services, value added services and sales and upgrading of cellular end equipment; Internet access services, international telephony services, hosting services and data communication services; television services.
2. Rental, management and real estate acquisition agreements, including, inter alia, rental of areas used for communications facilities and warehouses.
3. Receipt of consulting and training services for Group companies or their employees.
4. Acquisition of goods and services used by the Group companies in their activity, such as purchase of fuels and energy products, repair services, financial/banking services, etc.

In the absence of special qualitative considerations arising from the overall circumstances, a transaction is deemed negligible if all the following parameters exist:

A. The transaction is not an extraordinary transaction (i.e. it is a transaction made in the ordinary course of business, at market terms, which has no material impact on the Company's profitability, assets or liabilities, all in accordance with Company procedures).

B. The amount of the transaction for the Company (separately, and not on a consolidated basis) (or for each of the subsidiaries) does not exceed NIS 10 million.

C. The Company is not required to issue an immediate report for the transaction under section 36 and section 37A of the Periodic Reports Regulations or any other law.

D. The transaction does not include terms of service and employment (as defined in the Companies Law) of an interested party or his relative, and does not constitute an agreement as set out at the end of section 270(4) of the Companies Law (agreement of a public company with a holder of control therein, directly or indirectly, including through a company he controls, for the receipt of services from him by the Company, and if such person is also an officer of the Company – as to the terms of his service and employment, and if he is an employee of the Company but not an officer – as to his employment by the Company).

In general, each transaction will be tested separately for compliance with the conditions for classifying it as a negligible transaction as set out above. Notwithstanding the aforesaid, separate transactions that are part of the same transaction or continuing transactions or very similar transactions that are carried out routinely and repeatedly or with the same entity and with corporations under its control or transactions which are interdependent or mutually conditioned, will be tested for negligibility as one transaction on an annual basis.

The Audit Committee may, from time to time, at its discretion, revise the above parameters for the classification of a negligible transaction.

In addition, the criteria established by the Audit Committee and the Company's Board of Directors relate to the conditions under which a transaction will be considered an exceptional transaction and the conditions under which a contribution of the Company or of a subsidiary will not be considered an exceptional transaction.

<u>Transactions listed in section 270(4) of the Companies Law, which are not considered negligible transactions</u>

In the years 2020-2022 there were no such transactions.

For information about the transactions listed in section 270(4) of the Companies Law, regarding directors and officers insurance and indemnity, see Note 29.6 below.

29.4 Benefits for key officers

Benefits for employment of key officers in 2020-2022, including:

	Year ended December 31		
	2022	**2021**	**2020**
	NIS thousand	**NIS thousand**	**NIS thousand**
Number of key officers*	**4**	3	4
Salary**	**7,998**	7,787	6,919
Bonus***	**6,090**	5,437	4,995
Management fees for former Chairman of the Board of Directors	**-**	-	1,919
Share-based payment	**5,687**	13,250	-
	19,775	26,474	13,833

* Key officers in the Group in the reporting year include the Chairman of the Board of Directors, the former CEO of the Company, the current CEO of the Company, who served until June 18, 2022 as CEO of Pelephone, Bezeq International and DBS, and the CEO of Pelephone, Bezeq International and DBS, who started to serve on August 28, 2022 (at Bezeq International until December 31, 2022).

** In 2022, the changes in other provisions (which are included in the total salary) include mainly a provision for early notice for the CEO of Pelephone, Bezeq International and DBS who started to serve on August 28, 2022 (at Bezeq International until December 31, 2022), amounting to NIS 0.7 million.

In 2021, the changes in other provisions (which are included in the total salary) include mainly a provision for vacation and sick leave amounting to NIS 0.2 million.

In 2020, the changes in other provisions (which are included in the total salary) include mainly a provision for early notice and for a non-competition period for the Chairman of the Board of Directors, amounting to NIS 0.9 million.

*** The amount includes a discretionary bonus that was approved by the General Meeting of the Company on April 28, 2022 for the year 2021.

For information about share-based compensation see Note 26.

29.5 Benefits for directors

	Year ended December 31		
	2022	**2021**	**2020**
Remuneration for directors who are not employed by the Company (see 29.5.1) (NIS thousands)	**2,646**	1,694	2,212
Number of directors receiving remuneration	**8**	7	7
Salary of employee directors (see 29.5.2) (NIS thousands)	**521**	670	624
Number of directors receiving a salary (see 29.5.2)	**1**	1	2

29.5.1 The management fees for the services of the former Chairman of the Board of Directors and the remuneration for the current Chairman of the Board of Directors are not included in this section and are included in section 29.4 above, since the Chairman of the Board of Directors is a key officer. Additionally, the directors' remuneration includes retroactive remuneration that was approved on March 7, 2022, based on the criteria established by the Board of Directors, pursuant to the Companies Regulations (Rules Concerning an External Director's Remuneration and Expenses) (Temporary Order), 5783-2022.

29.5.2 The salary paid to the employee director in the reporting year is for his work in the Company and does not include any additional payment for his service as a director. The salary specified in the table includes only the period in which he served as a director and received a salary accordingly.

29.6 Additional benefits for directors and officers

Date of approval by the General Meeting (after approval by the Company's Audit/Compensation Committee and Board of Directors), unless otherwise stated	Nature of the transaction	Amount of the transaction
June 9, 2021 Approval of the Compensation Committee in accordance with Reg. 1B1 of the Relief Regulations.	Approval of the Company's insurance policy for directors and officers liability in the Company and its subsidiaries, in accordance with the Company's compensation policy, for the period up to June 14, 2022 (inclusive).	A limit of liability of up to USD 125 million per claim and in total for the entire year of insurance, including entity securities coverage, plus a limit of liability of USD 25 million beyond the basic policy for coverage for directors and officers only (Side A), plus reasonable legal expenses. The annual premium is in accordance with the limitations on amounts set in the compensation policy. The Company’s deductible is up to USD 1,000,000 per event (except securities claims including entity coverage – USD 2,000,000).
June 14, 2022 Approval of the Compensation Committee in accordance with Reg. 1B1 of the Relief Regulations.	Approval of the Company's insurance policy for directors and officers liability in the Company and its subsidiaries, in accordance with the Company's compensation policy, for the period up to June 29, 2023 (inclusive).	A limit of liability of up to USD 125 million per claim and in total for the entire year of insurance, including entity securities coverage, plus a limit of liability of USD 25 million beyond the basic policy for coverage for directors and officers only (Side A), plus reasonable legal expenses. The annual premium is in accordance with the limitations on amounts set in the compensation policy. The Company’s deductible is up to USD 1,000,000 per event (except securities claims including entity coverage – USD 2,000,000).
January 17, 2007	Undertaking to indemnify officers in the Company, in accordance with the letters of indemnity, as amended on October 26, 2011, on May 3, 2016, and on February 6, 2020.	Up to 25% of the Company's equity, according to the Company’s last financial statements published prior to granting indemnity in practice or NIS 400 million, whichever the higher.

30. Financial Instruments

30.1 General

The Group is exposed to the following risks, arising from the use of financial instruments:

A. Credit risk

B. Liquidity risk

C. Market risk (which includes currency, interest rate and inflation/CPI risks)

This Note provides qualitative and quantitative information about the Group's exposure to each of the above risks, an explanation as to how the risks are managed, and the measurement processes.

30.2 Framework for financial risk management

The Board of Directors has overall responsibility for the Group's financial risk management. The purpose of financial risk management in the Group is to define and regularly monitor the various risks, to set the risk exposure level that must be complied with and to determine the possible effects of this exposure based on the assessments and expectations of the Board of Directors.

The Group's policy is to manage, in accordance with the rules determined by the Board of Directors, the exposure arising from fluctuations in foreign exchange rates, interest rates and the CPI.

30.3 Credit risk

Management monitors the Group's exposure to credit risks on a regular basis. Cash and investments in deposits and securities are deposited in highly-rated banks.

<u>Trade and other receivables</u>

The Group's management regularly monitors customer debts, and the financial statements include provisions for doubtful debts which properly reflect, in the management's estimation, the loss inherent in doubtful debts. In addition, the balances of the trade receivables are widely spread.

<u>Investments in financial assets</u>

Any investments in securities are made in liquid, marketable and low-risk securities. Transactions involving derivatives are made with entities that have a high credit rating.

As at the reporting date, there is no material concentration of credit risks.

30.4 Liquidity risk

The Group's liquidity management policy is to ensure, to the extent possible, adequate liquidity to meet its existing and expected liabilities when they fall due, in a normal business scenario and under stress conditions, without causing undesirable losses or impairment to goodwill. The cash balances held by the Group are mainly managed in liquid investment channels, subject to the financing requirements of operating activities and the debt service. The Group routinely assesses the existing and expected cash requirements in the foreseeable future, also in the scenario of an unexpected deterioration in its business. These forecasts take into account, among other things, raising and refinancing of debt from banking and non-banking sources. In accordance with the conclusions, active measures are being employed to minimize the risk.

For information about the terms of the debentures issued by Group companies and the loans received, see Note 13 above.

The Group has contractual commitments with respect to acquisitions, fixed assets, terminal equipment and other ongoing services. For further information about commitments, see Note 18, Commitments.

The following are the contractual maturities of financial liabilities actually acquired up to December 31, 2022, including estimated interest payments (based on known CPI and interest rates on December 31, 2022):

	December 31, 2022						
	Carrying amount	Contractual cash flow	First half 2023	Second half 2023	2024	2025 to 2027	2028 onwards
	NIS million						
Non-derivative financial liabilities							
Trade and other payables	**1,423**	**1,423**	**1,412**	**11**	**-**	**-**	**-**
Loans	**2,222**	**2,651**	**89**	**68**	**313**	**1,196**	**985**
Debentures	**5,051**	**5,539**	**56**	**885**	**926**	**1,867**	**1,805**
	8,696	**9,613**	**1,557**	**964**	**1,239**	**3,063**	**2,790**

	December 31, 2021						
	Carrying amount	Contractual cash flow	First half 2022	Second half 2022	2023	2024 to 2026	2027 onwards
	NIS million						
Non-derivative financial liabilities							
Trade and other payables	**1,559**	**1,559**	**1,535**	**24**	**-**	**-**	**-**
Loans	**1,906**	**2,194**	**85**	**50**	**141**	**1,042**	**876**
Debentures	**6,156**	**6,807**	**73**	**958**	**1,058**	**2,502**	**2,216**
	9,621	**10,560**	**1,693**	**1,032**	**1,199**	**3,544**	**3,092**
Financial liabilities for derivative instruments	**35**	**35**	**6**	**29**	**-**	**-**	**-**

30.5 Market risks

The purpose of market risk management is to manage and oversee the exposure to market risks within accepted parameters to prevent significant exposures to market risks that will influence the Group's results, liabilities and cash flow.

As part of the Group's exposure management policy, a decision was made to establish a mix of exposure of the debt to interest and linkage and to reduce foreign currency exposure. Accordingly, during the normal course of its business, the Group takes full or partial hedging action and takes into account the effects of the exposure in its considerations for determining the type of loans it takes and in managing its investment portfolio.

30.5.1 Exposure to CPI (inflation) and foreign currency risks

CPI (inflation) risk

Changes in the rate of the consumer price index affect the Group's profitability and its future cash flows, mainly due to its CPI-linked liabilities. In applying a policy of minimizing the exposure to the CPI, the Group makes forward contracts against the CPI. Hedging transactions are performed against the hedged debt repayment schedules. The Company applies hedge accounting for these forward contracts.

A considerable part of these cash balances is invested in shekel deposits, which are exposed to changes in their real value as a result of a change in the rate of the CPI.

Foreign currency risk

The Group is exposed to foreign currency risks mainly due to payments for purchases of terminal equipment and fixed assets, some of which are mainly denominated in or linked to the dollar. In addition, the Group provides services for customers and receives services from suppliers worldwide for which it is paid and it pays in foreign currency, mainly the dollar. The Group's policy is to reduce, to the extent possible, foreign currency acquisition agreements, and to partially hedge dollar exposure through forward transactions against the dollar and management of dollar deposits.

Statement of financial position according to linkage basis as at December 31, 2022:

	December 31, 2022				
	Unlinked	CPI-linked	In or linked to foreign currency (mainly USD)	Non-monetary balances	Total balances
	NIS million	NIS million	NIS million	NIS million	NIS million
Current assets					
Cash and cash equivalents	722	-	19	-	741
Investments	851	37	22	-	910
Trade receivables	1,395	-	45	-	1,440
Other receivables	174	75	-	39	288
Inventory	-	-	-	85	85
Non-current assets					
Trade and other receivables	314	140	6	-	460
Broadcasting rights	-	-	-	57	57
Right-of-use assets	-	-	-	1,746	1,746
Fixed assets	-	-	-	6,542	6,542
Intangible assets	-	-	-	912	912
Deferred expenses and non-current investments	33	29	-	169	231
Total assets	3,489	281	92	9,550	13,412
Current liabilities					
Debentures, loans and borrowings	635	286	-	-	921
Current maturities of lease liabilities	17	439	-	-	456
Trade and other payables	1,209	16	193	172	1,590
Employee benefits	396	-	3	-	399
Provisions	168	-	-	-	168
Non-current liabilities					
Loans and debentures	4,222	2,130	-	-	6,352
Lease liabilities	87	1,362	3	-	1,452
Employee benefits	164	-	37	-	201
Derivatives and other liabilities	-	-	-	151	151
Deferred tax liabilities	-	-	-	61	61
Provisions	37	-	-	-	37
Total liabilities	6,935	4,233	236	384	11,788
Total exposure in the statement of financial position	(3,446)	(3,952)	(144)	9,166	1,624
Scope of hedging transactions against CPI and foreign currency risk is as follows:					
Forward contracts (see Note 30.6)	(1,004)	635	369	-	-

Statement of financial position according to linkage basis as at December 31, 2021:

	December 31, 2021				
	Unlinked	CPI-linked	In or linked to foreign currency (mainly USD)	Non-monetary balances	Total balances
	NIS million	NIS million	NIS million	NIS million	NIS million
Current assets					
Cash and cash equivalents	945	-	28	-	973
Investments	934	-	20	-	954
Trade receivables	1,833	15	11	-	1,859
Other receivables	131	112	-	36	279
Inventory	-	-	-	74	74
Non-current assets					
Trade and other receivables	254	179	-	-	433
Broadcasting rights	-	-	-	60	60
Right-of-use assets	-	-	-	1,828	1,828
Fixed assets	-	-	-	6,312	6,312
Intangible assets	-	-	-	912	912
Deferred expenses and non-current investments	37	16	-	173	226
Deferred tax assets	-	-	-	24	24
Total assets	4,134	322	59	9,419	13,934
Current liabilities					
Debentures, loans and borrowings	359	621	-	-	980
Current maturities of lease liabilities	6	460	-	-	466
Trade and other payables	1,310	44	240	154	1,748
Employee benefits	507	-	3	-	510
Provisions	69	-	-	-	69
Non-current liabilities					
Loans and debentures	4,787	2,295	-	-	7,082
Lease liabilities	23	1,488	-	-	1,511
Employee benefits	199	-	44	-	243
Derivatives and other liabilities	-	-	-	142	142
Deferred tax liabilities	-	-	-	38	38
Provisions	49	-	-	-	49
Total liabilities	7,309	4,908	287	334	12,838
Total exposure in the statement of financial position	(3,175)	(4,586)	(228)	9,085	1,096
Scope of hedging transactions against CPI and foreign currency risk is as follows:					
Forward contracts (see Note 30.6)	(1,096)	880	216	-	-

30.5.2 **CPI**

In 2022, the known CPI increased by 5.3% (2021 – increase of 2.4%; 2020 – decrease of 0.6%)

30.5.3 **Sensitivity analysis for change in the CPI and for change in the USD exchange rate**

An increase/decrease of 1% in the CPI at the reporting date would not have a material effect on the net profit or capital.

An increase/decrease of 10% in the USD exchange rate at the reporting date would not have a material effect on profit or capital.

30.5.4 **Interest rate risk**

As at December 31, 2022, the exposure to interest rate risk due to liability for debt instruments bearing variable interest – is low.

A. Type of interest

Type of interest on the Group's interest-bearing financial instruments:

	Carrying amount	
	2022	**2021**
	NIS million	**NIS million**
Fixed-interest instruments		
Financial assets (mainly deposits and trade receivables)	**1,570**	1,700
Financial liabilities (loans and debentures)	**(6,575)**	(7,726)
	(5,005)	(6,026)
Variable-interest instruments		
Financial liabilities (loans and debentures)	**(698)**	(336)

B. Fair value sensitivity analysis for instruments at fixed interest

The Group's assets and liabilities at fixed interest are not measured at fair value through profit or loss. Accordingly, a change in interest rates at the reporting date will not affect profit or loss.

C. Cash flow sensitivity analysis for instruments at variable interest

An increase/decrease of 1% in the interest rates at the reporting date would have a negligible effect on profit and on capital.

30.6 Hedging

30.6.1 Cash flow hedge accounting

The Company entered into forward contracts, as described in the table below, to reduce exposure to changes in the CPI for CPI-linked debentures. These transactions hedge specific cash flows of some of the debentures and are accounted for as cash flow hedge. The expiry date of these transactions corresponds to the repayment schedules of the debentures they are meant to hedge. The fair value of the forward contracts is determined based on observable market information (level 2 in the fair value hierarchy).

Hedged item	Repayment dates	Number of transactions	Nominal value	Fair value	Capital reserve
			NIS million	NIS million	NIS million
December 31, 2022					
Debentures (Series 10)	**December 2023 to December 2025**	**3**	**225**	**9**	**6**
Debentures (Series 12)	**June 2026 to June 2030**	**6**	**310**	**22**	**14**
		9	**535**	**31**	**20**
December 31, 2021					
Debentures (Series 6)	December 2022	1	330	(29)	4
Debentures (Series 10)	December 2022 to December 2025	4	300	3	9
Debentures (Series 12)	June 2026 to June 2030	5	250	13	16
		10	880	(13)	29

30.6.3 Economic hedging

A. The Company has entered into forward contracts to reduce exposure to changes in the dollar exchange rate. The net fair value of these transactions as at December 31, 2022 is an asset of NIS 8 million (2021 – a liability of NIS 4 million).

B. DBS has forward contracts to reduce exposure to changes in the dollar exchange rate. The net fair value of these transactions as at December 31, 2022 is an asset of NIS 4 million (as at December 31, 2021 – a liability of NIS 2 million).

30.7 Financial instruments measured at fair value

30.7.1 The table below presents an analysis of the financial instruments measured at fair value.

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Level 2: forward contracts (see 30.7.2)	**42**	(19)

30.7.2 The fair value of forward contracts on the CPI or foreign currency is based on discounting the difference between the price in the forward contact and the price of the present forward contact for the balance of the contract term until redemption, at an appropriate interest rate (Level 2). The estimate is made under the assumption that a market participant takes into account the credit risks of the parties when pricing such contracts.

30.8 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 fair value of debentures issued to the public is determined based on their quoted closing buying price at the reporting date (Level 1).

The fair value of loans and non-marketable debentures is based on the present value of future principal and interest cash flows, discounted at the market interest rate for similar liabilities, plus the required adjustments for a risk and non-marketability premium, as at the date of the financial statements (Level 2).

	December 31, 2022			December 31, 2021		
	Carrying amount (including accrued interest)	Fair value	Discount rate (weighted average)	Carrying amount	Fair value	Discount rate (weighted average)
	NIS million		%	NIS million		%
Loans from banks and financial institutions (unlinked)	**1,530**	**1,462**	**5.14%**	1,612	1,713	1.93
Debentures issued to the public (CPI-linked)	**2,402**	**2,373**	**1.82%**	2,913	3,249	(1.25)
Debentures issued to the public (unlinked)	**2,657**	**2,541**	**4.34%**	3,222	3,415	1.17
	6,589	**6,376**		7,747	8,377	

30.9 Offset of financial assets and liabilities

The Group has agreements with various communications companies to supply and receive communications services. Under some of the agreements, each party has the right to offset the amounts owed by the other party. The table below shows the carrying amount of the offset balances as presented in the statement of financial position:

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Trade and other receivables, gross	**96**	97
Offset amounts	**(84)**	(87)
Trade and other receivables presented in the statement of financial position	**12**	10
Trade payables, gross	**98**	104
Offset amounts	**(84)**	(87)
Trade payables presented in the statement of financial position	**14**	17

31. Selected Condensed Information from the Financial Statements of Pelephone Communications Ltd., Bezeq International Ltd., and DBS Satellite Services (1998) Ltd.

31.1 Pelephone Communications Ltd.

Information from the statement of financial position:

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Current assets	**865**	1,121
Non-current assets	**3,215**	3,331
	4,080	4,452
Current liabilities	**684**	837
Non-current liabilities	**879**	916
Total liabilities	**1,563**	1,753
Equity	**2,517**	2,699
	4,080	4,452

Information from the statement of income:

	Year ended December 31		
	2022	2021	2020
	NIS million	NIS million	NIS million
Revenues			
Revenues from services	**1,791**	1,642	1,591
Revenues from sales of terminal equipment	**608**	647	595
Total revenues from services and sales	**2,399**	2,289	2,186
Operating expenses			
General operating expenses	**1,327**	1,346	1,329
Salaries	**314**	315	324
Depreciation and amortization	**532**	577	599
Total operating expenses	**2,173**	2,238	2,252
Other operating expenses, net	**33**	9	18
Operating profit (loss)	**193**	42	(84)
Financial income			
Financial expenses	**42**	23	18
Financial income	**(68)**	(65)	(66)
Financial income, net	**(26)**	(42)	(48)
Profit (loss) before income tax	**219**	84	(36)
Income tax expenses (income)	**54**	20	(11)
Profit (loss) for the year	**165**	64	(25)

31.2 Bezeq International Ltd.

Information from the statement of financial position:

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Current assets	**396**	472
Non-current assets	**364**	311
	760	783
Current liabilities	**431**	409
Non-current liabilities	**139**	157
Total liabilities	**570**	566
Equity	**190**	217
	760	783

Information from the statement of income:

	Year ended December 31		
	2022	2021	2020
	NIS million	NIS million	NIS million
Revenues	**1,239**	1,237	1,271
Operating expenses			
General operating expenses and impairment	**827**	799	802
Salaries	**237**	237	248
Depreciation, amortization and impairment	**134**	173	149
Other operating expenses, net	**71**	6	313
Total operating expenses	**1,269**	1,215	1,512
Operating profit (loss)	**(30)**	22	(241)
Financial expenses (income)			
Financial expenses	**9**	5	5
Financial income	**(8)**	(3)	**(3)**
Financial expenses, net	**1**	2	2
Profit (loss) before income tax	**(31)**	20	(243)
Income tax expenses	**1**	12	32
Profit (loss) for the year	**(32)**	8	(275)

31.3 DBS Satellite Services (1998) Ltd.

Information from the statement of financial position:

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Current assets	**196**	196
Non-current assets	**241**	230
	437	426
Current liabilities	**395**	394
Non-current liabilities	**74**	80
Total liabilities	**469**	474
Equity deficit	**(32)**	(48)
	437	426

Information from the statement of income:

	Year ended December 31		
	2022	2021	2020
	NIS million	NIS million	NIS million
Revenues	**1,277**	1,270	1,287
Operating expenses			
General operating expenses and impairment	**867**	835	857
Salaries	**200**	188	203
Depreciation, amortization and impairment	**199**	203	203
Other operating expenses (income), net	**3**	12	(15)
Total operating expenses	**1,269**	1,238	1,248
Operating profit	**8**	32	39
Financial expenses (income)			
Financial expenses	**8**	4	15
Financial income	**(14)**	(3)	(2)
Financial expenses (income), net	**(6)**	1	13
Profit before income tax	**14**	31	26
Income tax expenses	**1**	1	2
Profit for the year	**13**	30	24

30. Significant Events in and Subsequent to the Reporting Period

31.1 In December 2022, the Company signed an agreement to provide Partner with an indefeasible right of use (IRU) for BSA fiber. See Note 21.1 above.

31.2 See Note 20.2 on the Board of Director's resolution of March 13, 2023 regarding the dividend distribution policy and the Board of Director's resolution to recommend to the General Meeting a dividend distribution.

Separate Financial Information for Year ended December 31, 2022

The information contained in this 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.

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+972 3 684 8000

To:

The Shareholders of “Bezeq” the Israeli Telecommunication Corporation Ltd.
Dear Sirs,

Subject: Special auditors' report on separate financial data according to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970

We have audited the separate financial data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970 of “Bezeq” the Israeli Telecommunication Corporation Ltd. (hereinafter – “the Company”) as of December 31, 2022 and 2021 and for each of the three years, the last of which ended December 31, 2022. The separate financial data are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on the separate financial data based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial data are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial data. An audit also includes assessing the accounting principles that were used in preparing the separate financial data and the significant estimates made by the Board of Directors and by Management of the Company, as well as evaluating the separate financial data presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the separate financial data has been prepared, in all material respects, in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) - 1970.

Without qualifying our abovementioned opinion, we draw attention to Note 12, which refers to Note 1.3 to the consolidated financial statements, regarding the Israel Securities Authority's (ISA) and the Israel Police investigation of suspected offenses under the Securities Law and Penal Code, involving inter alia transactions related to the former controlling shareholder, and the announcement by the Tel Aviv District Attorney's Office (Taxation and Economics Division) that it was considering prosecuting the Company and holding a hearing on suspicions of bribery and reporting with intent to mislead a reasonable investor, as well as that stated in said note regarding the filing of an indictment against the Company's former controlling shareholder on various offenses, among others, bribery and causing a misleading particular to be included in an immediate report, and regarding the filing of an indictment against the Company's former controlling shareholder and former senior officers in the Bezeq Group, charging the defendants with receiving something fraudulently and reporting violations under the Securities Law. Additionally, further to the institution of the above investigation, several civil actions were filed against the Company, against former officers of the Company, and against companies from the group of the Company's former controlling shareholder, including motions to certify class action lawsuits. As noted in the aforementioned note, 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 their preparation, if any.

In addition, without qualifying our abovementioned opinion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 11.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 13, 2023

Information on Financial Position as of December 31

		2022	2021
	Note	NIS million	NIS million
Assets			
Cash and cash equivalents		**286**	702
Investments	3.1	**905**	954
Trade receivables	3.3	**684**	776
Other receivables	3.3	**211**	122
Total current assets		**2,086**	2,554
Trade and other receivables	3.3	**253**	222
Fixed assets	5	**5,629**	5,400
Intangible assets		**243**	243
Goodwill		**265**	265
Investment in investees	9.2	**2,803**	3,001
Right-of-use assets		**645**	656
Non-current and other investments	3.2	**164**	139
Deferred tax assets	4.2	**-**	31
Total non-current assets		**10,002**	9,957
Total assets		**12,088**	**12,511**

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

		2022	2021
	Note	NIS million	NIS million
Liabilities			
Debentures and loans	3.5	**920**	980
Trade and other payables	3.4	**709**	725
Employee benefits		**277**	425
Current maturities of lease liabilities		**115**	105
Loan from subsidiaries	10.2.1	**-**	130
Provisions	11	**127**	28
Total current liabilities		**2,148**	2,393
Loans and debentures	3.5	**6,352**	7,082
Loan from subsidiaries	10.2.1	**1,140**	1,100
Employee benefits		**161**	204
Lease liabilities		**570**	583
Derivatives and other liabilities		**77**	53
Deferred tax liabilities	4.2	**17**	-
Total non-current liabilities		**8,317**	9,022
Total liabilities		**10,465**	11,415
Equity			
Share capital		**3,878**	3,878
Share premium		**384**	384
Reserves		**396**	391
Accumulated deficit		**(3,035)**	(3,557)
Total equity		**1,623**	1,096

Total liabilities and equity		**12,088**	**12,511**

Gil Sharon	**Ran Guron**	**Tobi Fischbein**
Chairman of the Board of Directors	CEO	CFO Bezeq Group

Date of approval of the financial statements: March 13, 2023

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

Information on income for year ended December 31

		2022	2021	2020
	Note	NIS million	NIS million	NIS million
Revenues	6	**4,306**	4,182	4,159
Operating expenses				
Salaries		**970**	934	919
Depreciation and amortization		**1,005**	938	877
General operating expenses	7	**759**	667	590
Other operating expenses (income), net	8	**112**	(105)	68
Total operating expenses		**2,846**	2,434	2,454
Operating profit		**1,460**	1,748	1,705
Financial expenses (income)				
Financial expenses		**424**	357	419
Financial income		**(92)**	(15)	(16)
Financial expenses, net		**332**	342	403
Profit after financial expenses, net		**1,128**	1,406	1,302
Share in profits (losses) of investees, net		**151**	120	(244)
Profit before income tax		**1,279**	1,526	1,058
Income tax	4.1	**279**	343	262
Profit for the year attributable to shareholders of the Company		**1,000**	1,183	796

Information on comprehensive income for year ended December 31

		2022	2021	2020
		NIS million	NIS million	NIS million
Profit for the year		**1,000**	1,183	796
Items of other comprehensive income, net of tax		**50**	36	(14)
Total comprehensive income for the year attributable to shareholders of the Company		**1,050**	1,219	782

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

Information on cash flows for year ended December 31

	2022	2021	2020
	NIS million	NIS million	NIS million
Cash flow from operating activities			
Profit for the year	**1,000**	1,183	796
Adjustments:			
Depreciation and amortization	**1,005**	938	877
Share in losses (profits) of investees, net	**(151)**	(120)	244
Financial expenses, net	**334**	301	368
Capital gain, net	**(11)**	(173)	(35)
Share-based payment	**3**	15	-
Income tax expenses	**279**	343	262
Change in trade and other receivables	**1**	(24)	(94)
Change in trade and other payables	**29**	(3)	69
Change in provisions	**24**	(50)	(8)
Change in employee benefits	**(135)**	(63)	(136)
Miscellaneous	**24**	-	(18)
Net cash provided by operating activities due to transactions with subsidiaries	**53**	45	24
Net income tax paid	**(225)**	(368)	(243)
Net cash provided by operating activities	**2,230**	2,024	2,106
Cash flow from investing activities			
Investment in intangible assets and other investments	**(157)**	(148)	(139)
Proceeds from the sale of fixed assets	**36**	273	146
Investment in bank deposits	**(1,835)**	(1,031)	(1,335)
Proceeds from repayment of bank deposits	**1,895**	800	1,785
Purchase of fixed assets	**(978)**	(1,007)	(771)
Miscellaneous	**22**	9	17
Proceeds from the sale of Walla, net	**-**	-	55
Net cash provided by investing activities with subsidiaries	**10**	10	70
Net cash used in investing activities	**(1,007)**	(1,094)	(172)

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

Information on cash flows for year ended December 31 (cont.)

	2022	2021	2020
	NIS million	NIS million	NIS million
Cash flow from financing activities			
Issue of debentures and receipt of loans	**400**	695	718
Repayment of debentures and loans	**(1,320)**	(1,067)	(1,821)
Costs for early repayment of loans and debentures	**(26)**	(15)	(65)
Interest paid	**(230)**	*(255)	*(314)
Dividend paid	**(534)**	-	-
Payment of principal and interest for a lease	**(138)**	(116)	(111)
Payment for expired hedging transactions	**(18)**	(30)	(57)
Net cash provided by financing activities due to transactions with subsidiaries	**227**	*129	*13
Net cash used in financing activities	**(1,639)**	(659)	(1,637)
Net increase (decrease) in cash and cash equivalents	**(416)**	271	297
Cash and cash equivalents as of January 1	**702**	431	134
Cash and cash equivalents at the end of the year	**286**	702	431

* Reclassification

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

1. General

Below is separate financial information of the Company ("Separate Financial Information")from the Group's Consolidated Financial Statements as at December 31, 2022("Consolidated Statements"), published in the framework of the Periodic Report. The Separate Financial Information is presented in accordance with Regulation 9C ("the Regulation") and the Tenth Schedule ("the Tenth Schedule") of the Securities Regulations (Periodic and Immediate Reports), 1970 concerning separate financial information of the corporation.

The Separate Financial Information should be read in conjunction with the Consolidated Statements.

In this Separate Financial Information –

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

"Associate", "Subsidiary", "Group", "Investee," "Interested Party" – as these terms are defined in the Group's consolidated financial statements for 2022.

2. Significant Accounting Policies Applied in the Separate Financial Information

The accounting policies specified in the Consolidated Statements were consistently applied by the Company for all the periods presented in this Separate Financial Information, including the method of classifying financial information in the Consolidated Statements, with the required changes as set out below:

2.1. Presentation of the financial information

The information on financial position, income, comprehensive income and cash flows includes information contained in the Consolidated Statements that is attributable to the Company separately. The investment balances and results of operations of investees are accounted for by the equity method. Cash flows of operating activities, investing activities and financing activities due to transactions with investees are presented separately, in net figures, under the relevant item based on the nature of the transaction.

2.2. Transactions between the Company and investees

2.2.1 Presentation

Intra-group balances and income and expenses arising from intra-group transactions, which were eliminated in the preparation of the Consolidated Statements, are presented separately from the balance for investees and the profit relating to investees, together with similar third party balances.

2.2.2 Measurement

Transactions between the Company and its subsidiaries are measured in accordance with the recognition and measurement principles set out in the International Financial Reporting Standards ("IFRS"). These principles outline the accounting treatment for third party transactions.

2.3. New standards not yet adopted

For information regarding new standards that have not yet been adopted, see Note 3.19 to the Consolidated Statements.

3. Financial Instruments

3.1. Investments

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Bank deposits in shekels (1)	**734**	934
Bank deposits in foreign currency (2)	**10**	20
Investment in securities	**151**	-
Derivatives	**10**	-
	905	954

(1) The deposits are repayable until December 2023.

(2) Deposits in U.S. dollars are repayable until March 2023.

3.2. Non-current and other investments

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Bank deposit used for providing loans to Company employees (1)	**33**	36
Customer acquisition asset, net	**94**	78
Derivatives	**29**	16
Deferred expenses	**8**	9
	164	139

(1) The bank deposit for providing loans to Company employees has no maturity date.

3.3. Trade and other receivables

	Maturity	Unlinked	Israeli CPI linked	Total
		NIS million	NIS million	NIS million
December 31, 2022				
Current assets				
Trade receivables	**2023**	**684**	**-**	**684**
Other receivables and government authorities	**2023**	**141**	**70**	**211**
Total current assets		**825**	**70**	**895**
Non-current assets				
Trade and other receivables	**2024-2025**	**113**	**140**	**253**
December 31, 2021				
Current assets				
Trade receivables	2022	776	-	776
Other receivables and government authorities	2022	30	92	122
Total current assets		806	92	898
Non-current assets				
Trade and other receivables	2023-2024	60	162	222

3.4. Trade and other payables, including derivatives

	Unlinked (including non-monetary items)	Israeli CPI linked	In or linked to foreign currency (primarily USD)	Total
	NIS million	NIS million	NIS million	NIS million
December 31, 2022				
Trade and other payables	**654**	**4**	**51**	**709**
December 31, 2021				
Trade and other payables	645	39	41	725

3.5. Debentures and loans

3.5.1 Composition

	December 31, 2022	December 31, 2021
	NIS million	NIS million
Current liabilities		
Current maturities of debentures	**835**	897
Current maturities of loans	**85**	83
	920	980
Non-current liabilities		
Debentures	**4,216**	5,259
Loans	**2,136**	1,823
	6,352	7,082
	7,272	8,062

3.5.2 Terms and debt repayment schedule

	December 31, 2022		December 31, 2021	
	Carrying amount	Par value	Carrying amount	Par value
	NIS million	NIS million	NIS million	NIS million
Total unlinked bank loans at fixed interest	**706**	**705**	712	711
Total unlinked bank loans at variable interest	**698**	**700**	300	300
Total unlinked loans from financial institutions at fixed interest	**817**	**817**	894	894
Total loans	**2,221**	**2,222**	1,906	1,905
Debentures issued to the public:				
Total Debentures Series 9-14* issued to the public	**5,051**	**4,895**	6,156	6,067
Total debentures	**5,051**	**4,895**	6,156	6,067
Total interest-bearing liabilities	**7,272**	**7,117**	8,062	7,972

* In December 2022, Debentures Series 6-7 were fully repaid.

For further information see Note 13 to the Consolidated Statements – Debentures, Loans and Borrowings.

3.6. Liquidity Risk

Below are the expected maturities of financial liabilities, including estimated interest payments (based on known CPI and interest rates at December 31, 2022):

	December 31, 2022						
	Carrying amount	Contractual cash flows	First half 2023	Second half 2023	2024	2025-2026	2027 onwards
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Non-derivative financial liabilities							
Trade and other payables	**601**	**601**	**591**	**10**	**-**	**-**	**-**
Loans from subsidiaries	**1,140**	**1,357**	**17**	**-**	**40**	**568**	**732**
Loans	**2,220**	**2,651**	**89**	**68**	**313**	**1,196**	**985**
Debentures	**5,052**	**5,539**	**56**	**885**	**926**	**1,867**	**1,805**
Total	**9,013**	**10,148**	**753**	**963**	**1,279**	**3,631**	**3,522**

	December 31, 2021						
	Carrying amount	Contractual cash flows	First half 2022	Second half 2021	2023	2024-2026	2027 onwards
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Non-derivative financial liabilities							
Trade and other payables	592	592	569	23	-	-	-
Loans from subsidiaries	1,230	1,380	5	156	264	599	356
Loans	1,906	2,194	85	50	141	1,042	876
Debentures	6,156	6,806	72	958	1,058	2,502	2,216
Total	9,884	10,972	731	1,187	1,463	4,143	3,448
Financial liabilities for derivatives	**33**	**33**	**4**	**29**	**-**	**-**	**-**

3.7. Currency and CPI risks

For information regarding CPI hedging transactions made by the Company in 2022, see Note 30.6 to the Consolidated Statements. These transactions are accounted for as cash flow hedges.

4. Income Tax

4.1. General

	Year ended December 31		
	2022	2021	2020
	NIS million	NIS million	NIS million
Current tax expenses			
Expenses for the current year	**234**	271	273
Adjustments in respect of previous years based on an assessment agreement	**-**	-	53
Total current tax expenses	**234**	271	326
Deferred tax expenses			
Creation and reversal of temporary differences	**45**	72	(29)
Adjustments in respect of previous years based on an assessment agreement	**-**	-	(53)
Reversal of temporary differences based on an assessment agreement	**-**	-	18
Total deferred tax expenses (income)	**45**	72	(64)
Income tax expenses	**279**	343	262

4.2. Changes in recognized deferred tax assets and tax liabilities during the year

Composition of and changes in deferred tax assets and tax liabilities during the year:

	Balance at January 1, 2021	Recognized in profit or loss	Recognized in equity	Balance at December 31, 2021	Recognized in profit or loss	Recognized in equity	Balance at December 31, 2022
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Employee benefit plans	245	(8)	1	238	**(27)**	**(4)**	**207**
Fixed assets	(208)	(10)	-	(218)	**(1)**	**-**	**(219)**
Tax asset in respect of tax loss on the sale of a subsidiary	37	(37)	-	-	**-**	**-**	**-**
Provisions and others	39	(17)	(11)	11	**(17)**	**1**	**(5)**
	113	(72)	(10)	31	**(45)**	**(3)**	**(17)**

5. Fixed Assets

	2022	2021
	NIS million	NIS million
Cost		
Balance at January 1	**17,637**	17,230
Additions	**999**	1,049
Reclassified from assets held for sale	**-**	21
Disposals	**(500)**	(663)
Balance at December 31	**18,136**	17,637
Depreciation		
Balance at January 1	**12,237**	12,076
Depreciation for the year	**767**	722
Reclassified from assets held for sale	**-**	20
Disposals	**(497)**	(581)
Balance at December 31	**12,507**	12,237
Depreciated cost at December 31	**5,629**	5,400

For further information see Note 9 to the Consolidated Statements – Fixed Assets.

6. Revenues

	Year ended December 31		
	2022	2021	2020
	NIS million	NIS million	NIS million
Internet infrastructure	**1,789**	1,624	1,622
Transmission and data communications	**1,132**	1,087	1,011
Fixed-line telephony	**780**	913	1,008
Cloud and digital services	**331**	318	288
Other services	**274**	240	230
	4,306	4,182	4,159

7. General Operating Expenses

	Year ended December 31		
	2022	2021	2020
	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**113**	111	113
General and marketing expenses	**189**	187	159
Interconnectivity and payments to telecommunications operators	**100**	104	115
Services and maintenance by subcontractors	**203**	134	94
Vehicle maintenance	**37**	35	29
Terminal equipment and materials	**117**	96	80
	759	667	590

8. Other Operating Expenses (Income), Net

	Year ended December 31		
	2022	2021	2020
	NIS million	NIS million	NIS million
Gain on the sale of fixed assets (mainly real estate)	**(11)**	(173)	(13)
Provision for employee termination benefits under early retirement plan	**78**	95	64
Provision for employee bonus	**-**	-	40
Gain on the sale of a subsidiary	**-**	-	(22)
Other expenses(income) (mainly provisions for claims)	**45**	(27)	(1)
	112	(105)	68

9. Subsidiaries

9.1 For information concerning the Company's investment in DBS and Bezeq International, see Note 12 to the Consolidated Statements.

9.2 Direct subsidiaries of the Company:

	Company's interest in equity	Investment in subsidiaries (equity-accounted) at	
		December 31, 2022	December 31, 2021
		NIS million	NIS million
Pelephone Communications Ltd.	**100%**	**2,585**	2,767
Bezeq International Ltd.	**100%**	**190**	218
Bezeq Online Ltd.	**100%**	**58**	62
DBS Satellite Services (1998) Ltd.	**100%**	**(30)**	(46)
		2,803	3,001

Regarding the recording of an investment impairment in companies of the Group, see Notes 10.3 – 10.6 to the Consolidated Statements

The Company's subsidiaries have immaterial investments in other subsidiaries.

For information concerning loans received from and provided to subsidiaries, see Note 10.2 below.

10. Material Agreements and Transactions with Investees

10.1. Guarantees

10.1.1 The Company provided a guarantee in favor of banks for credit to Bezeq International of up to NIS 65 million if it will be granted.

10.1.2 The Company provided a bank guarantee to DBS, in respect of the guarantee which DBS provided in favor of the State of Israel, in accordance with the terms of DBS's license. The guarantee is based on the current rate of its holdings in DBS (100%), up to an amount of NIS 32 million (linked to the Consumer Price Index).

10.1.3 For information on guarantees provided by the Company to various entities, see Note 19 to the Consolidated Statements – Collateral, Liens and Guarantees.

10.2 Intercompany loans

10.2.1 Loans from investees

Terms of loans received from investees (as presented in the Information on Financial Position):

	Balance			
	NIS million	**Payment dates**	**Number of installments**	**Interest rate**
Pelephone				
	815	2026-2030	5	3.56%
	45	2026-2030	5	2.25%
	130	2026-2030	5	3.56%
	60	2026-2030	5	4.01%
	1,050			
Bezeq International				
	90	2026-2030	5	3.78% -2.35%
	1,140			

In March 2022, loans received from Pelephone for a total of NIS 815 million were replaced by a new loan that includes a postponement of the maturity dates from 2022-2025 to 2026-2030. Furthermore, in March and July 2022, Pelephone granted the Company additional loans of NIS 130 million and NIS 60 million, respectively.

In December 2022, Pelephone declared and paid a dividend of NIS 350 million to the Company. Said dividend was paid by offsetting the repayment of loans granted to the Company.

In April 2022, Bezeq International granted a loan of NIS 70 million to the Company.

10.2.2 DBS credit facility or capital investment

In March 2023, the Company's Board of Directors approved a credit facility or capital investment in DBS totaling NIS 40 million, for 15 months, from January 1, 2023 until March 31, 2024, in lieu of previous commitments, the most recent of which was given in November 2022. It should be noted that during 2022, DBS did not make any use of the credit facilities provided by the Company.

10.3 Service agreements

The Company and its investees, as communications providers, are bound by agreements and arrangements for providing and receiving various services in the communications sector, such as: transmission agreements, interconnectivity agreements, billing agreements, various agreements regulating the communications services jointly provided by two companies, communications equipment maintenance, dealer agreements, agreements for the purchase of communications equipment, rental agreements (primarily for communications installations), agreements for joint ventures and advertising on websites of subsidiaries, etc.

The terms of the above service agreements were set according to customary market rates for services of this kind.

Details of the transactions and their carrying amounts in the Company's books:

	Year ended December 31		
	2022	2021	2020
	NIS million	NIS million	NIS million
Transactions			
Revenues			
Pelephone	**67**	70	84
Bezeq International	**254**	261	255
DBS	**2**	3	4
Other	**2**	3	3
Total	**325**	337	346
Expenses			
Pelephone	**28**	30	38
Bezeq International	**13**	15	10
Total	**41**	45	48

		December 31	December 31
		2022	2021
		NIS million	NIS million
Balances due to the Company			
Pelephone		**12**	10
Bezeq International		**64**	73
DBS		**2**	1
Total		**78**	84

For further information, see Note 29 to the Consolidated Statements – Transactions with Interested and Related Parties

11. Contingent Liabilities

11.1 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 legal claims, the financial statements include appropriate provisions in the amount of NIS 127 million, where provisions are required to cover the exposure arising from such legal claims.

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

As of December 31, 2022:

Provision	Additional exposure *	Exposure for claims whose chances cannot yet be assessed*
NIS million		
(1) **127**	(1) **1,261**	(2) **2,466**

* Nominal

(1) A provision balance of NIS 75 million was recognized as an indemnification asset of NIS 75 million, in view of the existence of insurance coverage. The asset was presented under the item "Other receivables" in the statement of financial position as at December 31, 2022, pursuant to the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets."The additional exposure is estimated to be approximately NIS 612 million. As stated, the claim was concluded after the date of the financial statements.

(2) The exposure includes:

Two motions to certify a class action suit for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group, and companies of the group of the Company's controlling shareholder at the time, with respect to the transaction for the Company’s acquisition of DBS shares from Eurocom DBS Ltd. In accordance with a court decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed in view of the criminal proceeding that is being conducted following the investigation by the Israel Securities Authority, as described in Note 1.3 to the Consolidated Statements, and at the request of the Attorney General, until July 20, 2023.

11.2 See Note 6.6 to the Consolidated Statements concerning an amount of NIS 106 million recognized in other receivables and government authorities in respect of permit fees and betterment tax paid by the Company to the Israel Land Authority and the Or Yehuda Local Authority for the sale of the Sakia property in 2019.

11.3 Subsequent to the date of the financial statements, claims for a total of NIS 40 million were filed against the Company. As of the date of approval of the financial statements, it is not yet possible to assess the chances of said claims. Also, see Note (1) above.

For further information on contingent liabilities see Note 17 to the Consolidated Statements.

12. Events in and Subsequent to the Reporting Period

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

12.2 For information on the impacts of the coronavirus pandemic, see Note 1.4 to the Consolidated Statements.

12.3 Regarding an impairment loss in respect of Bezeq International and DBS and a test for goodwill impairment with respect to Pelephone and Bezeq’s fixed-line segment, see Note 10 to the Consolidated Statements.

12.4 See Note 12.1.2 to the Consolidated Statements regarding a structural change in the subsidiaries.

12.5 For information on the deployment of a fiber optic network by the Company and the commitment to pay into the Incentive Fund, see Notes 9.4 and 18.7 to the Consolidated Statements.

12.6 For information concerning employee retirement see Note 16.5 to the Consolidated Statements.

12.7 On March 9, 2023, Pelephone's Board of Directors approved a cash dividend of NIS 115 million to the Company, as well as a dividend of NIS 235 million, against early repayment of the loans granted to the Company.

12.8 For information on the Board of Directors' resolution of March 13, 2023 regarding the dividend distribution policy and the Board of Directors' resolution to recommend to the General Meeting a dividend distribution, see Note 20.2 to the Consolidated Statements.

12.9 For information on additional material subsequent events, see Note 32 to the Consolidated Statements.

Chapter D

Additional Information about the Company
Corporate Governance Questionnaire
Year ended December 31, 2022

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

1. Regulation 10A: Summary of the Company's statements of comprehensive income for each of the quarters of the reporting year

See section 1.3 to the Director's Report, attached to the second part of this report.

2. Regulation 10C: Use of proceeds for securities

In the reporting period the Company did not offer any securities under a prospectus and did not receive any proceeds with respect to such offering of securities.

3. Regulation 11: Breakdown of investments in subsidiaries as at the date of the statements of financial position[1]

Company name:	Name of holder	Class of share	Number of shares	Total par value	% of holding in issued share capital and voting rights	% of holding in rights to appoint directors	Value in Company's separate balance sheet (NIS millions)
Pelephone Communications Ltd. ("Pelephone")	The Company	Ordinary NIS 1 shares	302,460,000	302,460,000	100%	100%	2,585
Bezeq International Ltd. ("Bezeq International")	The Company	Ordinary NIS 0.1 shares	1,136,986,301	113,698,630	100%	100%	190
DBS Satellite Services (1998) Ltd. ("DBS")	The Company	Ordinary NIS 1 shares	36,117	36,117	100%	100%	(30)
Bezeq Online Ltd. ("Bezeq Online")	The Company	Ordinary shares without nominal value	1,170,000	-	100%	100%	58

[1] For information with regard to recording of impairment of investments in the Group's subsidiaries, see Notes 10.3, 10.5 and 10.6 to the financial statements. For information concerning the Company's irrevocable undertaking to DBS for the provision of a credit facility or capital investment see Note 12.2.2 to the financial statements and Note 10.2.2 to the separate financial information attached to the report.

4. Regulation 12: Changes in investments in subsidiaries in the reporting period[2]:

Date of change	Nature of the change	Company name:	Reported amounts (NIS thousands)
August 2022	Repayment of capital note to Bezeq Online	Bezeq Online	10
December 2022	Distribution of a dividend	Pelephone	350[3]

5. Regulation 13: Revenues of subsidiaries and the Company's revenues from them as at the date of the statement of financial position (in NIS millions)

Company name:	Profit (loss) for the period	Comprehensive income (loss) for the period	Dividends	Management fees[4]	Interest income
Pelephone	165	165	350	2	-
Bezeq International	(32)	(30)	-	1	-
DBS	13	14	-	1	-
Bezeq Online	5	5	-	-[5]	-

6. Regulation 20: TASE Trading

A. In the reporting period and through to date of publication of the report, 980,419 ordinary shares of NIS 1 par value each of the Company ("Ordinary Shares") were listed on the TASE, resulting from the exercise of non-marketable options into Ordinary Shares on behalf of employees and officers ("Options"), out of the total of such Options that were allotted to employees and officers of the Company.

B. To the best of the Company's knowledge, in the reporting period, there was no interruption in trading in the Company's listed securities, other than a halt in trading of Debentures (Series 9) of the Company on January 4, 2022, due the announcement of a change in the terms of the security.

7. Regulation 21: Remuneration of interested parties and executive officers

Below is a breakdown of the remunerations paid in 2022, as recognized in the financial statements for 2022, to each of the five highest-paid executive officers in the Company or in a company under its control in lieu of their service in the Company or in a company under its control, (employer's cost and on annual basis). It should be emphasized that the amounts stated in the table are the amounts recognized in the financial statements for 2022, but some of the actual payments to some of the officers include amounts recognized in previous financial statements, part of which are subject to the conditions set out below.

[2] For information concerning loans that the Company received from investees, see Note 10.2 to the separate financial information attached to the report. As at December 31, 2022 the outstanding principal of these loans amounted to NIS 1,140 million.

[3] Paid by way of offsetting the repayment of loans, see Note 10.2.1 to the separate financial information attached to the report.

[4] It is hereby clarified that this is not management fees, rather reimbursement for participation in expenses for board of directors' meetings of subsidiaries and for participation in the salary of the Group's chairman. In 2022, reimbursement for the salary of the Group's chairman was also collected for 2021, and the amounts in the table include such amounts.

[5] Less than NIS 1 million.

Recipient					Remuneration (in NIS thousands)				Total (NIS thousands)	Section below
Name	Position	Sex	Scope of position	% of holding in Company's equity	Salary[6]	Bonus[7]	Share-based payment	Other (management fees)	Total	
Gil Sharon	Chairman of the Board of Directors	Male	Full-time	-	2,712	2,041[8]	2,427	-	7,180	A.
Ran Guron	CEO of Pelephone, DBS and Bezeq International until June 18, 2022 and CEO of the Company as of June 19, 2022	Male	Full-time	-	2,711	2,591	1,820	-	7,122	B.
Ilan Sigal	CEO of Pelephone, DBS and Bezeq International (the last until December 31, 2022)	Male	Full-time	-	1,260[9]	601	2,246	-	4,107	C
Tobi Fischbein	VP Finance of the Company and CFO of the Group	Male	Full-time	-	1,395	743	298	-	2,436	D.
Zvika Abramovich	VP Human Resources of Pelephone, DBS and Bezeq International (the last until December 31, 2022)	Male	Full-time	-	1,372	711	197	-	2,281	E.

6 The remuneration amounts include the cost of salaries (employer costs, including actuary provisions) and ancillary salary costs, including perks and social benefits such as telephone expenses, company car (cost of leasing or vehicle depreciation costs or reimbursement of expenses in lieu of use of company car to the Company's VPs), study fund, provisions for pension fund and for termination of the employer-employee relations (for employees subject to section 14 of the Severance Law), reimbursement of expenses, annual convalescence pay, expenses for employee holiday gift (included amount), membership fees for companies in professional associations that were paid for the employee (not as part of the employee's employment) and if a loan was provided to an employee, the value of the benefit in the interest on the loan.

7 The amounts of the bonus that appear in the table are as recognized in the 2022 financial statements and include a performance based bonus and special bonuses (for information concerning each of the officers, see sections A through H below the following table), all in accordance with the Company's Compensations Policy. The performance based bonus that appears in the table is for 2022 (at reporting date, it is yet to be paid to executive officers) and includes a contingent portion that will be paid to these officers by way of the distribution described in the notes to the table. In 2022, bonuses were paid to the foregoing officers for 2021, the amount of which includes the contingent portion that was not actually paid in 2022, but will be paid in 2023 (if at all) is included in the corresponding table in the Company's annual report for 2021 (as published on March 23, 2022) (if the relevant officer was included in the foregoing table).

8 The amount of the bonus component for Gil Sharon as included in the table, includes an annual discretionary bonus that was approved by the general meeting of the Company on April 28, 2022 for the Chairman of the board of directors for 2021. For further information see the immediate report for the convening of a general meeting dated March 23, 2022, as amended on April 14, 2022, presented here by way of reference. As the bonus was approved subsequent to approval of the financial statements for 2021, it is included in the financial statements for 2022 and accordingly is included in the table above.

9 The amount of the salary component for Ilan Sigal as included in the table includes a provision made for prior notice.

Breakdown of the terms of the agreement of the interested parties and officers listed in the foregoing table:

A. Gil Sharon

Employed as a director and as chairman of the board of directors of the Company and as chairman of the board of directors of all the Group's subsidiaries as of August 27, 2020, under a personal employment agreement dated December 10, 2020 as amended on May 17, 2022 (in this section: the "Employment Agreement"), and as such, he provides the following services: (1) to steer the Company and define its operating strategy, by implementing the strategy defined by the Company's board of directors; (2) to promote and develop the Company; and (3) to perform, among other things, the duties imposed on him pursuant to his authority and role as chairman of the board of directors, in accordance with the provisions of any law, including the Company's articles of association and procedures as revised from time to time. His total gross monthly salary amounts to NIS 170 thousand. The agreement is for an unlimited period and may be terminated by either party at any time and for any reason with three months prior notice. In addition, Gil Sharon was awarded 12,000,000 options. For further information on the terms of service and employment of Gil Sharon as chairman of the board of directors of the Company, see the immediate report for the convening of a general meeting, as published on December 12, 2020, presented here by way of reference, and for further information concerning the terms of the foregoing options, see the amended report with regard to granting of options to employees and a material private placement report dated May 9, 2022. The fair value of the options as at date they were granted (calculated according to the Monte Carlo model) is NIS 9.3 million.

Gil Sharon's bonus goals for 2022[10], as chairman of the board of directors of the Company, were preset by the Company's board of directors in December 2021, and included: an adjusted EBITDA[11] goal for the Group, representing 50% of the bonus calculation; an adjusted net profit goal for the Group, representing 25%; and an adjusted free cash flow (FCF) goal for the Group, representing 25%. The rate of the Chairman of the board of directors compliance with the bonus goals for 2022, was 120.25%. A precondition for receiving the bonus was that the result of the adjusted EBITDA for the Group for 2022 (NIS 3,404.8 million) would not fall below 40% of the result of the adjusted EBITDA for the Group in 2021 (NIS 3,319.1 million) - this precondition was met. The maximum performance based bonus for the Chairman of the Board is limited in accordance with the provisions of the Company's compensations policy to up to 75% of the base annual salary (9 salaries). Accordingly, the bonus awarded to the Chairman of the board of directors for 2022 is 75% of the annual salary. It is noted that, for calculating compliance with the goals for 2022, the reduction in telephony rates that was not taken into account in the Company’s budget for 2022 was not taken into account, in accordance with the compensations policy and according to the approval of the board of directors in December 2021. Gil Sharon will be eligible to receive 40% of the compensation for complying with the adjusted EBITDA goal for the Group for 2022 only in 2024 (after approval of the financial statements for 2023) and only if the minimum adjusted EBITDA goal for the Group as set for the 2023 budget year, will be achieved.

It is noted that, subsequent to reporting date, the Company's board of directors approved, on March 13, 2022, after approval by the Company’s Compensations Committee on March 1, 2023, a special grant in the amount of 3 monthly salaries for Gil Sharon for 2022 (in this section: the “Bonus”), subject to the approval of the annual general meeting of shareholders of the Company, which will convene on April 20, 2023. For further information regarding the bonus and the proposed amendment to the Company's compensations policy, see the immediate report for convening of a general meeting issued together with this Report and that is presented here by way of reference (the “Report for Convening the Annual General Meeting”).

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10 Pursuant to the amendment to the compensations policy and terms of service and employment of the Chairman of the board of directors, as approved by the general meeting on April 14, 2022 (for further information see the immediate report for convening of a general meeting dated March 23, 2022, as amended on April 14, 2022, presented here by way of reference).

11 The adjusted EBITDA for the purpose of determining the compensation - the EBITDA was calculated net of other operating expenses/income, losses/gains from impairment/appreciation (including losses due to ongoing impairment), the effects of application of the IFRS16 Leasing reporting standard and expenses for share based payments.

B. Ran Guron

Ran Guron was employed as the CEO of the three material subsidiaries: Pelephone, Bezeq International and DBS (jointly, below in this section: the "Subsidiaries") until June 18, 2022, and as of June 19, 2022 he is employed as the CEO of the Company, under a personal employment agreement dated May 8, 2022 (in this section: the "Employment Agreement"). Since January 1, 2019, Ran Guron's gross total monthly salary was NIS 153 thousand, linked to the CPI. The agreement is for an unlimited period and may be terminated by either party at any time with six months prior notice. In addition, Ran Guron was awarded 9,000,000 options. On September 14, 2022, the general meeting of the Company approved, following the approval by the board of directors of the Company on May 23, 2022 and the compensations committee of the Company on May 17, 2022, the terms of service and employment of Ran Guron as CEO of the Company, which came into force as of the date of commencement of his employment in the Company. For further information on the terms of service and employment of Ran Guron as CEO of the Company, see the immediate report for the convening of a general meeting, as published on August 10, 2022, presented here by way of reference, and for further information concerning the terms of the foregoing options, see the amended report with regard to granting of options to employees and a material private placement report dated May 9, 2022. The fair value of the options as at date they were granted (calculated according to the Monte Carlo model) is NIS 6.9 million.

Ran Guron's bonus goals for 2022 in his role as CEO of the Subsidiaries were preset by the Company's board of directors in December 2021, after approval by the Company's compensations committee, and included: an aggregate adjusted EBITDA[12] goal for the Subsidiaries, representing 60% of the bonus calculation; an adjusted EBITDA less aggregate CAPEX goal for the Subsidiaries (CAPEX in terms of cash flow), representing 10%; an adjusted EBITDA goal by company, a combined goal[13] , representing 15%; a Chairman of the Board assessment goal for managing the material weakness in Bezeq International, representing 5%; and a manager's assessment goal, representing 10%. A precondition for receiving the bonus was that the result of the aggregate adjusted EBITDA for the Subsidiaries for 2022 (NIS 883 million) would not fall below 40% of the result of the aggregate adjusted EBITDA for the Subsidiaries in 2021 (NIS 799 million) - this precondition was met.

Ran Guron's bonus goals for 2022 in his role as CEO of the Company were preset by the Company's board of directors, for the previous CEO of the Company, in December 2021 and it was decided regarding Ran Guron when his terms of office and employment was approved by the board of directors of the Company in May 2022, and included: an adjusted EBITDA goal for the Company (separate), representing 50% of the bonus calculation; adjusted profit after tax goal of the Company (separate), representing 20%; adjusted FCF[14] goal of the Company (separate), representing 20%; and a manager's assessment goal, representing 10%. A precondition for receiving the bonus was that the result of the adjusted EBITDA for 2022 (NIS 2,534.8 million) would not fall below 40% of the result of the adjusted EBITDA in 2021 (NIS 2,512.1 million) - this precondition was met.

The rate of compliance of the Company's CEO with all the bonus goals for 2022 in his role as CEO of the Company, was 109.5%; and the rate of his compliance with all the bonus goals for 2022 in his role as CEO of the Subsidiaries, was 121.4%. Accordingly, the bonus that will be awarded to the CEO of the Company for compliance with the goals as the CEO of the Subsidiaries as well as CEO of the Company for 2022 was calculated pro rata to his term in office in 2022 in each of the companies and is 115% of his annual salary. It is hereby noted that, the reduction in telephony rates that was not included in the Company's budget for 2022, in accordance with the compensations policy and according to the approval of the board of directors in December 2021, and the increase in the investments budget that was updated according to the board of directors decision in 2022 for increasing the Company's fiber optics deployment target for this year, were not taken into account for calculating compliance with the goals for 2022. Ran Guron will be eligible to receive 40% of the compensation for complying with the adjusted EBITDA goal for the Company (separate) for 2022 only in 2024 (after approval of the financial statements for 2023) and only if the minimum adjusted EBITDA goal for the Company (separate) as set

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12 See footnote 11 above.

13 Pelephone - 56%, DBS - 29%, Bezeq International - 15%.

14 Adjusted FCF was calculated as cash from operating activities less net cash for the purchase/sale of fixed assets and intangible assets, less lease payments.

for the 2023 budget will be achieved. It should be noted that in its meeting of March 1, 2023, the Company's compensations committee decided to release, in accordance with the Company's compensation policy, the compensation due to Ran Guron for the performance-based bonus for serving as CEO of the Subsidiaries in 2022, to be paid together with the payment of the entire bonus for 2022. On March 1, 2023, March 9, 2023 and March 13, 2023, the compensation committee, the boards of directors of the Subsidiaries and the board of directors of the Company, respectively, approved a retirement bonus for the Company's CEO, in the amount of 3 monthly salaries, for the termination of his 6.5 years in office as CEO to the Subsidiaries, where as part of his office as CEO of the Company (in his role as CEO of the Subsidiaries) under his management the Subsidiaries achieved good results despite increasing competition in all areas of the Subsidiaries' operations, burdensome regulation and the challenging Covid-19 pandemic. In his role as CEO of the Subsidiaries, the Company's CEO completed complex projects and headed significant organizational changes and processes.

C. Ilan Sigal

From August 28 through December 31, 2022, Ilan Sigal was employed as CEO of the Subsidiaries, and as of January 1, 2023, he is employed as CEO of Pelephone and DBS under a personal employment agreement dated May 23, 2022 (in this section: the "Employment Agreement"). His total gross monthly salary amounts to NIS 120 thousand. The agreement is for an unlimited period and may be terminated by either party at any time with six months prior notice. In addition, Ilan Sigal was awarded 4,131,000 options. For further information concerning the terms of the foregoing options, see the amended report with regard to granting of options to employees dated May 9, 2022 and the immaterial private placement report dated September 1, 2022. The fair value of the options as at date they were granted (calculated according to the Monte Carlo model) is NIS 8 million.

Ilan Sigal's bonus goals for 2022 in his role as CEO of the Subsidiaries were preset by the Company's board of directors in December 2021, after approval by the Company's compensations committee and by the boards of directors of the Subsidiaries, and included: an aggregate adjusted EBITDA[15] goal for the Subsidiaries, representing 60% of the bonus calculation; an adjusted EBITDA less aggregate CAPEX goal for the Subsidiaries (CAPEX in terms of cash flow), representing 10%; an adjusted EBITDA goal by company, a combined goal[16] , representing 15%; a Chairman of the Board assessment goal for managing the material weakness in Bezeq International, representing 5%; and a manager's assessment goal, representing 10%. A precondition for receiving the bonus was that the result of the aggregate adjusted EBITDA for the Subsidiaries for 2022 (NIS 883 million) would not fall below 40% of the result of the aggregate adjusted EBITDA for the Subsidiaries in 2021 (NIS 799 million) - this precondition was met.

The rate of compliance of the Subsidiaries' CEO with the bonus goals for 2022, was 121.9%. Accordingly, the bonus that will be awarded to the CEO of the Subsidiaries for 2022, which is 121.9% of his annual salary, pro rata to the period he actually worked for the Subsidiaries. Ilan Segal will be eligible to receive 40% of the compensation for complying with the weighted aggregate adjusted EBITDA goal for 2022 only in 2024 (after approval of the financial statements for 2023) and only if the minimum aggregate adjusted EBITDA goal as set for the 2023 budget year, will be achieved.

D. Tobi Fischbein

Employed as Executive VP of Finance of Bezeq and CFO of the Group since April 15, 2021, under a personal employment agreement dated February 11, 2021 (in this section: the "Employment Agreement"). His total gross monthly salary amounts to NIS 85 thousand. The agreement is for an unlimited period and may be terminated by either party at any time with three months prior notice. In addition, Tobi Fischbein was awarded 1,200,000 options. For further information concerning the terms of the foregoing options, see the amended report with regard to granting of options to employees dated May 9, 2022 and the immaterial private placement report dated March 24, 2021. The fair value of the options as at date they were granted (calculated according to the Monte Carlo model) is NIS 0.9 million.

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15 See footnote 11 above.

16 Pelephone - 56%, DBS - 29%, Bezeq International - 15%.

Tobi Fischbein's bonus goals for 2022, as VP of Finance of Bezeq and CFO of the Group, were preset by the Company's board of directors in December 2021, and included: an adjusted EBITDA[17] goal for the Company, representing 50% of the bonus calculation; an adjusted net profit goal, representing 25%; an adjusted free cash flow (FCF) goal, representing 15%; and a chairman of the board assessment goal[18], representing 10%. The rate of compliance of the Executive VP Finance of Bezeq and CFO of the Group with the set of bonus goals for 2022, was 112.3%. Accordingly, the bonus that will be awarded to Bezeq's VP of Finance and CFO of the Group for 2022, amounts to 56.15% of his annual salary. It is hereby noted that, the reduction in telephony rates that was not included in the Company's budget for 2022, in accordance with the compensations policy and according to the approval of the board of directors in December 2021, and the increase in the investments budget that was updated according to the board of directors decision in 2022 for increasing the Company's fiber optics deployment target for this year, were not taken into account for calculating compliance with the goals for that year. Tobi Fischbein will be eligible to receive 40% of the compensation for complying with the adjusted EBITDA goal for the Company for 2022 only in 2024 (after approval of the financial statements for 2023) and only if the minimum adjusted EBITDA goal for the Company as set for the 2023 budget year, will be achieved.

On March 1 and March 13, 2023 the Company's compensations committee and board of directors approved a special bonus, of two monthly salaries, to the Executive VP of Finance of Bezeq and CFO of the Group, and this with respect to the extraordinary effort invested in promoting and executing a project that was not included in the Group's work plan and that led to exceptional improvement in a number of the financial indicators of the Group companies, and for the intensive IR work headed by the Executive VP of Finance of Bezeq and CFO of the Group.

E. Zvika Abramovich

From March 1, 2019 through December 31, 2022, Zvika Abramovich was employed as VP of Human Resources of the Subsidiaries, and as of January 1, 2023, he is employed as Executive VP of Pelephone and DBS under a personal employment agreement dated September 1, 2014 (in this section: the "Employment Agreement"). His total gross monthly salary amounts to NIS 75 thousand, linked to the CPI. The agreement is for an unlimited period and may be terminated by either party at any time with six months prior notice. In addition, Zvika Abramovich was awarded 1,000,000 options. For further information concerning the terms of the foregoing options, see the amended report with regard to granting of options to employees and the immaterial private placement report dated May 9, 2022. The fair value of the options as at date they were granted (calculated according to the Monte Carlo model) is NIS 0.7 million.

Zvika Abramovich's bonus goals for 2022 as VP of Human Resources in the Subsidiaries were preset by the boards of directors of the subsidiaries in December 2021 and included: an adjusted EBITDA[19] goal of the Subsidiaries, representing 50% of the bonus calculation; payroll expenses goal of the Subsidiaries, representing 20%; collective agreements costs goal, representing 10%; a managers assessment goal for negotiating the Pelephone and Bezeq International collective agreements, representing 10%; and a manager's assessment goal, representing 10%. The rate of compliance of the VP Human Resources of the Subsidiaries with the bonus goals for 2022, was 103.2%. Accordingly, the bonus awarded to the VP Human Resources for 2022 is 51.6% of the annual salary. Zvika Abramovich will be eligible to receive 40% of the compensation for complying with the weighted adjusted EBITDA goal for the Subsidiaries for 2022 only in 2024 (after approval of the financial statements for 2023) and only if the minimum adjusted EBITDA goal for the Subsidiaries, as set for the 2023 budget year, will be achieved.

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[17] See footnote 11 above.

[18] It was determined that the Chairman of the Board assessment goal would take into account the management and implementation of the risk management and IR plan, and with regard to the management of the issue of material weakness.

[19] See footnote 11 above.

On December 21, 2022, the board of directors of Pelephone approved a special bonus equivalent to 3 monthly salaries for the VP Human Resources of the Subsidiaries, due to the successful negotiations in renewing the collective agreements for Pelephone and Bezeq International.

F. Pursuant to the provisions of section 7.2.1.6.3 of the compensation policy for officers of the Company, below is a breakdown of the preconditions for receiving the performance-based annual bonus for the Chairman of the board of directors, CEO of the Company and CEOs of the Subsidiaries for 2023, as approved by the compensation committee and board of directors of the Company:

The precondition for the Chairman of the board of directors, Gil Sharon, receiving a bonus for 2023, is that the Group's adjusted EBITDA[20] results for 2023 will not fall below 40% of the Group's adjusted EBITDA results in 2022.

The precondition for the CEO of the Company, Ran Guron, receiving a bonus for 2023, is that the Company's (separate) adjusted EBITDA results for 2023 will not fall below 40% of the Company's (separate) adjusted EBITDA results in 2022.

The precondition for the CEO of the Pelephone and DBS, Ilan Sigal, receiving a bonus for 2023, is that the aggregate adjusted EBITDA results of Pelephone and DBS for 2023 will not fall below 40% of the aggregate adjusted EBITDA results of Pelephone and DBS in 2022.

The precondition for the CEO of Bezeq International, Ron Glav receiving a bonus for 2023, is that the FFO results of Bezeq International for 2023 will not fall below 20% of the goal set with regard thereto in Bezeq International's budget for 2023 (NIS 90.2 million).

With regard to all the foregoing, it is noted that the calculation for compliance with the performance goals for 2023 will not include, among other things, specific regulatory and accounting issues and specific business and strategic activities that were not taken into account in the budgets of the Group and the companies for 2023, and as determined by the Company's compensation committee and board of directors.

Other interested parties who received remuneration from the Company in the reporting year:

G. **Patrice Taieb** serves as an employee director since January 1, 2022[21] (he was elected to serve as a director by the General Meeting on April 28, 2022). Patrice Taieb's total salary for the period during which he served as a director in 2022 amounted to NIS 494 thousand, and is linked to the professional salary tables. This salary does not include a bonus for 2022 in the amount of NIS 27 thousand, which was set in accordance with the criteria for all the Company's employees, based on the Company's adjusted EBITDA[22], and that as at reporting date has not yet been paid. All remuneration paid to Patrice Taieb, as set out above, is with respect to him being an employee of the Company during the period he served as an employee director, and not with respect to his service as a director of the Company.

H. **Dudu Mizrahi**, Employed as CEO of the Company from September 1, 2018 through June 15, 2022 (and during the prior notice period until the date of termination of the employer-employee relations on October 24, 2022), under a personal employment agreement dated October 4, 2018. On April 24, 2022, the Company's former CEO gave notice of his retirement. For further information, see the immediate report issued by the Company on April 24, 2022, presented here by way of reference. Since September 1, 2018 until the termination of his service, Dudu Mizrahi's gross total monthly salary amounted to NIS 150 thousand, linked to the CPI. In addition, Dudu Mizrahi was awarded 9,000,000 options, of which 4,919,178 expired on the date of termination of his employment in the Company. For further information concerning the terms of the foregoing options, see the amended report with regard to granting of options to employees and the immaterial private placement report dated May 9, 2022.

[20] See footnote 11 above.

[21] For further information see section 14 of this report.

[22] See footnote 11 above.

The former CEO's bonus goals for 2022, were preset by the Company's board of directors in December 2021, and included: an adjusted EBITDA goal for the Company (separate), representing 50% of the bonus calculation; adjusted FCF goal of the Company (separate), representing 20%;a profit after tax goal of the Company (separate), representing 20%; and a manager's assessment goal, representing 10%. The precondition for receiving the bonus was that the result of the adjusted EBITDA[23] for 2022 (NIS 2,534.8 million) would not fall below 40% of the result of the adjusted EBITDA in 2021 (NIS 2,512.1 million) - this precondition was met. The rate of compliance of the Company's former CEO with all the bonus goals for 2022 was 103.46%, of which 97.46% compliance with measurable compensation goals that are not a discretionary goal. In view of the retirement bonus approved for the former CEO of the Company, as set out below, the former CEO of the Company was only eligible to receive a portion of the bonus attributed to measurable compensation goals and based on the number of months worked in practice in 2022, amounting to a total sum of NIS 807 thousand.

It should be noted that in the reporting year, pursuant to the Company's compensation policy, 6 months prior notice, of which four and a half months of work in practice were waived, and a retirement bonus equivalent to 3 monthly salaries were approved for the former CEO of the Company. The retirement bonus was awarded to the former CEO of the Company taking into account his contribution to the Company throughout his employment and the Company's performance during the term of his employment.

I. **Remuneration for external directors, independent directors and directors who are not external and/or independent directors** (regarding the latter, distinguishing between an expert director and non-expert director) is based on the maximum rates fixed in the Fourth Schedule to the Companies Regulations (Rules Regarding Remuneration and Expenses for an External Director), 2000 ("Remuneration Regulations") with regard to an expert external director, linked to the CPI as set out in the Regulations. The total remuneration paid to external directors and independent directors in respect of their service on the Board of Directors, board committees and boards of directors of Subsidiaries (as the case may be) in 2022 amounts to NIS 2,614 thousand (not including VAT). It should be noted that in accordance with Company Regulations (Rules Regarding Remuneration and Expenses for an External Director) (Temporary Order), 2022 approved on March 7, 2022, the Company's board of directors established criteria for classifying a director's participation in the meetings of the board of directors and its committees conducted during the restricted period (from March 15. 2020 and as defined in the foregoing Regulations) using means of communication as participation in regular meetings, and approved the payment of retroactive remuneration for the Company's directors according to the foregoing criteria. The amounts paid retroactively with respect to such meetings are included in the foregoing total.

8. Regulation 21A: The controlling shareholder of the Company

To the best of the Company's knowledge, on October 11, 2021, all the shares of the Company held by B Communications (SP2) Ltd. ("B Communications 2"), a private company registered in Israel and wholly owned and controlled B Communications (SP1) Ltd. (B Communications 1"), a private company registered in Israel and wholly owned and controlled by B Communications, were transferred to the direct holding of B Communications Ltd. ("B Communications"), an Israeli public company whose shares are traded on the TASE, and as at reporting date amount to 741,483,713 ordinary shares of the Company, constituting 26.80% of the issued and paid up share capital of the Company (26.28% fully diluted).

To the best of the Company's knowledge, the controlling shareholder of B Communications is Searchlight II BZQ L.P., a limited partnership incorporated in the Cayman Islands ("Searchlight") and T.N.R. Investments Ltd. ("TNR"), a private company incorporated in Israel.

The ultimate general partner in Searchlight is Searchlight Capital Partners II GP, LLC, a limited liability company incorporated in the State of Delaware, that is owned by a number of individuals, among them,

23 See footnote 11 above.

Erol Uzumeri, Eric Zinterhofer and Oliver Haarmaann, who are among the individuals that received the control permit for the Company from the Ministry of Communications.

TNR is wholly owned and controlled by David Fuhrer (50%) and Michal Fuhrer (50%).

As the Company was informed, pursuant to the definition of the term "controlling shareholder" in Section 268 of the Companies Law, 1999, Searchlight and TNR are deemed the controlling shareholders of B Communications due to the control permit dated November 11, 2019 and under a voting agreement between them that gives them a cumulative stake, as at date of publication of this report, of 78% of the voting rights and share capital of B Communications. Furthermore, TNR Real Estate Properties Ltd., which to the best of the Company's knowledge is controlled by David Fuhrer (50%) and Michal Fuhrer (50%), holds 2,546,320 shares of the Company.

For further information see the immediate report on the holdings of interested parties and executive offices dated January 5, 2023, included here by way of reference.

Control permit under the Communications Law and Communications Order

On November 11, 2019, the Minister of Communications, by virtue of the Prime Minister's powers that were transferred to him (the "Ministers"), granted permits for control of the Company, pursuant to Section 4D of the Communications Law and Section 3 of the Communications Order, as follows:

A. A control permit to B Communications 2, B Communications 1, B Communications, TNR, Searchlight and Searchlight Group companies[24] ("Permit for Companies").

B. A permit to hold means of control of the Company and to control it to Eric Zinterhofer, Erol Uzumeri, Oliver Haarmaann, and Darren Glatt[25] ("Permit for Individuals"). The Permit for Companies and the Permit for Individuals are hereinafter referred to collectively as the "Control Permits". The entities to which the Permits were granted are referred to as the "Permit Holders".

The Control Permits are for controlling and holding the means of control of the Company, through B Communications 2, B Communications 1 and B Communications, at a rate no less than 25% ("Minimum Rate")[26]. The Control Permits permit the Permit Holders to be the controlling shareholders of the Company directly and indirectly (according to the approved structure of holdings), and they permit Searchlight and TNR to make "joint appointments," as defined in the Communications Order, in the Company and in B Communications.

The Control Permits regulate, among other things, the transfer of means of control among the Permit Holders themselves (subject to the restrictions set therein), and also prohibit the transfer of means of control to entities that are not one of the Permit Holders without the Ministers' approval.

In addition, the Control Permits impose on the Permit Holders the duty of reporting to the Ministers regarding the matters specified therein. The Control Permits further establish provisions regarding the minimum rate of holdings of an Israeli Entity (as defined in the Communications Order)[27] in the Company. For further

24 Searchlight II BZQ, L.P. (Cayman ELP) ("Aggregator LP"), Searchlight II BZQ GP, Ltd (Cayman) ("Aggregator GP"), SC II BZQ, L.P. (Cayman ELP) ("Main fund Splitter"), SC II PV BZQ L.P. (Cayman ELP) ("PV Fund Splitter"),SC II BZQ Holdings, Ltd. (Cayman Corp.) ("Main Fund Blocker"), SC II PV BZQ Holdings L.P. (Cayman ELP) ("PV Fund Blocker GP"), SC II PV BZQ Holdings GP, Ltd. (Cayman Corp.) ("PV Fund Blocker GP"), Searchlight Capital II, L.P. (Cayman ELP) ("Main Fund"),Searchlight Capital II, PV L.P. (Cayman ELP) ("PV Fund"),Searchlight Capital Partners II GP, L.P. (Cayman ELP) ("General Partner"),Searchlight Capital Partners II GP, LLC (DE LLC) ("Upper GP").

25 Darren Glatt is a director of the Company. According to the information the Company received from B Communications, Darren Glatt is not considered a controlling shareholder of the Company, as this term is defined in the Securities Law and the Companies Law.

26 The Minimum Rate is defined as 25% of any type of means of control in the Company, or a lower rate as approved by the Ministers under Section 3(a2) of the Communications Order. It should be noted that the Minimum Rate may change if it is proven to the satisfaction of the Minister of Communications that the conditions set out in Section 3(a3) of the Communication Order are met

27 The Control Permits were granted subject to David and Michal Fuhrer being citizens and residents of Israel, and they provide that, as long as the Communications Order requires an Israeli entity, as defined in the Communications Order, to hold means of control in the Company, TNR and/or Michal Fuhrer and David Fuhrer may not transfer means of control in the Company without the Ministers' prior written approval, if such transfer will diminish their holdings, as the case may be, in any type of means of control to a lower rate than the Minimum Rate under the Communications Order.

information on the hearing of March 8, 2020 concerning a change in the requirement for minimum holding of means of control in a general license holder by an Israeli Entity, see section 2.16.3.6 of Chapter A to the Periodic Report. For further information concerning the publication of the Draft Communications Order (Telecommunications and Broadcasting) (Determination of an Essential Service Provided by Bezeq the Israel Telecommunications Corp. Ltd.) (Amendment), 2022 on the government's legislation website on September 4, 2022, for regulating, among other things, the addition of the option for the controlling shareholder to replace the Israeli shareholder requirement with directives of the General Security Service under Section 13 of the Communications Law, further to B Communication's application to the Ministry of Communications requesting, among other things, that the Communications Order be amended so as to allow it in the future to gradually sell its holdings in the Company to the public, so that at the end of such process, it will no longer be the controlling shareholder of the Company, and the notice of the Secretary of the Government of Israel dated March 5, 2023 under which, on the same date, the Government approved the amendments to the Communications Order, which requires the approval of the Knesset Committee, see section 1.1.2 of Chapter A to the periodic report.

Furthermore, the Permit for Companies establishes provisions regarding the amendment of the articles of association of the Company, B Communications and the Company's subsidiaries that are licensees under the Communications Law (in this section: “Subsidiaries”), as follows: (1) The articles of association of B Communications and the Subsidiaries are required to contain provisions according to which: (a) the method for appointing directors will not be changed without the prior written approval of the Minister of Communications; (b) the Company will report to the Ministers regarding a holder of means of control that has irregular holdings in the Company as soon as it becomes aware of the existence of such irregular holdings; (c) the Company will report to the Ministers regarding a shareholder that becomes an interested party in the Company, within 48 hours from when the Company becomes aware of such change; (2) The articles of association of the Subsidiaries are required to contain provisions regarding the rights of the Israeli Entity, as defined in the Communications Order, to appoint directors in them, in accordance with Section 4(a)(2)(b)(2) of the Communications Order (see section 2.16.3 of Chapter A to the periodic report); (3) Provisions were established that the articles of association of B Communications are required to include, pursuant to the provisions of the Control Permit and the Communications Order. The Control Permit specifies that if the articles of association of B Communications, the Company and the Subsidiaries do not include the foregoing provisions at the time the Permit is granted, they must be established within 60 days of the granting of the Permit, and that failure to set out such required provisions within 60 days of the granting of the Control Permit or to amend the provisions of the articles as aforesaid, would constitute grounds for revoking the Control Permit.

According to a report by B Communications, on October 28, 2020, B Communications applied to the Ministry of Communications to rescind the condition stipulated in the Control Permit given to it in connection with its holdings in shares of the Company, to amend the Company's articles of association and the subsidiaries' articles of association, after the general meeting rejected the amendment of the articles of association in May 2020. Among other reasons, B Communications asserts that the requested amendments establish provisions that in any case exist in the Communications Order and in other laws, and therefore do not create a new law and are not required. For further information see section 1.1.2 of Chapter A to the periodic report.

The Permit was granted to the Permit Holders based on the composition of their means of control[28]. In addition, the Control Permits do not include a permit to issue a tender offer for the acquisition of the Company's total shares.

According to the Control Permits, if the Ministers become aware that there has been a change compared with the factual situation before them when they considered the permit application, which they believe may be detrimental to the security of the State, including the ability to maintain its security, essential

It further provided that any change in the Israeli citizenship and residency of Michal Fuhrer and David Fuhrer will be grounds for rescinding the Control Permit.

[28] The Permits allow, under certain conditions, transfer of the means of control of the Company among the Permit Holders.

public needs or the provision of the essential service by the Company, the Ministers may, after consulting with the Minister of Defense, revoke the Permit.

Additional cases[29] were defined in the Control Permits according to which, if the Ministers believe that there are real concerns of impairment of the provision of the essential service by the Company, or the grounds for designating it as an essential service, the Ministers may act as provided in the Communications Order, including with regard to issuing orders and revoking the Permit. As of the date of revocation of the Control Permits, all holdings acquired pursuant to the Control Permits will become irregular holdings as defined in the Communications Order.

For information regarding grounds for calling for immediate repayment as set out in the terms of the Company's debentures and loans from financial institutions in the event of a change in control of the Company (as this term is defined there), see Note 14 to the financial statements for 2022.

Pledge Permit

On November 11, 2019, Reznik Paz Nevo Trusts Ltd., as trustee for holders of debentures issued by B Communications ("Trustee"), was granted a permit by the Ministers to hold means of control of the Company by way of a pledge on all the shares of the Company held by B Communications, directly or indirectly, pursuant to Section 4D of the Communications Law and Section 3 of the Communications Order ("Pledge Permit").

The Pledge Permit states that it does not constitute a permit for holding or operating means of control of the Company, other than by way of pledge, and does not constitute a permit for control or transfer of control of the Company. Furthermore, it provides that the rights vested in the Trustee and in any holder of a debenture in respect of which means of control of the Company were pledged in favor of the Trustee, may not be deemed as the transfer of ownership of means of control of the Company, but only as pledged collateral.

Moreover, the Pledge Permit includes restrictions on the exercise of the pledge, taking into account, among other things, the provisions of the Communications Order, including provisions whereby the pledge may be exercised only by appointment of a receiver and a trustee whose identity has been approved by the Ministers based on various parameters specified in the Permit. In addition, similar to the Control Permits as set out above, mutatis mutandis, the Pledge Permit also includes provisions permitting the Ministry of Communications to revoke it, including in circumstances of concern regarding harm to State security or essential public needs as well as other cases[30] where, if the Ministers believe that there are real concerns of impairment of the provision of the essential service by the Company, or of the grounds for designating it as an essential service, the Ministers may act as provided in the Communications Order, including with regard to giving orders and revoking the Permit.

9. Regulation 22: Transactions with the controlling shareholder

To the best of the Company's knowledge, concerning all transactions with the controlling shareholders of the Company, or in which the controlling shareholders have a personal interest, which the Company, its subsidiaries or its affiliates engaged in during the reporting year or on a date subsequent to the end of the reporting year until the date of submission of the report, or which are still in force on the reporting date. For further information regarding procedures for classification of transactions with officers and controlling shareholders of the Company, and exemption from insurance and indemnification, see Note 29 to the financial statements and Regulation 29A(4) below.

[29] These include: incorrect information provided in the application for a permit, failure of the Permit Holders to file a report as required or a material change in information provided by the Permit Holders, failure to establish a provision in the articles of association or amending a provision that is not compatible with the Permit, and filing of application to initiate proceedings under the Insolvency Law or under the Companies Ordinance.

[30] These include: incorrect information in the application for a permit, failure of the Trustee to file a report as required, or a material change in the information provided by the Trustee, failure to report as required by the Trustee or material changes in the information provided by the Trustee, and the Trustee's failure to apply for the appointment of a receiver and a trustee at the times stipulated by the Permit.

10. Regulation 24: Holdings of interested parties and executive officers in the Company:

Details of holdings of interested parties and executive officers of the Company are presented in this report by way of reference to the report on the holdings of the Company's interested parties and executive officers dated January 5, 2023. It should be noted that, since the date of publication of the holdings on January 5, 2023, and as a result of changes in the number of options in the Company due to expiry and exercises, there has been an immaterial change in the rates of holdings of the interested parties and executive officers in the Company. For information concerning the holdings of the controlling shareholder of the Company, see Regulation 21A below.

11. Regulation 24 A: Registered capital, issued capital, and convertible securities

The Company's registered equity as at the publication date of the periodic report is 2,849,485,753 ordinary shares of NIS 1 par value each of the Company (the "Ordinary Shares").

The Company's issued and paid up share capital as at the publication date of the periodic report is 2,766,466,172 ordinary shares.

For information concerning the Company’s equity as at date of publication of the report, see the immediate report issued by the Company on March 5, 2023, included in this report by way of reference.

12. Regulation 24B: Register of Shareholders

The Company's Register of Shareholders is presented in this report by way of a link to the Company's statement of equity, grant of rights to acquire shares and registers of securities of the Company and adjustments therein dated March 5, 2023.

13. Regulation 25A: Registered Address of the Company

Address: 7 HaManor Street, 5th Floor, Holon,

Telephone 1: 03-626-2200; Telephone 2: 972-3-626-2201 Fax: 03-626-2209

Email: Shelly.Bainhoren@bezeq.co.il (Group secretary and internal compliance officer)

14. Regulation 26: Directors of the company

The table below lists the directors serving on the Company's board of directors as at the date of publication of the report[31].

Name I.D.: Date of birth: Citizenship:	Address for delivery of court notices:	Membership on board of directors committees Serves as an external or independent director	Employee of the Company, a subsidiary, related company or interested party: (Other than serving as a director in the Subsidiaries)	Date of commencement of term of office:	Education and employment during the past five years and details of the companies in which he serves as a director (other than in the Company):	Related to other interested parties in the Company:	Does the Company consider the director as having accounting and financial expertise
Gil Sharon 058381351 September 12, 1963 Israeli	7 HaManor Street, Holon	Chairman of the Company's board of directors Chairman of the Security Committee. The director is not an external director.	Yes.	August 27, 2020	Education: BA Economics and Business Administration, Hebrew University, Jerusalem MBA, Tel Aviv University Occupation in past five years: Chairman and CEO of Golan Telecom Ltd., 2017-2020 Director of the following companies: Educating for Excellence (member of the executive committee) Society for the Protection of Nature (Registered Society) (member of the executive committee) Experience, expertise or skills on the issue of information or cyber protection: Gil Sharon does not have expertise and skill in the field of information and cyber protection, however he does have experience in the matter of cyber as part of his past positions as an executive manager in companies that dealt with cyber and information security issues.	No	Yes
Tomer Raved 036864288 April 18, 1985 Israeli	144 Menachem Begin Avenue, 41st Floor, Tel Aviv;	Security Committee The director is not an external director.	Yes, see details of employment in the past five years	May 14, 2020	Education: BA (Economics), Tel Aviv University. LLB, Tel Aviv University. MBA, specializing in Accounting and Finance, NYU Stern School of Business Occupation in past five years: CEO of Be Communications Ltd. From 2020 to the present. Director and VP, Royal Bank of Canada (investment bank), 2016-2020	No	Yes

[31] All directors, other than Patrice Taieb, Tal Fuhrer, and Phil Bacal, also serve as directors on the boards of directors of the subsidiaries Pelephone, Bezeq International, and DBS, and Gil Sharon, Tomer Raved, Zeev Vurembrand, and Ran Fuhrer also serve as directors on the board of directors of Bezeq Online. For an updated list of officers as at reporting date, see the immediate report issued by the Company together with this report and that is included in this report by way of reference.

Name I.D.: Date of birth: Citizenship:	Address for delivery of court notices:	Membership on board of directors committees Serves as an external or independent director	Employee of the Company, a subsidiary, related company or interested party: (Other than serving as a director in the Subsidiaries)	Date of commencement of term of office:	Education and employment during the past five years and details of the companies in which he serves as a director (other than in the Company):	Related to other interested parties in the Company:	Does the Company consider the director as having accounting and financial expertise
Darren Glatt 549871770 November 18, 1975 American	144 Menahem Begin Street (c/o B Communications)	No The director is not an external director.	Yes, see details of employment in the past five years	December 1, 2019	Education: BACCY, George Washington University MBA, Harvard University School of Business Administration Occupation in past five years: Partner in private capital fund Searchlight Capital Partners, and head of investments in infrastructure, telecommunications, media and technology. Chairman of the boards of directors of the following companies: Adams Outdoor Advertising, All Points Broadband ,MediaMath. Chairman of the board of directors of B Communications as of December 2019. Served in the past as a member of the boards of directors of the companies: Rackspace, Charter Communications Veritable, Ocean Outdoor, 160over90, PatientPoint, PlayPower, Maritime ı- Core Media. Director of the following companies: Chairman of the board of directors of B Communications Ltd. Adams Outdoor Advertising All Points Broadband	No	Yes

Name I.D.: Date of birth: Citizenship:	Address for delivery of court notices:	Membership on board of directors committees Serves as an external or independent director	Employee of the Company, a subsidiary, related company or interested party: (Other than serving as a director in the Subsidiaries)	Date of commencement of term of office:	Education and employment during the past five years and details of the companies in which he serves as a director (other than in the Company):	Related to other interested parties in the Company:	Does the Company consider the director as having accounting and financial expertise
David Granot 045333739 January 30, 1947 Israeli	26 Hashomer Street, Raanana, 60850	Security committee, committee for reviewing the financial statements, audit committee and compensations committee The director is not an external director. The director is an independent director.	No	May 9, 2017	Education: BA in Economics, Hebrew University of Jerusalem MBA, Hebrew University of Jerusalem Occupation in past five years: Acting Chairman of the board of directors of Bezeq, from June 2017 through April 2018 and from June 23, 2020 through August 16, 2020 Member of the board of directors of Alrov Ltd., Mivne Industries Ltd., Tempo Beverages Ltd., and Ackerstein Industries Ltd. (private) (until 2019). Chairman of the board of directors of Fritz Ltd. (private), Chairman of the investment committee of Meitav Dash, independent director of Protalix (ended in 2022) Director of the following companies: Chairman of the board of directors of Melran Ltd., independent director in Ormat Technologies, chairman of the investment committee of Tel Aviv University (voluntary), director of Sonol (private), chairman of the loans committee of Credito Ltd. (Private), director of Rav-Bariah Industries Ltd., and Clal Insurance Enterprises Holdings Ltd. (public)	No	Yes

Name I.D.: Date of birth: Citizenship:	Address for delivery of court notices:	Membership on board of directors committees Serves as an external or independent director	Employee of the Company, a subsidiary, related company or interested party: (Other than serving as a director in the Subsidiaries)	Date of commencement of term of office:	Education and employment during the past five years and details of the companies in which he serves as a director (other than in the Company):	Related to other interested parties in the Company:	Does the Company consider the director as having accounting and financial expertise
Zeev Vurembrand 050772672 June 19, 1951 Israeli	5 Kalman Magen Street, Tel Aviv 6107077	Chairman of the committee for reviewing the financial statements, audit committee and chairman of the remunerations committee The director is an external director.	No	September 3, 2017	Education: BSc (cum laude) in Industrial and Management Engineering, The Israel Institute of Technology Occupation in past five years: CEO of the Meuhedet Health Fund, from May 2013 through February 9, 2019. External director and chairman of the board of directors of Isras Investment Company Ltd. Director of the following companies: Chairman of the board of directors of Lageen Ltd., Lageen Food Packaging Ltd., Lageen Tuboplast Ltd. Independent director in ScoutCam (traded in the U.S.) Member of the board of trustees of Bar Ilan University (chairman of the IT committee) Experience, expertise or skills on the issue of information or cyber protection: Zeev Vurembrand does not have expertise and skill in the field of information and cyber protection, however he does have experience in the matter as part of his past positions as CEO of a company that dealt with cyber and information security issues. In addition, Zeev Vurembrand serves as the chairman of the technology supervision committee of Bar Ilan University, which deals, among other things, with the prevention of cyber attacks and information security.	No	Yes. The Company considers the director as having accounting and financial expertise and as an external expert director

Name I.D.: Date of birth: Citizenship:	Address for delivery of court notices:	Membership on board of directors committees Serves as an external or independent director	Employee of the Company, a subsidiary, related company or interested party: (Other than serving as a director in the Subsidiaries)	Date of commencement of term of office:	Education and employment during the past five years and details of the companies in which he serves as a director (other than in the Company):	Related to other interested parties in the Company:	Does the Company consider the director as having accounting and financial expertise
Edith Lusky 50163567 August 16, 1950 Israeli	6 Kehilat Kovna Street, Tel Aviv 6940065	Chairman of the audit committee; financial statements review committee; compensations committee; and security committee The director is an external director.	No	April 26, 2018	Education: BA in Economics and Statistics, Tel Aviv University. MA in Economics, Tel Aviv University. Occupation in past five years: External director in Rafael Advanced Defense Systems Ltd.; External director in Discount Bank; External director in Israel Railways ; Director in Cellcom. Member of the board of trustees of the Machshava Tova Association Director of the following companies: External director in Mivtach Shamir Holdings Ltd. Experience, expertise or skills on the issue of information or cyber protection: Edith Lusky does not have expertise and skill in the field of information and cyber protection, however she does have experience in the matter of cyber as a director in companies that deal with cyber and information security issues.	No	Yes. Therefore, the Company considers the director as an external expert director
Tzipi Livni 055395321 July 8, 1958 Israeli	8 Nisan Cohen St., Tel Aviv-Yafo	Audit committee. financial statements review committee; compensations committee The director is an external director.	No	April 26, 2021	Education: LLB, Bar Ilan University. Occupation in past five years: Member of Knesset (Israel's Parliament. Lecturer for organizations and universities, Fellowship at Harvard Kennedy School, consultant to organizations and International companies: International Crisis Group, Aspen Ministers Forum, NIzami Ganjavi international center, Campaign for nature, MCAC-Multilateral Cyber Action Committee, Aspen Global Cyber Group. Director of the following companies: Director of the Institute of National Security Studies INSS Experience, expertise or skills on the issue of information or cyber protection: Tzipi Livni participates in international cyber forums.	No	No

Name I.D.: Date of birth: Citizenship:	Address for delivery of court notices:	Membership on board of directors committees Serves as an external or independent director	Employee of the Company, a subsidiary, related company or interested party: (Other than serving as a director in the Subsidiaries)	Date of commencement of term of office:	Education and employment during the past five years and details of the companies in which he serves as a director (other than in the Company):	Related to other interested parties in the Company:	Does the Company consider the director as having accounting and financial expertise
Ran Fuhrer 066522772 September 2, 1984 Israeli	Neopharm House, 6 Hashiloah St., Petach Tikva 4951439	Security Committee The director is not an external director.	Yes The director serves as VP Business Development at the Neopharm Group, whose controlling shareholders, David and Michal Fuhrer, are also the controlling shareholders of TNR Investments Ltd., which is part of the controlling core of B Communications, the parent company of the Company.	December 1, 2019	Education: MSc in General Management Stanford University Graduate School of Business. LLM in Commercial Law (cum laude), Tel Aviv University. LLM - Semester at Berkeley University Law School, California, USA. LLB, Reichman University. BA in Business Administration, Reichman University Member of the Israel Bar Association (certified attorney). Course for directors and executive officers of corporations - Lahav Manager Development, Tel Aviv University Occupation in past five years: VP business development in the Neopharm Group, from January 2018 to present; member of the consultation board of the Tel Aviv University alumni organization from January 2020 to present Director of the following companies: Member of board of directors of B Communications, from December 2019 to present	The director serves as VP Business Development and is an officer of Neopharm Group, whose controlling shareholders are his parents, David and Michal Fuhrer, who are also the controlling shareholders of TNR Investments Ltd., which is part of the controlling core of B Communications, the parent company of the Company.	Yes
Patrice Taieb 026753723 August 26, 1960 Israeli	4/3 Rahamim Fitoussi St., Akko	No The director is not an external director.	Yes, head of Bezeq Tech Technology operations and QA department, Bezeq - the Israel Telecommunications Corp. Ltd.	January 1, 2022[32]	Education: LLM, Haifa University; LLB, Carmel Academic Center; BA, Ruppin Academic Center. Occupation in past five years: Manager of Operations and Logistics Department, Bezeq-Tech Division, Bezeq.	No	No

32 Patrice Taieb was initially appointed by the Company's board of directors as an employee director on January 1, 2022 In accordance with the Company's articles of association, a director so appointed will serve for a period of no more than six months from the date of his appointment or until the next General Meeting, when he can be elected, according to the earlier of these dates. On March 23, 2022, a report on convening of an Annual General Meeting of shareholders of the Company was issued, the meeting having on its agenda, among other items, the reappointment of Patrice. Taieb as a director of the Company

Name I.D.: Date of birth: Citizenship:	Address for delivery of court notices:	Membership on board of directors committees Serves as an external or independent director	Employee of the Company, a subsidiary, related company or interested party: (Other than serving as a director in the Subsidiaries)	Date of commencement of term of office:	Education and employment during the past five years and details of the companies in which he serves as a director (other than in the Company):	Related to other interested parties in the Company:	Does the Company consider the director as having accounting and financial expertise
Phillip Bacal[33] HP037044 September 13, 1985 Canadian	121 Hillhurst Blvd. Toronto, ON. Canada M5N1N7	No The director is not an external director.	Yes, see details of employment in the past five years	December 1, 2019	Education: HBA, Richard Ivey School of Business at the University of Western Ontario Occupation in past five years: Partner in Searchlight Capital Partners Director of Roots Corporation Director of Care Advantage Serves as a director on the board of directors of B Communications since December 2019.	No	Yes
Tal Fuhrer[34] 034521344 December 15, 1977 Israeli	Neopharm House, 6 Hashiloah St., Petach Tikva 4951439	No The director is not an external director.	The director serves as VP Business Development at the Neopharm Group, whose controlling shareholders, David and Michal Fuhrer, are also the controlling shareholders of TNR Investments Ltd., which is part of the controlling core of B Communications, the parent company of the Company. Serves in the Company as substitute director for his brother, Ran Fuhrer, who serves as a regular director of the Company	December 1, 2019	Education: MBA in Finance and Accounting, Strategy and Entrepreneurship, Tel Aviv University. M.Sc. in Biotechnology, Tel Aviv University. BSc. in Management and Biology, Tel Aviv University Occupation in past five years: Chairman of the board of directors of Mivne Real Estate (KD) Ltd.; Director in Simplexis Ltd. (until September 2021); Director in Shall Do Real Estate Development (UK) Ltd.; Chief business officer and VP business and corporate development in Neopharm Group Ltd. (Until May 2020);Director in ABBA Investment Ltd. Director of the following companies: Director of Birad – Bar Ilan R&D Company Ltd.; Mulberry Biotherapeutics Inc. Observer on the board of directors of Artax Biopharma Inc.	The director serves as VP Business Development at Neopharm Group, whose parents, David and Michal Fuhrer, are the controlling shareholders of as well as of TNR Investments Ltd., which is part of the controlling core of B Communications, the parent company of the Company. He also serves in the Company as substitute director for his brother, Ran Fuhrer, who serves as a regular director of the Company	Yes

33 Phillip Bacal was appointed as a substitute director for Darren Glatt at board meetings which Darren Glatt is unable to attend, as of the date of said appointment until announced otherwise.

34 Tal Fuhrer was appointed as a substitute director for Ran Fuhrer at board meetings which Tal Fuhrer is unable to attend, as of the date of said appointment until announced otherwise.

15. Regulation 26A Executive officers:

The table below provides a breakdown of the executive offices serving in the Company as at the date of publication of the report, followed by particulars of executive officers who served in the Company during the reporting year, but whose service ended before the date of publication of the report[35].

A. Executive officers who served in the reporting year and as at the date of publication of the report:

Name	I.D.:	Date of birth:	Date of commencement of term of office:	The office he holds in the Company:	Is he and interested party in the Company or a family member of another senior officer or of an interested party:	Education and business experience over the past five years:
Ran Guron	024113268	December 25, 1968	June 19, 2022	CEO	Yes. Interested party in the Company due to his office as Company CEO.	BA Economics and Business Administration, Hebrew University MBA, Hebrew University CEO of Pelephone, DBS, and Bezeq International
Tobi Fischbein	307038265	June 15, 1973	April 15, 2021	VP Finance of the Company and CFO of the Group	No	MPA/ID of Public Administration in International Development, Harvard University; MA in Economics, Tel Aviv University; BA in Economics, Tel Aviv University; March 2017 through April 2021 - VP, CFO at Max IT Finance Ltd. (formerly Leumi Card Ltd.)
Guy Hadass	029654472	September 8, 1972	December 9, 2007	VP Corporate Communications; Corporate Responsibility and government relations	No	BA in Economics and Media, Tel Aviv University; MBA, Tel Aviv University; Directors' course - Interdisciplinary Center in Herzliya

[35] For an updated list of officers as at reporting date, see the immediate report issued by the Company together with this report and that is included in this report by way of reference.

Name	I.D.:	Date of birth:	Date of commencement of term of office:	The office he holds in the Company:	Is he and interested party in the Company or a family member of another senior officer or of an interested party:	Education and business experience over the past five years:
Nir David	024226474	February 14, 1969	March 18, 2020	VP, Head of Business Division	No	BA in Economics and Management, Open University; Teaching Diploma in technological subjects, Government Institute for Technology and Science Training; Practical electrical engineer, SAMAT Haifa. 2018-2020 – Head of Customer Relations at Bezeq – The Israel Telecommunication Corp. Ltd. Experience, expertise or skills on the issue of information or cyber protection: Nir David is familiar with information security and topology products, which he purchased as part of his current position, including the sale, installation and maintenance of small and medium-sized information security systems (mainly FW, NAC, EDR), as well as in his previous position as Head of the Customer Relations department, where he was responsible for the maintenance and servicing of small and medium-sized information security systems (mainly FW).
Nurit Kantor	031817356	November 5, 1974	September 1, 2022	VP Private Customers Division	No	BA in Business Administration, specializing in marketing, Ruppin Academic Center; MBA (with thesis), specializing in marketing; University of Derby, London, Israel Branch Until September 1, 2022 - Deputy CEO of AIG
Shelly Bainhoren	066240045	November 14, 1982	June 27, 2017	Group Secretary and Internal Compliance Officer	No	LLB (cum laude), Bar Ilan University; BA in Political Science and Communication (cum laude), Bar Ilan University; Certified Attorney
Amir Nachlieli	23012313	May 30, 1967	January 1, 2009	VP, Legal Counsel	No	MBA (expanded major in Finance), Tel Aviv University BA Economics, Hebrew University LL.B, Hebrew University
Amit Kurland	028044204	January 17, 1971	July 16, 2019	Chief Accountant	No	BA in Economics and Accounting, Tel Aviv University; Certified Public Accountant since 2000; Member of the executive committee and the audit committee – Eurocom Retirees Association (voluntary position); 2017-2019 – CFO at Yail Noa Group

Name	I.D.:	Date of birth:	Date of commencement of term of office:	The office he holds in the Company:	Is he and interested party in the Company or a family member of another senior officer or of an interested party:	Education and business experience over the past five years:
Meni Baruch	038246492	November 21, 1975	May 25, 2021	VP IT and Network Division	No	1998-2000 – BA in Business Administration, University of Derby; 2008-2009 – MSc IT, Information Systems Management, Clark University, Boston (Israel branch); 2020 – CIO Senior Management Course, The Technion; Head of IT; Head of Product and Service Engineering Experience, expertise or skills on the issue of information or cyber protection: Meni Baruch has head the Company's Technology Division for the past two years and as part of this is responsible, among other things, for information security and cyber protection, for formulating and implementing the Company's policy, as well as for acquiring and integrating systems and tools, managing inspections, drills, and contact with the State Authority for Information Security and the National Cyber Directorate and managing the quarterly steering committees for the issue. Prior to his current position, Meni Baruch was head the Company's IT and Product and Service Development Departments, positions that are closely related to the areas of information security, secure development, use of open source, IT infrastructure protection in the Company and in the cloud, applicative protection layers and systems, hacking testing for the various systems and cyber protection for terminal routers.
Moran Kita	033424607	February 8, 1977	February 10, 2021	VP Human Resources	No	BA in Statistics and Actuarial Studies, Haifa University; MBA in Human Resources, Ariel University; February 2016 through February 2021 – Head of Human Resources, Salary and Labor Relations Department at Bezeq
Eyal Kamil	057248999	August 30, 1961	December 5, 2006	VP Operations & Logistics	No	BA, Industrial Engineering & Management, Tel Aviv University MBA, Tel Aviv University Experience, expertise or skills regarding information or cyber protection: Eyal Kamil has experience dealing with databases as part of his position as supervisor of databases and protection of privacy in the Company.

Name	I.D.:	Date of birth:	Date of commencement of term of office:	The office he holds in the Company:	Is he and interested party in the Company or a family member of another senior officer or of an interested party:	Education and business experience over the past five years:
Lior Segal:	025695701	September 9, 1973	January 24, 2011	Internal Auditor	No	MBA in Finance and Accounting, Strategy and Entrepreneurship; LLB; BA in Accounting, and Diploma in Accounting – all from Tel Aviv University; Diploma in internal and public auditing on behalf of the IMC; Certified attorney and CPA in Israel; Certified Internal Auditor (CIA), Internal Audit Quality Assurance Reviewer (QAR), and Certified in Risk Management Assurance (CRMA) – Global Institute of Internal Auditors (IIA); Also, a Certified Information Systems Auditor (CISA), and certified in Risk and Information Systems Control (CRISC) and Certified Data Privacy Solutions Engineer (CDPSE) from the International Information System Audit and Control Association (ISACA). Director at the Institute of Internal Auditors in Israel (IIA), which was established in 2020 by consolidation of two organizations of auditors, in one of which – IIA Israel – he served as a director until 2019 (service in both organizations is voluntary). Member of the audit committee of Akim Guardianship Association (volunteer). Experience, expertise or skills regarding information or cyber protection: Lior Segal has experience in review of cyber and information security, as the Company's internal auditor, as a certified internal auditor (CIA), in risk management assurance (CRMA), as an information systems auditor (CISA), risk and information system controls (CRISC) and information security manager (CISM).
Tali Poleg	025048257	April 5, 1973	October 1, 2022	VP Marketing	No	MBA, Ben Gurion University; BA in Political Science, Tel Aviv University; August 2021 through October 2022 - Head of Marketing Division at DBS and Bezeq International Since 2017 - freelance marketing consultant
Erez Israel Hasdai	022760599	May 21, 1967	February 15, 2019	VP Economics & Regulation	No	BA Economics, Tel Aviv University. MBA specializing in Finance, Florida International University 2011 through February 14, 2019 - Head of Bezeq Group Finance & Capital Markets Department

Ilan Sigal	038304127	December 7, 1975	August 28, 2022	CEO of the Subsidiaries, Pelephone and DBS	No	BA in Communications and Administration, College of Management; MBA, Ono Academic College; Directors' course, Tel Aviv University February 2016 through January 2021 - VP of Marketing at Pelephone and DBS February 2022 through May 2022 - CEO of Golan Telecom
Ron Glav	024939068	April 5, 1970	January 1, 2023	CEO of the subsidiary, Bezeq International	No	1994-1998 - BA in Administration and Economics, Open University; 2008-2009 - MBA, Ono Academic College 2022 - Executive VP of Business Integration and Solutions, Bezeq International Until 2022 - Executive VP of Business Integration and Solutions, Bezeq International Experience, expertise or skills regarding information or cyber protection: Ron Gelb has vase knowledge on the subject as part of his position and contact with Bezeq International's business customers. Ron Gelb is familiar with the technological land business side of information and cyber security, as well as market trends.

B. **Officers who served in the reporting year, whose service ended prior to date of publication of the report:**

In the reporting year, Dudi Mizrahi who served as CEO of the Company, ended his actual work in the Company on June 15, 2022 and his employee-employer relations on October 24, 2022; Keren Leizerowicz who served as VP of Marketing and Innovation, ended her actual work in the Company on September 6, 2022 and her employee-employer relations on November 30, 2022; and Udi Atar who served as VP Private Customers Division, ended his employment with the company on March 1, 2022.

16. Regulation 27: The Auditors of the Company

Somekh Chaikin, Certified Public Accountants

Address: KPMG Millennium Tower, 17 Ha'arba'a St., Tel Aviv 6473917

Tel: 03-684-8000

17. Regulation 29(A) Recommendations and Resolutions of the board of directors submitted to the General Meeting and their board resolutions which do not require approval of the General Meeting in the issues specified in Regulation 29(A)

A. Resolution of January 3, 2022 – Partial early repayment, at the Company's initiative, of NIS 369,999,902 par value of Debentures (Series 9) of the Company, as set out in the Company's immediate report dated January 4, 2022 and in immediate report dated January 23, 2022 as amended on February 6, 2022, included here by way of reference.

B. Resolution of March 22, 2022 - recommendation to the General Meeting of shareholders to approve the distribution of a dividend to the Company's shareholders in a total amount of NIS 240 million, as set out in the Company's immediate report dated March 23, 2022, and in section 2.10 of the notice for convening a general meeting of the Company's shareholders as issued by the Company on March 23, 2022, as amended on April 14, 2022, included here by way of reference.

C. Resolution of March 22, 2022 - recommendation to the General Meeting of shareholders to approve the amendments to the Company's articles of association as set out in section 2.11 of the notice for convening a general meeting of the Company's shareholders as issued by the Company on March 23, 2022, as amended on April 14, 2022, included here by way of reference.

D. Resolution of August 9, 2022 - recommendation to the General Meeting of shareholders to approve the distribution of a dividend to the Company's shareholders in a total amount of NIS 294 million, as set out in the Company's immediate report dated August 10, 2022, and in section 2.1 of the notice for convening a general meeting of the Company's shareholders as issued by the Company on August 10, 2022, included here by way of reference.

18. Regulation 29 (C): Resolutions adopted at an Extraordinary General Meeting

A. Approval of granting a letter of indemnification undertaking and exemption of liability to Patrice Taieb, an employee director, identical to the letters of indemnification undertaking and exemption of liability approved by the General Meeting for all the Company's officers (resolution adopted on April 28, 2022).

B. Approval of the distribution of a cash dividend to the Company's shareholders in a total amount of NIS 240 million (resolution adopted on April 28, 2022).

C. Approval of the amendments to the Company's articles of association (resolution adopted on April 28, 2022).

D. Approval of the revision of the terms of office and employment of Gil Sharon, who serves as the Chairman of the Company's board of directors (resolution adopted on April 28, 2022).

E. Approval of awarding of an annual discretionary bonus in an amount equivalent to three (3) monthly salaries to Gil Sharon as Chairman of the Company's board of directors, for 2021 (resolution adopted on April 28, 2022).

F. Approval of the amendment and extension of the Company's officers' compensations policy (resolution adopted on April 28, 2022).

G. Approval of the distribution of a cash dividend to the Company's shareholders in a total amount of NIS 294 million (resolution adopted on September 14, 2022).

H. Approval of the Company's engagement in the employment agreement with Ran Guron as CEO of the Company (resolution adopted on September 14, 2022).

19. Regulation 29A (4): Exemption, insurance and obligation of indemnification of officers

For further information regarding exemption, insurance and obligation of indemnification for officers see Note 29.6 to the financial statements.

March 13, 2023

Date | Bezeq – The Israel Telecommunication Corp. Ltd.

Signatories and their positions:
Gil Sharon, Chairman of the Board of Directors
Ran Guron, CEO

Chapter E:

Report on the effectiveness of internal control over financial reporting and disclosure for the year ended December 31, 2022

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

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

Annual report on the effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 9(b)a of the Securities Regulations (Periodic and Immediate Reports), 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. Ran Guron, CEO
2. Eyal Kamil, VP Operations and Logistics Division
3. Amir Nachlieli, Legal Counsel
4. Erez Hasdai, VP Economics and Regulation Division
5. Guy Hadass, VP Corporate Communications, Responsibility and Governance Relations
6. Tobi Fischbein, CFO Bezeq Group
7. Tali Poleg, VP Marketing Division
8. Moran Kita, VP Human Resources Division
9. Meni Baruch, VP Technologies and Network Division
10. Nurit Kantor, VP Private Customers Division
11. Nir David, VP Business Division

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

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

Internal control over financial reporting and disclosure includes controls and procedures in the Company, which were planned by the CEO[1] and the most senior financial officer, or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Company, and were designed to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format laid down in law.

Internal control includes, inter alia, controls and procedures planned to ensure that the information 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.

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

Management, under the supervision of the Board of Directors, has carried out a review and an assessment of the internal controls over financial reporting and disclosure within the Company and their effectiveness.

Assessment of the effectiveness of the internal controls over financial reporting and disclosure that Management carried out under the supervision of the Board included:

1. Mapping and identification of the relevant business units, accounts and processes the Company deems very significant for financial reporting and disclosure;
2. Examination and update of risks of reporting and disclosure;
3. Update and documentation of the controls that provide a response to risks identified and documentation of new controls;
4. Review and assessment of effectiveness of the said controls;
5. Overall assessment of the effectiveness of the internal controls;

The model for assessment of the effectiveness of the internal controls over financial reporting and disclosure was based on the following four components:

1. Entity level controls;
2. Process of preparing and closing the financial statements;
3. IT general controls (ITGC);
4. Very significant processes for financial reporting and disclosure: Revenues, Purchasing, Fixed Assets and Payroll.

Based on the assessment of the effectiveness carried out by Management under the supervision of the Board of Directors as detailed above, the Board of Directors and Management of the Company reached the conclusion that the internal controls over financial reporting and disclosure in the Company as of December 31, 2022 are effective.

Concerning the investigations of the Israel Securities Authority and the Israel Police as detailed in Section 1.1.5 of the Description of Company Operations chapter in this Report, the Company does not have complete information about the investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter (although in January 2021 the Company received the core of the investigation material in connection with Case 4000, further to the invitation of the Company to a hearing in this matter, as set out in Section 1.1.5.2 of the Description of Company Operations chapter). Accordingly, the Company is not yet able to assess the effects of the investigations, their findings and their outcome on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

2. Declaration of Executives:

A. Declaration of the CEO in accordance with Regulation 9B(d)(1) of the Securities Regulations (Periodic and Immediate Reports), 1970:

I, Ran Guron, declare that:

(1) I have reviewed the periodic report of Bezeq – The Israel Telecommunication Corp. Ltd. ("the Company") for 2022("the Reports").

(2) To the best of my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.

(3) To the best of my knowledge, the financial statements and other financial information in the Reports reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.

(4) I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:

A. All the significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;

B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure

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

A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;

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

C. Assessed the effectiveness of internal controls over financial reporting and disclosure, and presented in this Report the conclusions of the Board of Directors and Management concerning the effectiveness of said internal controls as of the date of the Reports.

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

Date: March 13, 2023

Ran Guron, CEO;

B. Declaration of most senior financial officer in accordance with Regulation 9B(d)(2) of the Securities Regulations (Periodic and Immediate Reports),1970:

I, Tobi Fischbein, declare that:

(1) I have reviewed the financial statements and other financial information included in the reports of Bezeq – The Israel Telecommunication Corp. Ltd, ("the Company") for 2022 ("the Reports").

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

(3) To the best of my knowledge, the financial statements and other financial information included in the Reports reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for periods presented in the Reports:

(4) I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review Committees of the Board of Directors of the Company, based on my most recent evaluation of the internal control over financial reporting and disclosure:

A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, with respect to the financial statements and other financial information included in the Reports, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;

B. Any fraud, whether or not material, that involves the CEO, or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure.

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

A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 2010, insofar as it is relevant to the financial statements and other financial information included in the Reports, 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 our 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 generally accepted accounting principles;

C. Assessed the effectiveness of internal controls over financial reporting and disclosure, with respect to the financial statements and other financial information included in the Reports, as of the date of the Reports. My conclusions pursuant to my said assessment were reported to the Board of Directors and are included in this Report.

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

Date: March 13, 2023

Tobi Fischbein,
CFO Bezeq Group