B Communications Ltd.

2022 Annual Report

THIS DOCUMENT IS AN ENGLISH TRANSLATION OF THE HEBREW VERSION OF THE COMPANY'S FINANCIAL STATEMENTS AND THE MANAGEMENT DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2022 (THE "REPORTS"). THE HEBREW VERSION OF THE REPORTS IS THE BINDING VERSION AND THE ONLY VERSION HAVING LEGAL EFFECT. THE ENGLISH TRANSLATION HAS BEEN CREATED FOR THE PURPOSE OF CONVENIENCE ONLY. THE APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS WAS GIVEN TO THE HEBREW VERSION ONLY AND NO SUCH APPROVAL HAS BEEN GIVEN TO THE ENGLISH TRANSLATION. THIS ENGLISH TRANSLATION WAS NOT SUBMITTED TO THE ISRAELI SECURITIES AUTHORITY AND IS NOT REVIEWED BY ANY REGULATORY AUTHORITY.

Chapter A

Description of the Corporation's Business

2022 Periodic Report

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B. Communications Ltd. ("**the Company**") together with the subsidiary Bezeq the Israeli Telecommunications Corporation Ltd. ("**Bezeq**") and Bezeq's wholly owned subsidiaries, whose financial statements are consolidated with Bezeq's statements, will be called together in this periodic report - "**the Group**" or "**Bezeq Group**".

For convenience, Appendix A this chapter contains a glossary of terms in relation to the key terms mentioned in it.

1. Description of the general development of the Group's business

1.1. Group activity and description of the development of its business

1.1.2. General

The Company was incorporated in Israel in 1999 under the name Gold E Ltd. and on March 16, 2010 changed its name to its current name. From its inception until October 2007, the Company was fully owned by Internet Gold Ltd., in October 2007 the Company's shares were first issued on the NASDAQ stock exchange and in November 2007 the Company's shares were listed on the Tel Aviv Stock Exchange under a double listing arrangement. On December 2, 2019, the transaction with Searchlight II BZQ LP and a corporation controlled by the Forer family (TNR Investments Ltd.) was completed, in which control of the Company and Bezeq was transferred to these entities, following the liquidation of Eurocom Communications Ltd., in which the holdings in the Company of its subsidiary, Internet Gold, were sold.

On September 9, 2020, the Company announced the voluntary delisting of its shares from trading on the NASDAQ Stock Exchange, and as of that date, the Company's securities are traded on the Tel Aviv Stock Exchange only and the Company is a "reporting corporation" within the meaning of this term in the Securities Law, 5728-1968. ("**Securities Law**").

As of April 14, 2010, the Company operates in the field of communication, through its holdings in Bezeq shares.

1.1.3. Acquisition of control of Bezeq

On April 14, 2010, the Company completed an acquisition of 30.44% of the issued and paid-up equity and voting rights in Bezeq, in exchange for a total amount of approximately NIS 6.5 billion in cash and became the largest shareholder in Bezeq, and as of the financial statements for the first quarter of 2010, the Company consolidates Bezeq's financial statements in its own financial statements.

As of the date of this report, the Company holds approximately 26.81% of Bezeq's issued and paid-up equity.

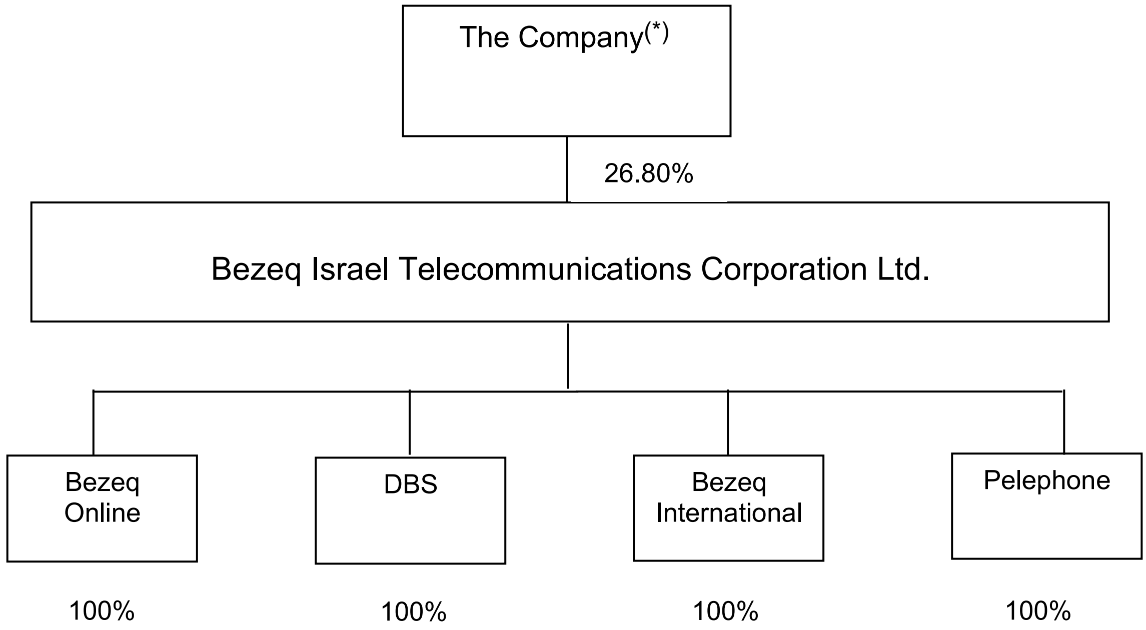
For further details regarding the control of the Company and the control permit in connection with the Company's holding in Bezeq shares, see Section 1.1.4 below.

1.1.4. Bezeq Group - General

As of the date of publication of this periodic report, Bezeq Group is a major provider of communications services in the State of Israel. Bezeq Group performs and provides a wide range of Bezeq operations and Bezeq services, including landline interior communication services, mobile radio telephone services (cellular telephony), international communication services, and multi-channel television services over satellite and over the Internet (OTT), Internet infrastructure and access services, call center services, maintenance and development of communication infrastructure, providing communication services to other communication providers, including wholesale market services, distribution of television and radio broadcasts, supply and maintenance of equipment and services in customer premises (network endpoint services).

Bezeq was established in 1980 as a government company to which Bezeq's activities that had taken place up to that date in the Ministry of Communications were transferred, and it was privatized over the years. Since 1990, the Company has been a public company whose shares are traded on the Stock Exchange.

Below is a diagram of the structure of the holdings in the Group as of the date of approval of this report (March 14, 2022):



(*) Regarding the Company and the control of Bezeq - see Sections 1.1.1, 1.1.2 and 1.1.4 in this chapter.

1.1.4. Control of the Company

On December 2, 2019, a debt arrangement was completed between the Company and its bondholders, as part of which Searchlight II BZQ LP and a corporation controlled by the Forer family (TNR Investments Ltd.) purchased control of the Company (and consequently, the control of Bezeq). It should be noted that as of the date of the report, Bezeq shares are held by the Company directly.

As of the date of completion of the debt arrangement as stated above, the controlling shareholders of the Company are Searchlight II BZQ LP, 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, which is held by a number of individuals including Eric Zinterhofer, Erol Uzumeri and Oliver Harmaann, the latter being among the only ones to receive the Company's control permit from the Ministry of Communications. TNR is wholly owned and fully controlled by Mr. David Forer (50%) and Mrs. Michal Forer (50%). Searchlight and TNR are considered controlling shareholders in the Company by virtue of a control permit dated November 11, 2019 and by virtue of a voting agreement between them which gives them a cumulative holding, as of the date of publication of this report, of approximately 77.61% of the voting rights in the Company.

To the best of the Company's knowledge, the shareholders' agreement between Searchlight and TNR includes, among other things, a provision according to which as long as the holdings of an "Israeli factor" in Bezeq's controlling shareholder are required, Searchlight will grant TNR power of attorney regarding the amount of shares that will allow TNR to vote at the general meetings of the Company, an amount of shares equal to: (a) the number of shares held by TNR on the effective date of the meeting, or (b) the number of shares that reflects 19% of the issued equity and voting rights in the Company on the effective date of the meeting, whichever is higher. To the best of the Company's knowledge, the shareholders' agreement includes additional provisions, including an obligation by Searchlight to refrain from voting for the approval of certain issues without the consent of TNR.

<u>The control permit</u>

On November 11, 2019, the Minister of Communications, by virtue of his authority and by virtue of the Prime Minister's authority (jointly: "**the Ministers**") transferred thereto, granted Bezeq control permits under Article 4D of the Communications Law and Article 3 of the Communications Order (Bezeq and Broadcasting) (Determination of Essential Service Provided by Bezeq the Israel Telecommunications Coropration Ltd.), 5757-1997 ("**Communications Order**"), as follows:

a. A control permit for corporations is given to the Company, Searchlight corporations, and TNR ("**Permit for Corporartions**").

b. A control permit for individuals to hold means of control in Bezeq and to control it is given to Michal Forer, David Forer, Oliver Harmaann, Erol Uzumeri, Eric Zinterhofer, and Darren Glatt[1] ("**Permit for Individuals**").

The Permit for Corporations and the Permit for Individuals will be jointly referred to as "**the Control Permits**" and the parties to whom such permits were granted will be referred to as "**the Permit Holders**". It should be noted that as of October 11, 2021 and in accordance with the amendment to the control permit dated August 22, 2021, Bezeq shares are held by the Company directly.

The Control Permits were issued for the control and possession of means of control in Bezeq at a minimum rate of not less than 25%[2]. The control permits allow the Permit Holders to control Bezeq directly and indirectly, and they also allow Searchlight and TNR to make a "joint appointment" of directors, as defined in the Communications Order, in Bezeq and the Company.

The Control Permits also stipulate provisions regarding the minimum holding rate in Bezeq of an "Israeli entity" as defined in the Communications Order[3].

<u>Preconditions set out in the Control Permits</u>

The control permit stipulates, *inter alia*, as follows:

"3.1. The Articles of Association of BCOM, Bezeq and its subsidiaries must include instructions as detailed below:

A. The method of appointing the directors set forth in the Company's Articles of Association will not be changed without the prior written approval of the Minister of Communications;

B. The Company shall report to the Ministers on a holder of a means of control therein holding excess holdings as soon as it becomes aware of the existence of such excess holdings;

C. The Company shall report to the Ministers on the transformation of a shareholder therein into a stakeholder in Bezeq within 48 hours from the date the Company became aware of the change.

3.2. The Articles of Association of the subsidiaries must include

1 The permit is given to Mr. Darren Glatt for his status in Searchlight in the context of the acquisition of control of the Company. In addition, he serves as Chairman of the Company's Board of Directors and as a director in Bezeq.

2 The minimum rate is defined as 25% of any type of means of control in Bezeq, or a lower rate according to the approval of the Ministers by virtue of Article 3 (a2) of the Communications Order. The minimum rate may change if the Minister of Communications becomes convinced that the conditions set forth in Article 3 (a3) of the Communications Order are met.

3 The Control Permits were issued subject to the fact that David and Michal Forer are citizens and residents of Israel, and it is stipulated therein that as long as the Communications Order requires the possession of a means of control by an Israeli entity, as defined in the Communications Order, TNR and / or Michal Forer and David Forer will not transfer means of control in Bezeq without the prior written approval of the Ministers, if such a transfer is sufficient to reduce their holdings, as the case may be, in means of control of any kind in Bezeq to a rate lower than the minimum rate according to the Communications Order. It was also determined that any change in the Israeli citizenship and residency of Michal Forer and David Forer would constitute a ground for revoking the control permit. In July 2020, after a hearing, the Ministry of Communications changed the requirement for the holding of a minimum percentage of means of control in a general licensee by an Israeli entity and expanded the discretion of the Ministers to approve holdings by non-Israeli entities. Following this, the Ministry of Communications amended the licenses of Cellcom and Partner, but the intended amendment proposed at the hearing in the Communications Order applicable to Bezeq has not yet been implemented.

provisions regarding the rights of the Israeli entity, as defined in the Communications Order, for the appointment of directors therein, in accordance with Article 4(a)(2)(b)(2) of the Communications Order;"

In accordance with the above, the Company amended its Articles of Association as required.

On April 2, 2020, Bezeq's Board of Directors convened a general meeting of Bezeq shareholders for May 14, 2020, on the agenda of which is the amendment of Bezeq's Articles of Association in the wording requested by the Company, as follows:

"After Regulation 95 of the Articles of Association, Regulation 95A shall be added as follows:

95 a. The method of appointing the directors set forth in the Company's Articles of Association will not be changed without prior written approval from the Minister of Communications;

After Regulation 42, Regulations 42A and 42B shall be added to the Articles of Association as follows:

42 a. The Company shall report to the Ministers as defined in the Communications Order, on a holder of a means of control therein holding excess holdings therein as defined in the Communications Order, as soon as it becomes aware of the existence of such excess holdings;

42 b. The Company shall report to the Ministers on the transformation of a shareholder therein into a stakeholder in Bezeq within 48 hours from the date the Company became aware of the change."

Bezeq's Board of Directors attached to the above summons a recommendation according to which "it was found that the requested changes in the Company's Articles of Association are in favor of the Company and all its shareholders". Of Bezeq that took place on 14.5.2020 did not approve the company's request to amend Bezeq's regulations as required by the control permit.

Regarding the manner of amending each of the Articles of Association of each of the subsidiaries (in order to include in each Articles of Association the provisions of Article 4(a)(2)(b)(2) of the Communications Order, regarding the rights of the Israeli entity, as defined in the Communications Order, to appoint directors in subsidiaries) - it was agreed that the amendment of the subsidiaries' Articles of Association will be made after the amendment of Bezeq's Articles of Association.

<u>The lien permit</u>

On November 11, 2019, Reznik Paz Nevo Trust Ltd. was granted, as a trustee for bondholders issued by the Company ("**the Trustee**") by the Ministers, a permit to hold means of control in Bezeq by way of encumbrance on the entire shares held by the Company, directly or indirectly, pursuant to Article 4d of the Communications Law and Article 3 of the Communications Order ("**the Lien Permit**").

The Lien Permit stipulates that it constitutes a permit for holding or operating means of control in Bezeq by way of lien only, and it does not constitute a permit for control or transfer of control in Bezeq. In addition, it was determined that the rights granted to the Trustee and anyone holding debentures in the framework of which debentures were pledged to the Trustee for Bezeq should not be considered a transfer of ownership of the means of control of Bezeq, but only a lien as collateral.

In addition, the Lien Permit includes restrictions on the procedures for exercising the lien by virtue thereof, taking into account, among other things, the provisions of the Communications Order, including provisions according to which the lien will be carried out only by appointing a receiver and trustee whose identity has been approved by the Ministers according to various parameters specified in the permit. In addition, similar to the control permits as detailed above and the reuiqred changes, the Lien Permit also includes provisions allowing the Ministry of Communications to revoke it, including in circumstances of concern of harming State security or vital public needs and other cases[4] in which, If the Ministers see that there is a real concern of harm to the provision of the essential service by Bezeq or the ground for determining it as an essential service, the Ministers will be entitled to act as stated in the Communications Order, including the issue of provisions and revocation of the permit.

It should be noted that on June 19, 2022, approval was received from the Ministry of Communications to amend the pledge permit in such a way that Bezeq shares pledged by the Company will also be processed for the benefit of the holders of the Company's debentures (series F). For details, see the Company's report of June 20, 2022 [reference: 2022-01-075823].

Amendment to the Communication Order

On September 4, 2022, the draft Communications Order (Bezeq and Broadcasting) (Determining Essential Service Provided by Bezeq, the Israel Telecommunications Corp. Ltd.), (Amendment), 5782-2022 (the "**Draft Amendment**") was published on the government legislation website for public comments until September 25, 2022. In accordance with what is detailed in the introduction and in the explanatory notes to the Draft Amendment, BCOM has applied to the Ministry of Communications with a request, among other things, to amend the Communications Order in a way that will allow it to gradually sell its holdings in the Company to the public in the future, so that at the end of the process it will no longer have control over the Company. Further to this, it is proposed, among other things, to amend the Communications Order in a way that would allow the controlling shareholder, subject to obtaining the approval of the Prime Minister and the Minister of Communications after consulting with the Minister of Defense, to transfer means of control to another party if, as a result of the transfer, he ceases to be a controlling owner. The draft amendment includes proposals for additional amendments to the Communications Order, including, among others:

A. Adding an option for the controlling shareholder to replace the Israeliness requirement with instructions from the General Security Service by virtue of Article 13 of the Communications Law.

B. Allowing an (Israeli) institutional investor to increase to a holding of up to 7.5% in a certain type of control without the need for ministerial approval.

C. Repeal of Article 7(g) of the Communications Order which establishes reporting obligations, conditions and limitations for any entity that owns 2.5% or more of some type of control in a Company in a situation where over 75% of the Company's shares will be held by the public.

In accordance with the announcement of the Secretary of the Government of Israel dated March 5, 2023, the Government approved amendments to the media order on that day. Amending the Communictions Order requires approval by a Knesset committee.

1.1.5. In accordance with Article 50(a) of the Companies Law and in accordance with Regulations 119 and 121 (1) of Bezeq's Articles of Association - the powers of the CEO in all matters related to the corporations held, directly or indirectly, by Bezeq (Including Pelephone, Bezeq International, DBS And Bezeq Online) were transferred to the Board.

1.1.6. Mergers, acquisitions and structural changes

Structural change in the subsidiaries

Following on from previous resolutions adopted by Bezeq as well as Bezeq's subsidiaries - Bezeq International and DBS (in this Section: "**the subsidiaries**") regarding a structural

[4] Including - inaccuracies in the data submitted in the permit application, failure on the part of the Trustee to provide a report as required or a material change in the details provided by the Trustee, and failure on the part of the Trustee on behalf of the bondholders to apply for the appointment of a receiver and trustee on the dates determined in the permit.

change plan in which Bezeq International's private activities were to merge with and into DBS, and the spin-off of Bezeq International’s ICT activities into a new company wholly owned by Bezeq (“**the merger / spin-off plan**"). On March 16, 2022, the Boards of Directors of Bezeq and the subsidiaries decided to cancel the merger / spin-off plan, and to approve an alternative plan, according to which Bezeq International's ISP activity in the private segment will be reduced following the abolition of the separation between broadband infrastructure service and Internet access service (ISP) (as described in Note 12.3 below), and ISP activity will be established in DBS for the purpose of selling "triple" packages to customers (“the **alternative outline**"), while striving to achieve, as far as possible, the strategic, business and economic purposes that formed the basis for the resolution to promote structural change, *inter alia*, adapting the activity to the structure of the industry and the changing regulation, focusing on increasing revenues and growth, and increasing the operational synergy and streamlining.

According to this alternative outline, the business purposes that were at the basis of the spin-off / merger plan will be achieved, as DBS is expected to become a "triple" sales arm that combines fiber and television, and at the end of the move Bezeq International will become a growth-focused ICT company. In addition, this alternative outline has the potential for a significant reduction in Bezeq International's expenses and investments in the ISP field in parallel with an accelerated reduction in this activity.

In June 2022, following its request to the Ministry of Communications, DBS received a special license for Internet access services (ISP) and began to provide such services while focusing on the sale of combined packages of Internet and television to customers. Further to what was stated in Section 1.7.4 regarding the change in the regulatory structure in the field of Bezeq, as of October 2, 2022, the provisions of the Communications Regulations (Bezeq and Broadcasting) (General Permit for the Provision of Bezeq Services), 5782-2022, instead of the provisions of the said license.

On August 28, 2022, Mr. Ilan Siegel began to serve as CEO of the subsidiaries Pelephone, DBS and Bezeq International, replacing Mr. Ran Guron who was appointed CEO of the company (see Section 2.9.5). On January 1, 2023, Mr. Ron Galab began serving as CEO of Bezeq International in place of Mr. Ilan Segal, in accordance with the strategy formulated to transform Bezeq International into a company focused on integration, communication and IT solutions for the business sector. Mr. Ilan Segal continues to serve as CEO of the subsidiaries Pelephone and DBS.

<u>Plan to self-purchase the Company's shares</u>

For details about the Company's share repurchase plans, which were approved by the Company's Board of Directors on March 23, 2022, May 24, 2022, June 8, 2022, August 9, 2022, and November 15, 2022, see Regulation 29(a) of chapter D (additional details report) to this periodic report.

1.1.7. <u>Charges in connection with the transactions of the former controlling shareholder of Bezeq and former officers of Bezeq and the "Case 4000"</u>

Following the investigations of the Securities Authority from June 2017 and of the Securities Authority and the Israel Police from February 2018 on suspicion of committing offenses under the Securities Law and the Penal Code, 5737-1977 ("**Penal Code**"), in respect of transactions related to the previous controlling shareholder in the Company and former Chairman of Bezeq's Board of Directors, Shaul Elovich ("**Elovich**") regarding the purchase of DBS shares[5] and the provision of satellite communication services to DBS, the Ministry of Communications' dealings with Bezeq ("**the DBS Case**") as well as suspicions of the exercise of powers by former Prime Minister Binyamin Netanyahu, to

[5] As of June 24, 2015, Bezeq owns all DBS shares after completing on that date the purchase of Eurocom DBS' entire holdings in DBS (the "**Purchase Transaction**"). Since the final amount of the second conditional consideration in the Purchase Transaction was lower than the sum of the advances paid by the Company to Eurocom DBS for said consideration, Eurocom DBS had to return the difference to Bezeq. In this framework, Bezeq submitted to the Tel Aviv District Court a motion for the liquidation of Eurocom DBS due to its inability to return the aforementioned difference, and on April 22, 2018, the Tel Aviv District Court issued an order for the liquidation of Eurocom DBS, while a proxy was appointed as a liquidator to Eurocom DBS. Also, Bezeq joined as a creditor in the liquidation procedure of Eurocom Communications, the parent company of Eurocom DBS, and on December 12, 2022 the debt claim filed by Bezeq was dismissed. Bezeq filed an appeal against the decision. It should be noted that in Bezeq's 2018 statements, the write-off of the aforementioned debt balance was completed, so that the postponement of the debt claim is not expected to affect Bezeq's results.

advance issues concerning the business of Elovich and the economic interests of him and the Bezeq Group ("**Case 4000**") -

1.1.7.1 On January 28, 2020, an indictment was filed with the Jerusalem District Court in Case 4000, *inter alia*, against Elovich for various offenses, including bribery and deliberate misstatement in an immediate report in connection with suspicions of exercise of powers by former Prime Minister Binyamin Netanyahu to advance issues concerning the business of Elovich and the economic interests of him and the Bezeq Group.

1.1.7.2 On December 23, 2020, Bezeq received a notice from the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and its summons to a hearing on Case 4000 ("**the Notice**")[6] According to which:

a) After examining the evidence before him, the Attorney General is considering filing an indictment against Bezeq on suspicion of bribery (an offense under Article 291 of the Penal Code and Article 23 of the Penal Code), and a reporting offense with the aim of misleading a reasonable investor (offense under Article 53(a)(4) of the Securities Act and Article 23 of the Penal Code).

b) According to the Notice, according to the suspicion, Bezeq's criminal responsibility for the offense of bribery stems from the actions and criminal thought of Elovich, who was its organ in the period relevant to the suspicions.

c) Also, according to the Notice, according to the suspicion, Bezeq's criminal responsibility for the reporting offense stems from the actions and criminal thought of Elovich who was its organ in the period relevant to the suspicions, and the actions and criminal thought of Stella Handler (former Bezeq CEO), who was Bezeq's organ in the relevant period (see Section 1.1.6.3b). According to allegations in this context, Bezeq reported on a letter from the Director General of the Ministry of Communications that allegedly included a misstatement (of which Elovich and Stella Handler were aware), and only after the intervention of senior officials in the State’s legal advice system, the letter was amended and the amendment was reported by Bezeq to the public.

d) According to the Notice, before the Attorney General makes a final decision regarding the criminal prosecution of Bezeq, and insofar as Bezeq wishes to argue against the possibility of criminal prosecution, it must coordinate a hearing within 30 days from the date of the Notice, and submit written arguments two weeks before the date scheduled for the hearing.

It should be noted that Walla (a former subsidiary of Bezeq) also received a similar notice according to which, after examining the evidence presented thereto, the Attorney General is also considering filing an indictment against it as well, on suspicion of bribery (an offense under Article 291 of the Penal Code and Article 23 of the Penal Code) when, according to the suspicion, Walla's criminal liability for the offense of bribery stems from the criminal acts and thought of Elovich who was its organ in the period relevant to the suspicions.

Subsequently, on July 8, 2021, Bezeq and Walla submitted a written argument for the hearing. On August 12, 2021, a hearing was held for companies with the Deputy State Attorney (Criminal Enforcement) and with the team of attorneys handling the case. As of the date of publication of the report, a decision has not yet been made by the State Attorney's Office and the Attorney General regarding the filing of an indictment following the

[6] It should be noted that on November 20, 2017, Bezeq received a "letter of suspect notification" according to which the investigation file in the framework of which it was questioned as a suspect was transferred to the State Attorney's Office for review. Since then, no further notice has been received by Bezeq on this matter.

allegations raised at the hearing, and the companies have not been given an expected date for the decision.

1.1.7.3 On December 23, 2020, to the best of Bezeq's knowledge, an announcement by the State Attorney's Office was published, according to which, among other things, the State Attorney's Office (Taxation and Economics) filed on the same day an indictment against Elovich with the Tel Aviv District Court, as well as against former senior officials in Bezeq Group and BBS, Or Elovich, Amikam Shorer, Linor Yochelman , Ron Eilon and Mickey Neiman in the DBS Case. According to the publication:

a) The indictment attributes to the defendants the offenses of aggravated obtainment by fraud, fraud and breach of trust in a corporation, and reporting offenses under the Securities Law, in relation to two cases: Fraud in relation to the payment of the consideration for the purchase of DBS shares by Bezeq, and fraud in relation to the conduct of the independent committees established by Bezeq for the purpose of examining Bezeq transactions in which Elovich had a personal interest.

b) The State Attorney's Office (Taxation and Economics) entered into a conditional settlement agreement under the Securities Law with Stella Handler, in which Stella Handler admitted the facts according to which she was involved in intentional misstatement in Bezeq's statements. In accordance with what is stated in the arrangement, the DBS case was closed in the case of Stella Handler.

c) The investigation files in respect of other suspects investigated in the cases mentioned above were closed, including against the former VP of regulation at Bezeq, as well as against Or Elovich and Amikam Shorer (in relation to both - except with regard to the DBS Case as indicated in the preamble of this section).

On July 20, 2022, the decision of the Economic Department of the Tel-Aviv-Yafo District Court was published on the request of some of the defendants to drop charges in the case, according to which the second and third charges in the indictment were dropped (fraud in relation to the conduct of the independent committees in the "Bezeq-Yes" transaction and the "Yes-Space" transaction) against all the defendants in these charges: Elovich, former officers of Bezeq - Mr. Or Elovich, Mr. Amikam Shurer and Mrs. Linor Yochelman, as well as against the companies accused in the same charges - companies from the "Eurocom" group. The decision also stated, among other things, that it is not possible to accept Elovich's claim that the indictment does not reveal guilt in connection with the first charge (fraudulent receipt of advances at the expense of the second contingent consideration in the Bezeq-Yes transaction). It was emphasized in the decision that it does not in any way impinge on the civil aspect, and the pending proceedings in this regard (for civil proceedings against Bezeq and/or former Bezeq officials, see Section 1.1.7.5). On September 6, 2022, the Ministry of Justice published an announcement that the criminal department of the State Attorney's Office filed an appeal against the decision on the same day.

1.1.7.3 Bezeq does not yet have complete information regarding the investigations, their content, materials and evidence in the possession of the law authorities in the matter (although in January 2021, Bezeq received the core of the investigation material in connection with Case 4000, following Bezeq's summons to a hearing on this matter as detailed in Section 1.1.6.2). Accordingly, Bezeq is still unable to assess the effects of the investigations, their findings and results on Bezeq and its financial statements. For this matter see Note 1.3 to the 2022 statements.

1.1.7.4 It should be noted that following the opening of the said investigations, a number of civil legal proceedings were opened against Bezeq, DBS, Bezeq's officers in the relevant period and companies from Bezeq's former controlling group, including motions for approval of class actions and motions for disclosure of documents before filing a motion for approval of a derivative claim. For details regarding these procedures see Section 2.18.

1.1.7.5 Regarding DBS, which, on November 20, 2017, received a "letter of suspect notification" according to which the investigation case in which it was questioned as a suspect was forwarded to the State Attorney's Office - in accordance with the State Attorney's Office's notice received by DBS, after the Securities Authority case (Ref. No. 03/2017), in which it was questioned as a suspect, was examined by the Attorney General's Office, it was decided on January 11, 2021 to shelf the case against it, without filing an indictment therein.

1.2. Areas of activity

The Group has four main areas of activity that correspond to the corporate division among the Group's companies and are reported as business segments in Bezeq's consolidated financial statements (see also Note 28 to the 2022 statements):

1.2.2. Bezeq – Landline interior communications

This area mainly includes the activities carried out by Bezeq as an NIO (National Interior Operator), including telephony services, Internet services (including service over fibers and wholesale BSA service), transmission and data communication services and wholesale services of using Bezeq's physical infrastructure. Bezeq's activity in the field of landline interior communications is described in Section 2 of this report.

1.2.3. Pelephone - Cellular communication ("**Mobile Radio Telehpone**")

This field includes the provision of cellular radio-telephone services (cellular communications), marketing of end equipment, installation, operation and maintenance of equipment and systems in the field of cellular communications. Pelephone activity is described in Section 3 of this report.

1.2.4. Bezeq International - Internet, international communications and ICT solutions ("**Bezeq International services**")

As of the date of the report, this area includes the provision of Internet services to existing subscribers in a private service and does not include the marketing of this service to new/renewing subscribers. As of the date of the report, Bezeq International focuses on business services, including integration services, internet for businesses and more (for structural change, see Section 1.1.6). Also, this field includes international communication services, hosting and cloud services and ICT solutions ("**Bezeq International Services**"). Bezeq International's activity is described in Section 4 of this report..

1.2.5. DBS - Multi-channel TV

This field includes the provision of digital multi-channel TV broadcasting services to subscriptions over satellite (DBS) as well as over the Internet (OTT) and the provision of value-added services to subscribers and Internet services (infrastructure component through a wholesale market). DBS activity is described in Section 5 of this report.

It should be noted that in addition, Bezeq's consolidated financial statements include the "other" segment, which includes mainly call center services for customers (via Bezeq Online) and is immaterial in group terms.

1.3. Investments in the corporation's equity and transactions in its shares

On December 29, 2020, the Company announced the purchase of 2,530,000 ordinary Bezeq shares in exchange for a total amount of approximately NIS 15 million and an average price of NIS 5.95 per share. Following the said acquisition, the Company holds 26.81% of the issued and paid-up share equity and of the voting rights in Bezeq.

Except for the above, no investments were made in the Company's equity in the reporting year, and the Company is not aware of any other material transactions made in Bezeq shares by a related party outside the Stock Exchange.

1.4. Dividend distribution

1.4.1. Dividend distribution policy in the Company

The Company has not distributed dividends to its shareholders in the last three years (2020-2022) and as of the date of this report, the Company does not have a valid dividend distribution policy.

1.4.2. Dividend policy at Bezeq

On March 13, 2023, the Bezeq Board of Directors decided to update Bezeq's dividend distribution policy, so that Bezeq will distribute every six months 60% of the semi-annual profit (after tax) according to Bezeq's consolidated statements, starting with the next distribution (for the second half of 2022), this is In view of the trend of improvement in the business results and the continued decrease in the extent of Bezeq's debt and in accordance with Bezeq's forecasts regarding the business results for the following years.

Also, Bezeq will strive to update its dividend policy to the distribution of 70% of the semi-annual profit (after tax) according to Bezeq's consolidated statements, subject to maintaining the Company's credit rating in the AA group.

The implementation of the dividend distribution policy is subject to the provisions of any law, including the distribution tests set forth in the Companies Law, all in consideration of the expected cash flow, Bezeq's needs and obligations, Bezeq's cash balances, its plans and condition as they will be from time to time, and subject to the approval of the general assembly of Bezeq's shareholders regarding any specific distribution, all as stipulated in Bezeq's Articles of Association.

The approval of Bezeq's dividend policy does not obligate Bezeq to distribute a dividend to Bezeq's shareholders, and any specific distribution will be examined in accordance with the terms of implementation of the dividend distribution policy as stated above. In addition, the approval of the aforesaid policy does not prevent Bezeq's Board of Directors from periodically reviewing the policy of distributing dividends to Bezeq shareholders, taking into account, *inter alia*, the provisions of the law, Bezeq's business situation and its equity structure and balance, its level of debt and credit rating, and the ongoing maximization of value to Bezeq's shareholders through the regular distribution of dividends.

Bezeq's Board of Directors considers it important to maintain the balance between ensuring Bezeq's financial strength and stability, while maintaining Bezeq's rating in the current rating group [AA] over time, and continuing to unlock value for its shareholders through regular dividend distribution. Bezeq's Board of Directors was presented with, among other things, analysis and results of professional work, Bezeq's and the Bezeq Group's forecasts, as well as sensitivity analyzes for unforeseen deterioration in Bezeq's and Bezeq Group businesses. After Bezeq's Board of Directors examined all of the above, the Board of Directors determined that this decision reflects the correct balance between the abovementioned needs.

1.4.2.1 Dividend distribution in Bezeq - Bezeq did not distribute a dividend in 2020-2021. For details regarding the dividend distribution carried out by the Company in May and October 2022, see Note 20 to the 2022 statements. The remaining distributable profits as of the date of the report are about NIS 1,648 million (the said balance consists of surpluses accumulated in the last two years after deducting the dividend amounts paid in May and October 2022).

Regarding the recommendation of the Bezeq Board of Directors dated March 13, 2023 to the general assembly of Bezeq's shareholders regarding the distribution of a dividend in respect of the profits of the second half of the year 2022, see Note 20 to the 2022 statements.

1.5. Financial information regarding the areas of activity of Bezeq Group

All data in sections 1.5.1 to 1.5.4 are stated in NIS millions.

1.5.1. 2022

	Landline interior communication	Cellular communication (mobile radio telephone)	Bezeq International services	Multi-channel TV (3)	Other	Consolidation adjustments (2)	Consolidated
Total revenue:							
External	3,980	2,359	1,183	1,277	187	-	8,986
From other areas of activity in the corporation	326	40	56	-	6	(428)	-
Total revenue	4,306	2,399	1,239	1,277	193	(428)	8,986
Total attributable costs:							
Variable costs attributed to the area of activity (1)	606	852	759	382	159		
Fixed costs attributed to the area of activity (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 area of activity (3)	2,805	2,114	1,009	1,305	183	(67)	7,349
Costs that constitute revenue of other areas of activity	41	92	260	20	4	(417)	-
Total costs	2,846	2,206	1,269	1,325	187	(484)	7,349
Profit from ordinary activities attributed to the owner of the Cmpany	1,460	193	(30)	(48)	6	56	1,637
Total assets attributed to activity as of December 31, 2022	9,023	4,080	760	1,249	87	(1,787)	13,412
Total liabilities attributed to the area of activity as of December 31, 2022	10,468	1,563	570	469	32	(1,314)	11,788

(1) The Group companies, which are companies that provide services (as opposed to manufacturing companies), do not maintain a dedicated pricing system that distinguishes between fixed and variable costs. The above division was made for the purposes of this report only. Variable costs are costs that companies have flexibility in managing and controlling in the short term,a s well as their effect on direct output, compared to fixed costs that are not flexible in the short term and do not directly affect output (in this regard, up to one year). The variable costs included non-recurring expenses (revenue) that were included in the item of other expenses (revenue) of each company.

(2) Details of the adjustments to consolidated - transactions between areas of activity.

(3) See Notes 10 and 28 to the 2022 statements regarding the neutralization of the impairment loss in the multi-channel television segment. The impairment loss in this segment is shown in the adjustments.

1.5.2. 2021

	Landline interior communication	Cellular communication (mobile radio telephone)	Bezeq International services	Multi-channel TV (3)	Other	Consolidation adjustments (2)	Consolidated
Total revenue:							
External	3,845	2,249	1,186	1,270	271	-	8,821
From other areas of activity in the corporation	337	40	51	-	6	(434)	-
Total revenue	4,182	2,289	1,237	1,270	277	(434)	8,821
Total attributable costs:							
Variable costs attributed to the area of activity (1)	369	982	723	369	215		
Fixed costs attributed to the area of activity (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 area of activity (3)	2,389	2,153	944	1,291	246	(72)	6,951
Costs that constitute revenue of other areas of activity	45	94	271	20	4	(434)	-
Total costs	2,434	2,247	1,215	1,311	250	(506)	6,951
Profit from ordinary activities attributed to the owner of the Company	1,748	42	22	(41)	27	72	1,870
Total assets attributed to activity as of December 31, 2021	9,245	4,452	783	1,293	100	(1,939)	13,934
Total liabilities attributed to the area of activity as of December 31, 2021	11,415	1,753	566	474	37	(1,407)	12,838

(1) The Group companies, which are companies that provide services (as opposed to manufacturing companies), do not maintain a dedicated pricing system that distinguishes between fixed and variable costs. The above division was made for the purposes of this report only. Variable costs are costs that companies have flexibility in managing and controlling in the short term,a s well as their effect on direct output, compared to fixed costs that are not flexible in the short term and do not directly affect output (in this regard, up to one year). The variable costs included non-recurring expenses (revenue) that were included in the item of other expenses (revenue) of each company.

(2) Details of the adjustments to consolidated - transactions between areas of activity.

(3) See Notes 10 and 28 in the 2022 statements regarding the neutralization of the impairment loss in the multi-channel television segment. The impairment loss in this segment is shown in the adjustments.

1.5.3. 2020

	Landline interior communication	Cellular communication (mobile radio telephone)	Bezeq International services	Multi-channel TV (3)	Other	Consolidation adjustments (2)	Consolidated
Total revenue:							
External	3,813	2,127	1,217	1,286	280	-	8,723
From other areas of activity in the corporation	346	59	54	1	6	(466)	-
Total revenue	4,159	2,186	1,271	1,287	286	(466)	8,723
Total attributable costs:							
Variable costs attributed to the area of activity (1)	850	799	1,021	532	186		
Fixed costs attributed to the area of activity (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 area of activity (3)	2,405	2,162	1,246	1,296	236	(77)	7,268
Costs that constitute revenue of other areas of activity	49	108	266	33	6	(462)	-
Total costs	2,454	2,270	1,512	1,329	242	(539)	7,268
Profit (loss) from ordinary activities attributed to the owner of the Company	1,705	(84)	(241)	(42)	44	73	1,455
Total assets attributed to activity as of December 31, 2020	8,471	4,371	785	1,365	96	(1,847)	13,241
Total liabilities attributed to the area of activity as of December 31, 2020	11,764	1,742	580	505	42	(1,242)	13,391

(1) The Group companies, which are companies that provide services (as opposed to manufacturing companies), do not maintain a dedicated pricing system that distinguishes between fixed and variable costs. The above division was made for the purposes of this report only. Variable costs are costs that companies have flexibility in managing and controlling in the short term,a s well as their effect on direct output, compared to fixed costs that are not flexible in the short term and do not directly affect output (in this regard, up to one year). The variable costs included non-recurring expenses (revenue) that were included in the item of other expenses (revenue) of each company.

(2) Details of the adjustments to consolidated - transactions between areas of activity.

(3) See Notes 10 and 28 in the 2022 statements regarding the neutralization of the impairment loss in the multi-channel television segment. The impairment loss in this segment is shown in the adjustments.

For explanations about the developments in the financial data presented In sections 1.5.1 to 1.5.3 aee Section 1 of the Board of Directors' report on the state of the corporation's affairs ("**Board of Directors' Report**").

1.5.4. Main results and operational data

The following is a summary of data on the results of each of the Company's main areas of activity in 2021 and 2022.

1.5.4.1 Bezeq Fixed Lines

	2022	2021	Q4/ 2022	Q3/ 2022	Q2/ 2022	Q1/ 2022	Q4/ 2021	Q3/ 2021	Q2/ 2021	Q1/ 2021
Revenue (NIS millions)	4,306	4,182	1,057	1,086	1,067	1,096	1,052	1,037	1,039	1,054
Operating profit (NIS millions)	1,460	1,748	293	388	393	386	358	390	407	593
Depreciation and amortization (NIS millions)	1,005	938	266	252	248	239	245	239	231	223
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	2,465	2,686	559	640	641	625	603	629	638	816
Net profit (NIS millions)	849	1,063	153	235	243	218	206	219	238	400
Cash flow from operating activities (NIS millions)	2,230	2,024	628	427	541	634	593	567	354	510
Payments for investments in property, plant and equipment and intangible assets and other investments (NIS millions)	1,135	1,155	277	294	279	285	244	314	285	312
Receipts from the sale of property, plant and equipment and intangible assets (NIS millions)	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 millions) (2)	993	1,026	325	107	234	327	404	226	45	351
Number of active telephone subscriber lines at the end of the period (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 telephony subscriber (NIS) (ARPL) (4)	42	47	40	41	41	47	46	46	47	49
Outgoing usage minutes (millions)	2,979	3,385	698	754	726	801	811	782	827	965
Incoming usage minutes (millions)	3,939	4,627	922	986	951	1,080	1,096	1,152	1,095	1,284
Telephony subscriber 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 subscribers at the end of the period (thousands) (7)	1,504	1,524	1,504	1,505	1,512	1,519	1,524	1,524	1,529	1,540
Of which are subscribers connected to the fiber network at the end of the period - wholesale (thousands) (7)	267	501	267	212	161	124	501	510	520	539
Of which are Internet lines at the end of the period - in retail (thousands) (7)	1,032	1,023	1,032	1,024	1,022	1,024	1,023	1,014	1,009	1,001
Of which are subscribers connected to the fiber network at the end of the period - in retail (thousands) (7)	198	65	198	157	118	93	65	36	16	1
Internet lines at the end of the period – in wholesale (thousands) (7)	472	501	472	481	490	495	501	510	520	539
Of which are subscribers connected to the fiber network at the end of the period - in wholesale (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
Fiber optic network deployment at the end of the period (thousands, households available for connection) (9)	1,526	1,064	1,526	1,442	1,308	1,193	1,064	848	597	310
Churn rate of telephony subscribers (6)	220	130	220	192	164	151	130	104	88	78

(1) Operating profit before depreciation and amortization (EBITDA) is a financial index that is not based on generally accepted accounting principles. Bezeq presents this index as another index for evaluating its business results since it is an accepted index in the Bezeq area of activity which neutralizes aspects resulting from variability in capital structure, various taxation aspects and manner and period of amortization of property, plant and equipment and intangible assets. This index is not a substitute for indices based on generally accepted accounting principles, and does not serve as a single index for assessing the

Company's results of operations or cash flow. Also, the index presented in this report may not be calculated in the same way as other indices in other companies. Bezeq's EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from impairment of property, plant and equipment and intangible assets. For the purpose of adequate presentation of economic activity, Bezeq presents ongoing losses from impairment of property, plant and equipment and intangible assets in DBS and Bezeq International under the depreciation and amortization item, as well as ongoing losses from impairment of broadcasting rights under the operating and general expenses item (in the statement of income). For this matter see Note 10 to the financial statements and Section 8 of the chapter on the description of the corporation's business in the 2022 periodic report.

(2) Free cash flow is a financial measure that is not based on generally accepted accounting principles. Free cash flow is defined as cash arising from current operations minus cash for the purchase / sale of property, plant and equipment. Bezeq presents free cash flow as an additional index to evaluate business results and cash flows, since Bezeq is of the opinion that cash flow is an important liquidity index that reflects the cash derived by Bezeq from its current operations after investing cash in infrastructure and property, plant and equipment and other intangible assets. For this matter see Section 8 of the chapter on the description of the corporation's business in the 2022 periodic report.

(3) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (excluding a subscriber who has not paid his debt to Bezeq on time in the first three months (approximately) of collection proceedings).

(4) Calculated according to the average of subscribers for the period. For this matter see also Section 8 of the chapter on the description of the corporation's business in the 2022 periodic report.

(5) In plans where there is a range of speeds, the maximum speed in the plan is taken into account.

(6) Number (gross) of telephony subscribers who abandoned Bezeq Fixed Lines during the period divided by the average number of telephony subscribers registered in the period. See also Section 8 of the chapter on the description of the corporation's business in the 2022 periodic report.

(7) Total number of Internet subscribers including retail and wholesale subscribers. Retail – the Company's direct Internet subscribers. Wholesale - Internet subscribers through wholesale service to other communication providers.

(8) Revenue from retail Internet services divided by the average number of retail customers in the period. For this matter, see also Section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.

(9) As of the publication date of the report, fiber optic network deployment - about 1.654 million households are available for connection, of which about 332k subscribers are connected to the fiber network (of which 235k retail and 97k 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 millions)	1,791	1,642	441	467	446	437	424	417	409	392
Revenue from the sale of end equipment (NIS millions)	608	647	151	141	153	163	178	124	167	178
Total revenue (NIS millions)	2,399	2,289	592	608	599	600	602	541	576	570
Operating profit (loss) (NIS millions)	193	42	17	60	52	64	8	22	15	(3)
Depreciation and amortization (NIS millions)	532	577	135	139	136	122	147	144	144	142
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	725	619	152	199	188	186	155	166	159	139
Net profit (loss) (NIS millions)	165	64	13	50	46	56	13	23	20	8
Cash flow from operating activities (NIS millions)	874	425	149	203	244	278	19	185	149	72
Payments for investments in property, plant and equipment, intangible assets and other investments, net (NIS millions)	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 millions) (1)	351	(47)	87	(12)	131	145	(89)	65	36	(59)
Number of postpaid subscribers for 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 for the end of the period (thousands) (2)	431	480	431	538	514	490	480	473	471	462
Number of subscribers for 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
Average monthly income per subscriber (NIS) (ARPU) (3)	57	54	57	58	57	57	55	55	54	53
Average monthly income per subscriber net of interconnect (NIS) (ARPU) (6)	43	40	43	45	43	42	41	41	40	38
Subscriber churn rate (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 operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.

(2) The subscriber data include Pelephone subscribers (net of other operators' subscribers hosted on Pelephone's network, and net of IoT subscribers) and do not include subscribers connected to Pelephone's service for six months or more but are inactive. Inactive subscribers are subscribers who in the last six months have not received at least one call, did not make at least one call / message or did not perform a browsing operation or did not pay for Pelephone's services. Prepaid subscribers are included in the active subscriber base from the date of performing a charge and are deducted from the active subscriber base when no making outbound use for six months or more. It should be noted that a customer may have more than one subscriber ("line"). The number of subscribers includes subscribers who consume various services (such as data for in-vehicle media systems), the average income from which is significantly lower than the rest of the subscribers. It should be noted that Pelephone markets packages with an increased volume of use that are also adapted to the needs of 5G when as of Decembr 31, 2022 Pelephone has about 813k subscribers in this type of packages.

(3) The average monthly income per subscriber (postpaid and prepaid). The index is calculated by dividing the average monthly revenue from all cellular services from both Pelephone's subscribers and other communication operators, including revenue received from cellular operators using Pelephone's network, repair service and extended warranty in the period by the average active subscriber base in that same period. See also section 8 of the chapter on the description of the corporation's business in the 2022 periodic report.

(4) The subscriber churn rate is calculated according to the ratio of the subscribers who disconnected from Pelephone services and the subscribers who became inactive during the period to the average of active subscribers during the period. See also section 8 of the chapter on the description of the corporation's business in the 2022 periodic report.

(5) In the examination carried out by Pelephone of the register of prepaid subscribers during the Q4/2022, it was found that about 96k subscribers were included in the register of subscribers even though they did not meet the definition of an active subscriber. Accordingly, Bezeq deducted these subscriptions in a one-time manner. The subtraction of subscribers as mentioned led to an increase of about NIS 2 in ARPU for Q4 and no change in the subscriber churn rate in this quarter.

(6) Average monthly revenue per subscriber (ARPU) excluding revenue from interconnect - the reform to change the interconnect rates regime that will gradually apply from June 2023 until June 2025 is expected to lead to a decrease in interconnect revenues and a decrease in ARPU, which is why Pelephone chose to present the average monthly revenue per subscriber (ARPU) minus the component of revenue from interconnect, all 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
Revenue (NIS millions)	1,239	1,237	319	311	302	307	328	287	310	312
Operating profit (loss) (NIS millions)	(30)	22	(60)	17	17	(4)	1	13	16	(8)
Depreciation and amortization (NIS millions)	134	173	35	32	29	38	40	38	46	49
Operating profit (loss) before depreciation and amortization (EBITDA) (NIS millions) (1)	104	195	(25)	49	46	34	41	51	62	41
Net profit (loss) (NIS millions)	(32)	8	(58)	16	15	(5)	(5)	10	11	(8)
Cash flow from operating activities (NIS millions)	210	131	56	5	37	112	(52)	96	26	61
Payments for investments in property, plant and equipment and intangible assets and other investments, net (NIS millions) (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 millions) (1)	81	0	30	(27)	1	77	(73)	60	(10)	23
Subscriber 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 operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.
(2) The section also includes investments in long-term assets.
(3) Number of Internet subscribers who left Bezeq International during the period is an average of the average Internet subscribers registered during the period. See also Section 8 of the chapter on the description of the corporation's business in the periodic report for 2022.

1.5.4.4 **DBS**

	2022	2021	Q4/ 2022	Q3/ 2022	Q2/ 2022	Q1/ 2022	Q4/ 2021	Q3/ 2021	Q2/ 2021	Q1/ 2021
Revenue (NIS millions)	1,277	1,270	330	315	316	316	322	318	315	315
Operating profit (loss) (NIS millions)	8	32	0	0	(2)	10	(14)	30	22	(6)
Depreciation, amortization and ongoing impairment (NIS millions)	199	203	57	46	46	50	52	45	45	61
Operating profit before depreciation, amortization and ongoing impairment (EBITDA) (NIS millions) (1)	207	235	57	46	44	60	38	75	67	55
Net profit (loss) (NIS millions)	13	30	1	0	2	10	(17)	29	18	0
Cash flow from operating activities (NIS millions)	186	233	56	9	43	78	42	73	56	62
Payments for investments in property, plant and equipment and intangible assets and other investments, net (in NIS millions)	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 millions) (1)	(17)	29	5	(36)	(12)	26	(20)	29	7	13
Number of subscribers (at the end of the period, thousands) (2)	579	563	579	575	567	564	563	560	560	559
Of which are IP subscribers (3)	329	226	329	307	280	253	226	198	173	147
Of which are StingTV subscribers	104	84	104	101	94	89	84	79	74	70
Average monthly income per subscriber (ARPU) (NIS) (3)	183	188	181	182	184	186	190	188	186	187
Subscriber churn rate (4)	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 operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.

(2) Subscriber - one household or a small business customer. In the case of a business customer who owns more than a certain number of decoders (such as a hotel, kibbutz or gym), the number of subscribers is adjusted. The number of non-small business customers is calculated by dividing the total payment received from all non-small business customers by the average income per small business customer, which is determined once per period.

(3) The number of DBS subscribers using Yes+ and STINGTV services transmitted via the Internet (as stated in Sections 5.2.2.1 and 5.2.2.2 of the chapter describing the corporation's business in the periodic report for 2022). As of the date of publication of the report, is about 344k subscribers (of which, 107k are STINGTV subscribers), whioch constitute 60% of all DBS subscribers. This rate also includes subscribers who also use satellite services at the same time.

(4) The average monthly revenue per subscriber is calculated by dividing the total DBS revenue (excluding revenue from the sale of content to external broadcasters) by the average number of customers in the period. See also Section 8 of the chapter on the description of the corporation's business in the 2022 periodic report.

(5) The number of DBS subscribers who abandoned DBS during the period divided by the average number of subscribers registered in the period. See also Section 8 of the chapter on the description of the corporation's business in the 2022 periodic report.

1.6. Forecast and short-term ambitions in relation to the Bezeq Group

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

a. Adjusted net profit[7] for shareholders is expected to be NIS 1.2 billion.

b. Adjusted EBITDA[8] It is expected to be NIS 3.8 billion.

c. CAPEX[9] It is expected to be NIS 1.75 billion.

Bezeq will report, as required, deviations of ±10% or more from the ranges specified in the forecasts above.

d. The scope of the Company's fiber network deployment - reaching about 2 million households.

e. Financial stability - maintaining high credit rating in the AA group.

1.6.2. Medium-term ambitions

a. Adjusted EBITDA - Average annual growth in terms of CAGR of about 1% with an adjusted EBITDA rate in revenue in the range of 41%-43%.

b. CAPEX – until 2025, stability in CAPEX and in relation to CAPEX's revenues; Gradual decline thereafter

c. Free cash flow[10] - average annual growth (in CAGR terms) at a medium single-digit rate

d. The scope of the Company's fiber network deployment - reaching about 2.7 million households

e. Dividend policy - aspiration to distribute 70% of the semi-annual profit (after tax) according to the Company's consolidated statements, subject to maintaining the Company's credit rating in the AA group.

f. Financial stability - maintaining high credit rating in the AA group

The Company does not undertake to update on a regular basis or otherwise its ambitions or any changes that will apply to the ambitions or actual results in relation to the ambitions.

1.6.3. Forward-looking information

The Company’s forecasts and ambitions detailed in this section are forward-looking information, as defined in the Securities Law. The forecasts and ambitions are based on Bezeq's assessments, assumptions and expectation, and among other things, on the Group's assessments regarding the structure of competition in the communications market and the regulation of the segment, on the current economic situation in the economy, and accordingly, the on Group's ability to implement its plans for 2023 and in the medium-term, as applicable, taking into account the changes in business conditions, regulatory decisions, technological changes, developments in the structure of the communications market, etc. or insofar as one or more of the risk factors listed in the 2022.

Also, with respect to Bezeq aspirations, given that it is a reference to the medium term and the difficulty of predicting Bezeq results and actual market performance in the medium term, there is no certainty that Bezeq ambitions will fully or partially materialize, and deviation between Bezeq results and actual performance may be significant. Moreover, ambitions, by nature, do not purport to be predictions and should not be read

[7] Adjusted net profit and adjusted EBITDA – net of the other operating expenses / revenue, net item, non-recurring losses / gains from impairment / increase in value, and expenses of the capital remuneration plan. It should be noted that the adjusted EBITDA and the adjusted net profit for 2021 were approximately NIS 3.659 billion and approximately NIS 1.154 million, respectively.

[8] See Footnote 10.

[9] CAPEX - Payments (gross) for investment in property, plant and equipment and intangible assets. It should be noted that the CAPEX for 2021 was approximately NIS 1.713 billion.

[10] For a definition of free cash flow, see Section 7.2.2.

as such.

1.7. General environment and the influence of external factors on the Group's activities

The communications industry in the world and in the Israeli economy is characterized by a rapid pace of development, and frequent changes in terms of technology, in terms of the business structure of the industry and in terms of the regulation applied to it. The main trends and main characteristics of the communications market in recent years, which have a significant impact on the Group's operations as a whole, will be described below.

In view of the diversity in the areas of the Group's communications activities, regulatory and other developments may sometimes have a different effect (and even in opposite directions) on various areas of activity in the Group and on its risk factors (see Sections 2.20, 3.19, 4.14 and 5.19), that is - changes in regulation and other factors that adversely affect one area may have a positive effect on another area. In some cases, adverse effects on areas of activity may be partially offset against each other at the group level.

1.7.1. Competition in the communications market

In the communications market there is lively competition in most areas of the Group's activity:

In the field of Internet services, there is lively competition against companies that own infrastructure, including fiber infrastructure for households, as well as against companies that offer services through the wholesale market (see Section 1.7.5 and Section 2.16.4). In addition, the expansion of regional competition is evident in the light of giving the possibility to those who do not have a general license to provide fiber Internet services through a broadband infrastructure that they laid down themselves or through the use of Bezeq's passive infrastructures.

In the field of cellular telephony, the multitude of competitors results in lively competition that results in low prices and increased customer mobility. In the field of landline telephony, competition, including from the cellular companies, leads to a decrease in the consumption of landline telephony minutes as well as to the churn in landline telephony services (including an increasing number of customers without a landline home line). These phenomena damage the results of the Group.

In the field of television services, the increase in competition is evident through the transmission of television content (VOD services and linear channels) over the Internet (OTT), including by foreign providers such as Netflix, which are not subject to regulatory oversight and the same obligations as those of multi-channel public broadcasting providers, as well as reception of "Idan+" channels.

In order to reduce the damage resulting from the aforementioned, Bezeq Group companies take streamlining measures as well as steps to improve the services they provide and differentiate them from the competition.

1.7.2. Communication groups in the Israeli market

The market is characterized by competition between communications groups (Bezeq Group, Hot Group, Cellcom Group (which in 2020 also acquired Golan Telecom, which operates in the cellular segment), and Partner Group ,operating simultaneously in several segments of the communications market (landline and mobile telephony, landline and mobile Internet services, multi-channel television and international calls)[11].

Cellcom and Hot own together with the Israel Infrastructure Fund (23% each) and the Electric Company (30%) in IBC, which deploys optical fiber infrastructure and mainly provides services to communication providers (CARRIER'S CARRIER). The communication groups market various communication service packages of each group's corporations, so that it is possible to offer the customer a comprehensive solution that eliminates the need to contract simultaneously with several different suppliers, as well as to offer the customer attractive rates for the purchase of each service separately (in some cases with a "cross subsidy" between the components included in the basket). Additionally, BSA

[11] In this regard, a "group" is characterized by a close relationship that results from the identicality of shareholders, although in some groups there is a corporate, accounting or marketing separation between the entities belonging to the group.

wholesale service (See Section 2.16.4.2) also allows operators who do not own infrastructure, including operators who are not part of a telecommunications group, to offer a package of unified Internet services to their customers (including infrastructure). As of April 3, 2022, companies that own infrastructure - Bezeq and Hot, are allowed to provide private customers themselves Internet access service, together with their infrastructure service, after the obligation to separate infrastructure service and Internet access service was lifted.

Competitors that are not part of a telecommunications group also operate in the market (such as XFONE and MVNO operators in the cellular segment, including Internet providers that provide service within the wholesale market. Also, as mentioned, the number of small service providers (that are not part of a group) that provide broadband Internet services, including infrastructure, has expanded (See Section 1.7.6).

As of the date of the report, Bezeq Group is subject to stricter restrictions on the marketing of service packages than the other communication groups.

1.7.3. Bezeq Group's activity as a communications group

As of the date of the report, the Group is subject to regulatory restrictions related to creating collaborations between the Group's companies, which include a structural separation obligation between Bezeq and its subsidiaries, as well as restrictions on shared marketing and marketing shared service baskets which include the services of Bezeq and its subsidiaries.

Against the background of the challenges the Group faces and the needs in the communication market environment, in parallel with Bezeq’s activity for the elimination of structural separation, a comprehensive strategic plan for the Group as a communication group is implemented within the complex regulatory constraints imposed on the Group (see Section 1.8).

1.7.3.1 Regulatory oversight - structural separation obligation

In accordance with the Communication Law, the Minister is authorized to order accounting separation between different services provided by the same group / company, as well as the power to require the existence of separate corporations for the purpose of providing different services, including separation between licensing services and subscriber services, and provisions on the implementation of the separation.

Bezeq's NIO license stipulates that Bezeq must maintain structural separation between itself and its subsidiaries[12]. In this context, full separation between Bezeq's management and the managements of the subsidiaries is required, including everything related to the business system, the financial system and the marketing system, and Bezeq is prohibited from transferring commercial information to a subsidiary (subject to exceptions).

The limitations of structural separation place the Group in a position of competitive disadvantage which exacerbates over time vis-à-vis the other communication groups which are not subject to restrictions of a similar extent. In addition, the limitations of structural separation cause high overheads.

1.7.3.2 Elimination of structural separation

In the Company’s opinion, all the conditions that require the cancellation of the structural separation in accordance with the Ministry of Communications policy document dated May 2, 2012 regarding the expansion of competition in the landline communications field - wholesale market have been met. As part of an appeal filed by Bezeq with the Hight Court of Justice in 2021 and withdrawn thereby, the State submitted an interdepartmental report for examining the update of the structural separation obligations in the Bezeq and Hot groups, in which the Minister was advised not to cancel the structural separation obligation in the Bezeq and Hot groups at this time. However, the team found that certain changes

12 Pelephone, Bezeq International, DBS and Bezeq Online.

can be made to the overall regulation, including examining the elimination of the separation used in Israel between the infrastructure service and the ISP service, which was in fact eliminated (for the abolition of separation, see Section 1.7.5.1).

1.7.3.3 Marketing a shared basket of services with a subsidiary and between subsidiaries

Bezeq was allowed to offer subscribers shared services ("Bundles") with the subsidiaries, subject to approval by the Ministry of Communications and subject to a number of conditions set forth in the NIO license, including:

- The baskets will be "detachable", that is - each service included in them will be offered separately outside the framework of a basket of services, under the same conditions.
- At the time of submitting the application for approval of the basket, there is a group of services in a similar format that is marketed to a subscriber as a package by a licensee who is not a Bezeq subsidiary, or there is a group that includes licensees who provide a private subscriber with all services included in the shared basket of services.
- The marketing of shared service baskets by the subsidiaries, which include Bezeq Services, is also subject, according to their licenses, to similar restrictions, including the requirement of "detachability" (except for a basket marketed by a subsidiary that includes only Bezeq's broadband access service for Internet providers).

These restrictions, and in particular the "detachability" obligation, which severely limits the Group's ability to provide discounts on various components in the basket of services, place the Group in an inferior competitive position relative to competing communications groups that are not subject to similar restrictions on the marketing of bundles (except, to the best of the Company's knowledge, Hot Group's diminishing limitations).

Following the amendment of the terms of the merger of the Company and DBS in accordance with the decision of April 12, 2021 of the Commissioner of Competition, DBS was allowed to sell communication packages that include internet services and television services without the obligation to sell the television services at a detachable price that will be uniform for package buyers and those who are not Purchasers of packages - see Section 2.16.9.3.

The Company’s baskets with DBS - in recent years, the Ministry rejected various requests from Bezeq to provide its Internet services together with the television services of the subsidiary - DBS (including over the Internet).

1.7.3.4 Additional restrictions on collaboration and preference between group companies

There are additional restrictions on cooperation between Bezeq and the Group companies both by virtue of competition law and conditions set by the Competition Commissioner for mergers between Bezeq and Group companies, which prohibit discrimination in favor of the Group companies in the provision of certain services (see Section 9.2.16), and by virtue of the provisions of Bezeq's license, which require it to provide its services equally. For additional restrictions see also Section 5.14.3.

Removal of the restrictions on structural separation and other restrictions that apply to collaborations between the Group companies as detailed above, insofar as they are removed, may create different opportunities for the Group to exploit such synergies or facilitate the exploitation of such synergies..

1.7.4. Changing the regulatory structure - Amendment 76 to the Communications Law

On July 4, 2022, Amendment 76 to the Communications Law ("Amendment to the Law") was published. In accordance with the amendment to the law, which largely entered into force on October 2, 2022, the structure of the existing regulation in the field of Bezeq was changed, among other things, in such a way that the obligation to obtain a specific license in advance as a condition for the provision of Bezeq service, which was the main tool for regulating the provision of communication services in Israel, was abolished, and instead the default for the said regulation is through registration in the registry. In this way, the Amendment to the Law allows any entity interested in providing a Bezeq service to know in advance what the conditions are for its activity and to start operating without requesting and without obtaining a license. The registry is managed by the Director General of the Ministry of Communications. The Amendment to the Law established cases in which the obligation to obtain a license will still apply when it comes to (a) a Bezeq service provided through the mobile radio-telephone system; (b) a Bezeq service provided through the Bezeq network whose number of users or subscribers or the number of network terminal points or end points exceeds the number determined by the Minister, with the exception of Bezeq service provided through the aforementioned Bezeq network by another licensed provider (the regulations for this matter stipulate that a license will be required from those who provide Bezeq service through a landline access network[13] with at least 100,000 users or through a fixed access network whose number of subscribers who receive Internet access service at least 500,000); (c) Bezeq service provided through a Bezeq network in which one of the following occurs: (1) It includes a landline or mobile ground station in Israel for communication with a satellite; (2) It includes a satellite located at the location or using the registered route In the name of the State of Israel in the International Telecom Union (ITU); (d) Carrying out a Bezeq operation in a landline lightning facility connecting a point in Israel and a point outside Israel (with the exception of Judea and Samaria). Also, a local authority (including a municipal company or a municipal subsidiary) will not provide Bezeq service whether it requires registration in the registry or 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's Economic Committee, additional Bezeq services that will require a license, as well as additional service providers that will be subject to the licensing obligation (for certain services or for all of the services provided), if he considers that under the circumstances of the case it is not sufficient to regulate through registration in the registry to comply One or more of the following considerations: maintaining state security or public peace, efficient utilization of a scarce resource, promotion of competition. Also, the Minister may, due to one or more of the considerations listed above, order a Bezeq service provider registered in the registry, that the provision of a Bezeq service thereby will be subject to obtaining a license for every lightning service it provides or for a Bezeq service of a type it decides.

In addition, the law changed the definition of "Bezeq service" subject to regulation, in order to reduce the services subject to regulation. "Bezeq service" is defined as a service provided to the general public or a part of it through the Bezeq network, which is one of the following: data transmission service, Internet access service, telephony service, other service listed in the first supplement to the law (as of the date of the report, there is no detail in the supplement to the law).

Further to this, on October 2, 2022, regulations were published implementing the regulation format according to which many of the entities that provide Bezeq services today will be transferred from regulation through a license to regulation through registration in a dedicated registry and in accordance with the regulations. In accordance with the provisions of the regulations, they will not apply to certain licensees, including the Company and its subsidiaries Pelephone, Bezeq International, and DBS, except in relation to the ISP service provided by DBS. In parallel, as it appears from the explanation of the regulations, the Ministry of Communications intends to map the licenses and actively cancel the instructions in the licenses that are regulated in the regulations, as well as in the near future to examine the justifications for determining different arrangements within the licenses. Regarding the obligation to disconnect dormant subscribers stipulated in the regulations, see Section 1.7.7.10.

Also, on December 8, 2022, the Ministry published a "Hearing to Update the Wholesale

[13] Access network for this matter - Bezeq devices used to link between a switchboard and a network END point, using a wired infrastructure, a wireless infrastructure or a combination of both.

Market Regulations and the Service Files - Adaptation to the New Regulation", according to which the Ministry is considering amending the service files of the wholesale services (BSA+Telephony; Mutual use of passive infrastructures; Physical infrastructure service and Appendix No. 2 "Documentation of Passive Infrastructure Works") so that they conform to the language of the law after Amendment 76 enters into force, and to the language of the new communications regulations that were established pursuant to it. According to the hearing, the changes being considered are, among other things, a derivative of the wholesale market regulations and the elimination of distinctions according to different types of licenses as well as a change of terms. In its response, Bezeq stated that the relevant distinctions must be maintained in relation to the provision of the various wholesale services to various licensed providers. As of the date of the report - a decision has not yet been made in the hearing and the service files have not yet been corrected or replaced by the instructions of a manager.

A draft amendment to the usage regulations was also published in December 2022, which also included adjustments following Amendment 76 to the law. As of the date of the report, the regulations have not yet been amended.

The effect of the amendment of the Communications Law and regulations on the Group companies depends, among other things, on the manner in which they are implemented by the Ministry of Communications, including the amendment of the licenses of existing license holders.

1.7.5. Key developments during the report period (including years preceding the report period)

1.7.5.1 Unified Internet service

As of April 3, 2022, Bezeq markets and provides a unified Internet, infrastructure, and Internet access service, both on a traditional network (copper) and on an advanced network (fiber). From this date, Bezeq is not allowed to market a basket ("bundle") that includes an Internet infrastructure service with Bezeq International's or another licensee's access service. This development is a follow-up to the decision of the Minister of Communications dated June 20, 2021 regarding the cancellation of the separation between the infrastructure service and the internet access service, and the granting of permission to Bezeq, and later Hot, to provide a unified internet service to subscribers in a private service. According to the decision, it is required, among other things, to regulate through a shelf agreement, key performance indicators (KPI - Key Performance Indicator) for the level of service and liquidated damages arrangements of the infrastructure owner (the Company and Hot) with an access applicant who has an ISP license and at least 10,000 active customers in a wholesale market. On September 19, 2021, the General Directorate of the Ministry of Communications decided that the agreement governing key performance indicators (KPIs) submitted by Bezeq, will be a "shelf offer" according to the Minister's decision and will apply to all access applicants and without discrimination.

The implementation of the move and Bezeq's ability to offer a unified service have a positive effect on its business. Regarding Bezeq International, the move resulted in a significant reduction in the status of its Internet customers and the structural change described in Section 1.1.6, so that Bezeq International does not market Internet services to customers in a private service, and starting in the second half of 2022, DBS is an authorized provider for providing access services to the Internet, and provides Internet services over fiber (an infrastructure component through a wholesale service). The total impact on the Group in the coming years is expected to be positive.

1.7.5.2 Many small operators

Following changes in regulation, the number of small service providers that provide broadband Internet services including infrastructure has expanded, in practice and potentially, first through the granting of special licenses instead of a unified/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 (except for exceptions) and moving to the provision of communication services (including but not limited to broadband infrastructure) through registration in the registry only and subject to the permit regulations by virtue of Amendment 76 to the Communications Law (see Section 1.7.4). Authorized providers as mentioned are not required to go through a license issuance procedure in order to provide Bezeq service. Also, the conditions that licensed providers are subject to according to the permit regulations, in the provision of the services and in general, do not necessarily include all the conditions stipulated in the licenses, so for example, instructions regarding maintaining functional continuity in an emergency and certain consumer instructions apply only to a licensed provider that provides 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 from 2015, a model of "wholesale market" has been implemented in Israel, in which the owners of the nationwide landline access infrastructures in Israel (Bezeq and Hot) have been required to allow other communications operators to use their infrastructures, at prices not to exceed the maximum rates set in the regulations.

In this context, the Ministry of Communications established "service portfolios" for the various services, in which the format of the provision of services by the infrastructure companies was determined:

1.7.6.1 Wholesale BSA service

This service allows Internet service providers who do not own an infrastructure to offer their customers a full Internet service that includes both an Internet connection service (of the service provider) and an Internet infrastructure service (based on the Bezeq or Hot network - both on the traditional network and on the fiber network). Since the launch of the service, hundreds of thousands of customers in Israel have moved to receive service through the aforementioned service providers.

1.7.6.2 Wholesale passive infrastructure use service

This service allows providers to use Bezeq's passive infrastructure for the passage of communication cables (for some providers only in incentive areas) and for certain providers to use dark fiber at the rates set in the regulations. For more, see Section 2.16.4.

Bezeq was also given the right to use passive infrastructures of other companies, except that their rates (except Hot) are not set in the regulations.

1.7.6.3 Wholesale telephony service

This service allows service providers who do not own infrastructure to offer their customers telephony service at wholesale rates through the Bezeq network. Currently there are no customers in the service. For this matter, see Section 2.16.4.4.

The regulatory determinations in relation to the wholesale market as well as its implementation and development during the reporting period have an impact on a significant part of the Group's activities. For more details about the wholesale market services and their regulation, see section 2.16.4.

1.7.7. Additional regulatory aspects that are relevant to the whole Group or to a number of companies in it

1.7.7.1 Interconnectivity rates

The Group's communications companies (Bezeq, Pelephone and Bezeq International) pay interconnectivity fees to other communications operators for calls that end in the networks of those operators and some (Bezeq and Pelephone) receive interconnectivity fee payments for calls that ended in their networks and from international communication operators for outgoing and incoming calls to their networks. Interconnectivity rates are set as maximum rates by the regulator in the interconnectivity regulations. Changes in interconnectivity rates have a offsetting effect at the Group level in light of their effect on Bezeq's expenses and income and the subsidiaries in this matter.

On June 28, 2022, an amendment to the interconnect regulations was published so that the transfer of interconnection payments for telephone calls that end on the networks of mobile radio-telephone and NIO operators will be stopped, with a gradual reduction plan over three years as follows:

(1) On June 15, 2023: for a call ending on the mobile radio-telephone network, a maximum rate of 4 Agorot per minute, and for a call ending on the NIO network 0.7 Agorot per minute, and for an outgoing international call - depending on the network from which it originated (NIO or mobile radio-telephone).

(2) On June 15, 2024: for a call that ends on the mobile radio-telephone network, a maximum rate of 2 Agorot per minute, and for a call that ends on the Mapa network - 0.4 Agorot per minute, and for an outgoing international call - depending on the network from which it originated (NIO or mobile radio-telephone).

(3) On June 15, 2025, an accompanying arrangement will enter into force according to which each communication operator will bear its own costs and there will no longer be a transfer of payments between NIO and mobile radio-telephone licensees for a mutual connection service with regard to call minutes, regarding calls ending in the networks of mobile radio-telephone operators, and on Bill and Keep networks, and an international operator will not pay for the transmission of an outgoing international call.

For incoming international calls to the NIO or mobile radio-telephone network, the payment to be paid by an international operator will be as required by NIO or mobile radio-telephone respectively (effective from July 28, 2022). At this point, it is not different from the interconnect rate regime in the SMS service

1.7.7.2 Limiting the exit fee that a licensee may charge from a subscriber

In accordance with the provisions of the Communications Law, NIO, international operator and broadcasting licensees (including Bezeq, Bezeq International and DBS) are not allowed to charge an exit fee for cancellation of contract by a subscriber whose average monthly bill is less than NIS 5,000, or deny him a benefit he would have received if he had not terminated the contract[14]. Cellular operators (including Pelephone) - are not allowed to charge exit fees from customers who hold up to 100 telephone lines or link a contract for the receipt of cellular services to a contract for the purchase, rent or borrowing of end equipment ("disconnection").

1.7.7.3 License amendments and related legislation

a. Response times at call centers

The amendment to the licenses of Bezeq, Pelephone and Bezeq International have established, among other things, provisions regarding the obligation to route calls in certain matters to professional human response, response times, as well as provisions regarding call center hours, recording and documentation of calls and reporting obligations. The amendment entered into force on the date of its entry into force of the amendment to the Consumer Protection Law (July 25, 2019), which deals, among other things, with the waiting period for a

14 With regard to the operators' claim in the hearing held by the Ministry in connection with this directive, according to which discounts or benefits stipulated by conditions that the subscriber is required to comply with do not constitute a violation of the directive, the Ministry stated that it will examine whether the condition is true and relevant also when the subscriber remains a subscriber with the operator.

human response. The DBS's broadcasting license has been similarly amended.

On June 30, 2021, the licenses of Bezeq, Pelephone, Bezeq International and the licenses of other communications operators were amended. The amendment stipulates that the call center for handling subscriber inquiries (which are not inquiries regarding a malfunction in receiving Bezeq services and loss of cellular equipment) will be staffed for 45 hours a week. It is also stipulated that the licensee will operate a digital means of communication such as texting or chat, in order to receive inquiries regarding the licensee's services, which are not inquiries regarding malfunctions and loss of cellular end equipment. This amendment does not apply to 24/7 call centers (fault handling centers, etc.) the activity of which continues unchanged. On September 2, 2021 the DBS license was similarly amended.

b. Amendment of the IPv6 protocol (Internet addresses)

On July 3, 2019, the Ministry of Communications issued a decision by way of hearing and amendment to the license according to which the transition to the IPv6 protocol will be executed according to the milestones determined. For Bezeq (as a holder of a landline NIO license) and for holders of Internet access licenses, it has been determined, among other things, that the network and its components will be adapted in a way that allows access to Internet service subscribers via IPv6 protocol from any end equipment supporting the IPv6 protocol, and that the licensee must proactively transfer to addresses in the IPv6 protocol existing and new subscribers with end equipment that supports the IPv6 protocol. The transfer of subscribers will be done according to milestones, so that up to 24 months from the date of the amendment, 50% of the subscribers will move, up to 36 months - 75% and up to 48 months – 100% of subscribers (except subscribers who hold private end equipment which does not support the IPv6 protocol and decided not to replace it, provided that the licensee, among other things, will sign a waiver). Bezeq is in the process of transitioning to the IPv6 protocol in accordance with the established milestones, and it does not anticipate a material expense in respect thereof. Regarding holders of mobile radio telephone licenses (such as Pelephone), it was determined that the proactive transfer will reach 100% within 24 months. Pelephone has completed the process of transferring subscribers in its systems in support of the new protocol (except for business subscribers who are receiving enterprise network services, for which a dedicated solution will be implemented).

1.7.7.4 Consumer legislation and privacy protection laws

Changes in consumer legislation affect the activities of the Group companies on an ongoing basis. In recent years, various amendments to the Consumer Protection Law and its regulations have been approved. In addition, a variety of bills for additional amendments to the Consumer Protection Law have been brought before the Knesset, which may have an impact, among other things, on the terms of the Group's contracting and conduct with their subscribers.

On January 1, 2023, the provisions of the Consumer Protection Law entered into force, which prohibit a trader or anyone on his behalf from making a marketing appeal to a consumer whose telephone number is registered in the database established by the Consumer Protection Authority in order to enter into a transaction (subject to exceptions established by law). In accordance with the amendment, telephone numbers of consumers who wish to limit such marketing inquiries to them will be recorded in the database. The provisions of the law may create a limit on marketing activities and the degree of their effect will depend on the scope of joining the database.

In addition, the activity of the Group companies is affected by the provisions of the Privacy Protection Law and its regulations regarding the management and maintenance of databases and the security of the information contained therein.

1.7.7.5 Enforcement and financial sanctions

The Communications Law, the Economic Competition Law, the Securities Law, the Consumer Protection Law, the Law for Increasing the Enforcement of Labor Law, 5772-2011 and the Telegraph Order entitle the regulators to powers of enforcement, supervision and the imposition of significant tiered financial sanctions for violations of the said laws or regulations and provisions thereunder.

In Amendment 76 to the Communications Law, the Director General of the Ministry of Communications was given the authority to impose a financial sanction at a rate of up to 10 times the basic amount stipulated in the Communications Law for violating a license provision regarding the obligation to deploy an advanced network or provide a service over it.

In recent years, the Ministry of Communications has made extensive use of the supervisory authority. For financial sanctions imposed by the Ministry of Communications regarding wholesale services, see Section 2.16.4.2 (Footnote 40) for sanctions imposed.

The Consumer Protection and Fair Trade Authority also makes use of the enforcement powers conferred on it by the Consumer Protection Act, and from time to time data demands are issued, investigations are conducted against the Group companies on suspicion of violating this law and fines are imposed. In April 2022, a financial sanction of NIS 6.9 million was imposed on Bezeq, for alleged violation of Article 2(a)(1) of the Consumer Protection Law, claiming that Bezeq did not supply thousands of consumers who purchased a browsing package of the type TOP 100 with this speed. Bezeq filed an appeal Bezeq filed an appeal to the Magistrate's Court and asked, among other things, to cancel the Authority's decision.

1.7.7.6 The Centralization Law

The Centralization Law enacted in 2013 establishes limitations in relation to extending credit to business groups, separation between significant real corporations and significant financial entities (Bezeq and the Group companies are defined as significant real corporations according to the Centralization Law) and consideration of economy-wide centralization considerations in the allocation of rights - limitations on the allocation of rights in essential infrastructure to "centralizing factor". For this matter, a list of areas that will be considered "essential infrastructure areas" has been defined, including activities in the area for which certain communication licenses are required. Bezeq and the group companies are included in the list published by the Competition Authority and are considered a "concentrated entity". The law may have negative effects on the group's ability to operate in new areas of activity and even on its activities in its existing areas of activity.

1.7.7.7 Millimeter waves

Millimeter-wave technology makes it possible to wirelessly transmit significantly larger bandwidth than previously available technologies. The technology can be used both from point to point and from point to multiple points, and is a solution for the last segment, that is, the connection to the subscriber's end point. Through the use of this technology, it is possible to connect large areas relatively quickly and at lower costs compared to the deployment of a wired infrastructure.

In January 2022, the Ministry wrote to Bezeq that the approval to provide a service not through wired deployment is given only in certain localities, that the approval given by the Spectrum Division is for frequency use and not approval to provide service by wireless means, and that insofar as Bezeq intends to provide service through non-wired infrastructure to other localities, the advisory committee should be contacted . Bezeq responded that its license allows service to be provided via wireless infrastructure, such as millimeter waves. According to the Company's position, it is possible to provide a proper service to subscribers, as required by its license, using this technology. On July 11, 2022, the Ministry contacted the Company with a request for data regarding the deployment and provision of Bezeq services using wireless technology and reiterated its position. The Company handed over the data on August 4, 2022, explained its position again and even offered a discussion on the matter.

1.7.7.8 Data demand hearing - Consumption of communication services

On January 17, 2021, the Ministry of Communications issued a hearing according to which it intends to demand a very large monthly transfer of data on the characteristics of the consumption of communication services by subscribers (including identifying details about the subscriber, the package consumed thereby, and details regarding each of the services consumed by the subscriber). The data demand will be sent to all operators in the communications market that provide services to end customers (private and business) as well as to various licensees and it applies to all types of customers who receive service from the licensee (private and business), both wholesale and retail. According to the hearing, cross-referencing the information will allow the Ministry to obtain a complete picture of the activities of communications providers on the one hand, as well as the characteristics of the communications consumer on the other, and it is expected to allow the Ministry to monitor the level of competition in the various sub-markets. On March 9, 2021, Bezeq submitted its response to the hearing, according to which the hearing is fundamentally flawed by many problems and failures, including a breach of privacy and business secrecy; Information that is high in volume without defining a purpose on the basis of which an adapted data demand has been clearly formulated, when this is not intended by authority in law; Creating a very tangible danger due to the construction of a huge database, which centralizes detailed information, at the personal, financial and business level, of all citizens of Israel and the business companies active in it, while creating endless opportunity for cross-referencing information; The individual resolution of the requested data creates an opening for a jungle of legal issues. The reporting format is often irrelevant and / or inapplicable; The scope of resources required by Bezeq for the benefit of the matter is very significant and requires a diversion of manpower in the field of information systems from critical business activities. Bezeq believes that the solution to these problems is to shelf the intention presented at the hearing for the comprehensive transfer of all Bezeq's customer data, or alternatively a specific definition of targets and objectives on the basis of which the data relevant for their achievement will be clearly and accurately defined, and which complies with the Ministry's powers in receiving information and is supported by the structure of Bezeq's information systems. A similar reference was also submitted by the subsidiaries Pelephone, Bezeq International and DBS.

1.7.7.9 Inactive subscribers

On September 10, 2020, the Ministry of Communications contacted the telecommunications operators (including Bezeq, Pelephone and Bezeq International) in a letter in which it raised concerns that some of the subscribers to the operators' services are not using them and are not even aware of it. The Ministry recommended in its appeal to operators to act to notify and stop charging subscribers who do not use these services, and also requested periodic reports on the matter. It was also stated that the Ministry will consider in the future whether to set binding provisions in the matter, in case proactive actions will not lead to a significant reduction therein. Regarding the handling and consequences of the Ministry of Communications' request to Bezeq International, see Section 4.4 and Note

10.6 to the 2021 statements. On January 14, 2021, a preliminary request was also sent to DBS by the Cable and Satellite Broadcasting Council regarding "Demand for information about "dormant" subscribers as well as about services that subscribers pay for and do not use". In March 2021, DBS replied that due notice was given to its subscribers, and that it could not provide the requested information due in part to the lack of established information in its hands, due to the Council's lack of authority in at least some of its requests, and due to additional difficulties inherent in the Council's application. It should be noted that in the permit regulations that apply to the Internet access services of DBS (and not to the other Group companies), there is an obligation to disconnect "dormant subscribers" from Internet access services (a subscriber who has not used an Internet access service for at least six consecutive months), except in relation to the service for a medium-large business subscriber as defined in the regulations.

1.7.8. Restrictions on creating liens on the assets of the Group companies

For the sake of convenience, the following are references to sections in the 2022 periodic report that relate to the restrictions that apply to the Group companies in the lien on their assets and the main restrictions:

1.7.8.1 Regulatory restrictions - The Communications Law, the Communications Order (applicable to Bezeq) and some of the communications licenses of the Group companies include restrictions on the granting of rights to third parties in the assets used to provide the essential service or in the license assets.[15], as the case may be, including the need to obtain regulatory approvals to create liens on these assets. In some cases, for example Pelephone's mobile radio telephone license and Bezeq International's unified license, there are exceptions that allow the creation of liens in favor of a banking corporation without the need for advance regulatory approval, provided that the lien agreement includes provisions ensuring that the exercise of the lien by the banking corporation will not impair the provision of the services under the license. In addition, according to the provisions of the law and the media licenses, the license and the rights under it are not transferable, and cannot be encumbered or foreclosed (subject to exceptions). See also sections 2.16.3.7, 3.14.2 and 5.15.1.7.

1.7.8.2 Restrictions under agreements- Bezeq undertook to certain financiers in an undertaking not to encumber its assets unless, at the same time, it creates in favor of those financing bodies a lien of the same type, rank and amount (negative lien), subject to certain exceptions. see also Note 13.3 to the 2022 statements.

1.7.9. Pandemic - Outbreak of COVID-19

At the beginning of 2020, a global outbreak of the Coronavirus (COVID-19) began, ("**the Incident**"). Following the Incident, many countries, including Israel, have taken various steps and imposed restrictions in an attempt to prevent the spread of the virus. During the year 2022, there was a significant decrease in the outbreak of the virus and the effects of the Incident, while the consequences of the Incident on the Group's activities in 2022 were mainly manifested in the damage to Pelephone's revenues from roaming services (an injury that gradually decreased throughout the year until the date of publication of this report) and without significant negative effects in other areas of activity. As of the date of publication of the report, there are no special effects of the event on the Group's areas of activity.

Regarding epidemic as a general risk factor in the Group's areas of activity, see Sections 2.20.13, 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 that includes security systems to protect their infrastructures and systems which are designed to prevent and reduce the possibility of the companies' data being

[15] The assets needed to ensure the provision of services by the licensee.

exploited by an outside party or an internal party maliciously or inadvertently, as well as the possibility of an outside party taking over and managing network components or abusing information on the company's infrastructure and systems. For more details regarding each field of activity and cyber risks see Sections 2.20.11, 3.19.2.8, 4.14.7 and 5.18.3.9.

1.7.10.2 Also, on May 12, 2022, the Bezeq, Pelephone and Bezeq International licenses were amended with an amendment regulating the issue of preparation for cyber defense management. This amendment was replaced on December 26, 2022 by a director's order essentially identical to it. The principals of the amendment to the Directorate deal, among other things, with the protection of the communication network, maintaining the relevance and up-to-dateness of systems, the licensee's dealing with cyber incidents and situations in which the licensee is required to report and share information.

1.7.11. Additional regulatory developments during the reporting period and the main restrictions that apply to the Group's areas of activit – for a description on such matters, see Sections 2.16, 3.14, 4.11 and 5.15.

For a description of these matters see Sections 2.16, 3.14, 4.11 and 5.14.

1.8. Bezeq Group business strategy

Group vision

Bezeq Group – the largest, leading telecommunications group in Israel, will lead and promote the digital revolution in Israel, through advanced infrastructure and services for the private and business segments, and strive for continuous improvement in its business results.

Group strategy

1.8.1. Strategic focus - focus on building infrastructure and growth engines

A. Accelerated deployment of fiber optics and the transition to a unified Internet package will constitute a growth engine in Bezeq Fixed Lines.

B. Bezeq International's private segment Internet activity will be reduced, and ISP activity will be established in DBS, which will become the "triple" sales arm that combines fiber and television.

C. Pelephone will leverage the transition to 5G to increase revenue and ARPU.

D. Bezeq International will become a growth-focused ICT company.

1.8.2. Focusing growth strategy by theaters

A. Communication, information and content services for households - investing and focusing efforts on growing and strengthening the competitive position in the theater, by offering as wide a basket of services as possible and deepening the penetration of households.

B. Business communication services - maintaining and strengthening the leading position in the theater through offering value-added to customers, based on quality service and advanced products.

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

D. ICT services for businesses - investment in building capabilities that will enable significant growth.

1.8.3. Additional strategic moves

The Group will work to locate investments in areas that are tangent and complementary to the Group's activities and its competitive capabilities. Initiated investment and acquisition activity will enable shareholders to increase their return by entering areas of higher growth than that of the activity in the Group's traditional core areas. The diversification of the portfolio will allow for the diversification of risk, and the reduction of dependence on regulatory risks.

Beyond the strategic moves, the Group strives to strengthen the foundations that will enable continued growth in the medium term - striving for operational excellence through expanding the digital transformation, streamlining the cost base, improving market response times and flexibility for changes, and striving to eliminate structural separation.

Optimal cash flow management – maximizing value to shareholders, while maintaining an AA Group credit rating - the Group aims to maintain high credit rating in the AA group while adjusting the debt repayment burden to self-generating cash flow and maintaining significant liquidity, while distributing dividends to shareholders.

In addition, the Bezeq Group strives to be one of the leading companies in the field of ESG.

This section includes forward-looking information, within the meaning thereof under the Securities Law, including forecasts, targets, business strategy, assessments, aspirations and estimates, both regarding the activities of Bezeq and the companies held by it and the markets in which they operate, as well as regarding any other information relating to future events or matters whose materialization is uncertain and not under the control of the Company ("**forward-looking information**"). Although the Company believes that the information is forward-looking based on reasonable estimates, the said information is subject to certain risks and uncertainties. Forward-looking information is inherently subject to risks of non- materialization and is uncertain, and the Company does not in any way guarantee that its assessments, expectations, aspirations, plans and objectives will be materialize in practice. Accordingly, forward-looking information should not be construed as a promise that it will actually materialize. Implementation and / or other changes in forward-looking information depend on factors that are not necessarily known in advance, and are not necessarily under the Company's control, including risk factors and the nature of its operations, developments in the general environment and external factors and regulation affecting its activities and other factors. The results and achievements of the Bezeq Group in the future may differ materially from those presented in the forward-looking information presented in this section.

1.8.4. Streamlining moves and promoting the assimilation of synergies between subsidiaries

Bezeq's subsidiaries Pelephone, Bezeq International and DBS (the "**Subsidiaries**") have implemented and are implementing significant moves to promote and assimilate the synergy between them, including the signing of collective agreements which include streamlining and synergy procedures; Maintaining managements in a similar composition, while streamlining decision-making processes, along with savings in expenses; Implementing streamlining measures and saving on operating expenses; Service sales through the distribution channels of the companies; Implementing a shared customer management system (CRM) over an advanced Cloud platform; deepening shared procurement and using shared resources. In this matter, see also Section 1.1.4.

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

For details on additional strategic objectives in relation to each of the Group companies, see Sections 2.19, 3.17, 4.13 and 5.17.

In respect of decisions by Bezeq's Board of Directors and DBS's Board of Directors regarding an outline for a gradual transition from satellite broadcasts to transmission via the Internet (OTT) see Section 5.17.1.

The assessments described in this section are forward-looking information, as defined in the Securities Law, that 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 moves to be made in Bezeq and its subsidiaries, regulatory changes, Bezeq's competitive position, etc. The above may be affected by the materialization of some of the risk factors listed in the Sections 2.20, 3.19, 4.14 and 5.18.

1.9. Corporate accountability (ESG)

On February 24, 2022, Bezeq's Board of Directors approved the expansion of its activity in the field of corporate accountability (ESG - Environment, Social and Governance), following Bezeq's existing activity in the field. In this context, the Board of Directors approved a sustainability vision for Bezeq

- "Bezeq connects Israel to a sustainable future", as well as setting ESG targets, including long-term targets in the field of environmental responsibility that include reducing net greenhouse gas emissions to zero by 2050 (Net zero 2050); and in the field of environmental responsibility, increasing the rate of representation of women in the management ranks of Bezeq employees to 50% by 2030 (in Bezeq's Board of Directors - at least 40%); Increasing the rate of diversified populations to 20% by 2030. The Company is working to apply the aforementioned ESG targets also in its subsidiaries Pelephone, Bezeq International and DBS. Bezeq's Board of Directors also approved Bezeq's corporate accountability policy documents on various topics at the same time and in February 2023..

In addition, during 2022, Bezeq continued to cooperate with civil society organizations to reduce the digital divide and encourage the volunteering of its employees for the benefit of a wide range of social goals, as well as investing resources in the continuous improvement of corporate governance in the group, which includes the adoption of management norms and the management of advanced compliance programs.

Bezeq publishes corporate responsibility reports in accordance with the reporting standard of the Global Reporting Initiative (GRI).

2. Bezeq – Landline interior communications

2.1. General information about the field of activity

2.1.1. The field of activity and changes that apply to it

Bezeq owns a general license for the provision of landline interior communications services and provides a variety of communication services as specified in Section 2.2, the main ones being: Internet access and infrastructure services, landline interior telephony, transmission and data communication services, Cloud and digital services and wholesale services (for wholesale services, see Section 2.16.4).

2.1.2. Legislative and regulatory constraints and special constraints

2.1.2.1 Communications Law and Bezeq's NIO license

Bezeq's activities are subject to governmental regulation and comprehensive supervision arising from its status as a general licensee under the Communications Law, subject to the provisions of the Communications Law, the provisions, regulations, orders and rules enacted thereunder and the provisions of the NIO license and other laws. In this regard and for the restrictions on Bezeq's activities and changes in this context, *inter alia*, regarding the determination of rates, structural separation, approvals for new services and service baskets as well as wholesale market see section 1.7.2 and section 2.16.

Additionally, Bezeq has been declared an essential Bezeq service provider under the Communications Order. By virtue of this declaration, Bezeq is obligated to provide a number of basic services under the NIO license and may not discontinue or reduce them without approval. The order further stipulates restrictions on the transfer and purchase of means of control of Bezeq and certain restrictions on Bezeq's activity. For details, see section 2.16.8.

2.1.2.2 Laws of Economic Competition

Bezeq has been declared a monopoly in the main areas of its operations, and it is also subject to supervision and restrictions under the Economic Competition Law (see section 2.16.9).

2.1.2.3 Environmental law and planning and construction law

Some of Bezeq's activities involve the use of wireless frequencies and the operation of facilities that emit electromagnetic radiation, which are subject to the Telegraph Order (see Section 2.16.10), to the Non-Ionizing Radiation Law (see Section 2.15.2), and to National Outline Plan 36 and National Outline Plan 56 (see Section 2.16.11).

2.1.3. Changes in the scope of activity in this field and its profitability and developments in the market and in the characteristics of customers

For key data on the scope of activity in the field of landline interior communications and its profitability in 2021 and 2022, See Section 1.5.4.1. The following is a description of the main changes in the scope of activity in this field during the reported period[16]:

2.1.3.1 Wholesale market - At the beginning of 2015, Bezeq began providing a wholesale BSA service for service providers, when as of the end of 2021, the number of wholesale Internet subscribers on the Company's network was approximately 473k subscribers, constituting approximately 33% of all Bezeq's Internet subscribers. In this context, it should be noted that within these subscribers there are also subscribers that were not on the Company's network in the first place (new or from a competing network). There is no demand for wholesale telephony services (zero subscriptions as of the date of publication of the report).

Bezeq also provides a wholesale service that allows competitors to use

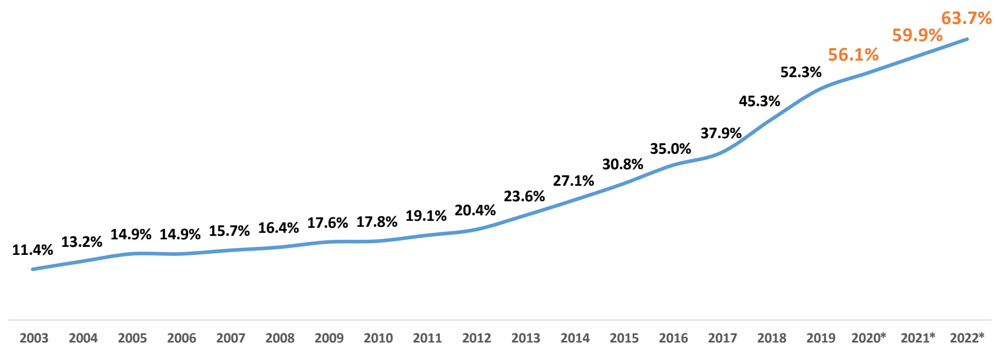
[16] For details of the data as well as subscrber definitions and average revenue, see the notes to the table in Section 0.

Bezeq's passive infrastructure.

Regarding the wholesale services, see Section 2.16.4.

2.1.3.2 The field of landline telephony - in recent years, the field of landline telephony has been characterized by a decrease in demand, which is reflected in a decrease in the rate of landline telephone subscribers and a gradual erosion in the number of calls originating in landline networks. In Bezeq's estimation, this trend is mainly due to the increase in the use of personal, cellular, smart phones in light of large-scale call packages that cellular companies have marketed extensively in recent years and from a decrease in prices in the field (Bezeq estimates that 87% of all calls originate in the cellular network), as well as an increase in the number of calls over the Internet (See Section 2.1.4). In 2022, there was a decrease of about 3% in the number of Bezeq subscribers compared to 2021.

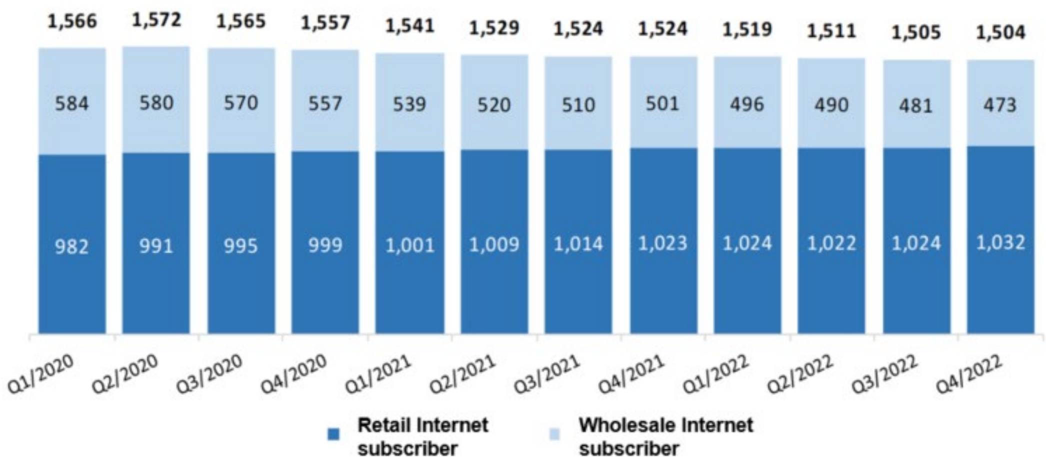
Diagram - Rate of households without a landline telephone line[17]



2.1.3.3 The field of Internet access - the Internet market saw a significant increase in bandwidths and browsing speeds, mainly with the deployment of fiber infrastructure and the adoption of advanced services and value-added applications. Also, in recent years, the trend of growth in terms of the number of customers continues. During the year 2022, Bezeq estimates that the following changes compared to 2021 will apply: an increase of approximately 2% in the number of landline Internet subscribers in Israel and a decrease of approximately 1% in the total number of the Company's Internet subscribers (increase in retail and decrease in wholesale). In terms of browsing rates, Bezeq provides fiber service at rates of up to 300 Mbs, 600 Mbs, 1 Gb, 2.5 Gb in the areas where it deploys the fibers (for Beze'qs choice areas see Section 2.7.2.2). The Company also provides speed at a rate of up to 200 megabytes on its copper network

17 The data were taken from the publications of the Central Bureau of Statistics (Household expenditure survey for 2019 and preliminary findings from the Household Expenditure Survey 2018) dated November 26, 2019 and July 31, 2022. In relation to the data for the years 2020-2022 - in accordance with the Company's assessment based on surveys by the Central Bureau of Statistics from previous years.

Diagram - Distribution of Internet subscribers on Bezeq infrastructure (quarterly, in thousands):



2.1.3.4 Data transmission and communication services

The areas of transmission and communication data for business customers and communication providers are characterized, on the one hand, by a rapid increase in customers' bandwidth needs, and on the other hand, a decrease in the price of a given volume of traffic, which stems from the development of technology to increase bandwidth at lower costs than in the past (see Section 2.6.4). In addition, there is a shift to the use of the telecommunications providers' own infrastructure. For this matter see Section.

2.1.3.5 Service packages

For an increase in the rate of consumption of packages and baskets of services, see section 1.7.1. Regarding Bezeq's shared service baskets, see Section 1.7.3.

2.1.4. Technological changes that have a significant impact on this field of activity

2.1.4.1 In the communications market, a trend has been established towards IP-based technologies, which promote the phenomenon of "technological convergence" between the various communication systems (such as telephony and DATA). There has also been an increase in the penetration of integrated end devices that enable the consumption of various communication solutions on the same device (such as cellular and Wi-Fi services). These two, together with the increase in the availability of IP protocol-based technologies and the continuing trend of increasing bandwidth, enable the customer, including the business customer, a wide range of applications and services on IP based infrastructures, such as telephony services, including private exchange services, video transmission services , TV, private networks, network services with enterprise applications on the Internet infrastructure (ERP, CRM, etc.), cloud services and services on the cloud. These developments are leading to an increase in bandwidth demand by Bezeq's Internet infrastructure, transmission and data communications customers. Technological developments and declining equipment prices may even allow other operators to provide services similar to those provided by Bezeq at lower costs.

Technological changes can also lead to the cannibalization of services. An example of this is a decrease in the consumption of the Group's traditional landline telephony services (for competition in the field of telephony through the provision of services on Bezeq's Internet infrastructure (VoB), see Section 2.6.3.1). The increase in the speedds of the cellular service enables the cellular operators to compete with Bezeq's telephony and Internet services, and to market greater bandwidths to their customers at lower prices than in the past. In the Bezeq’s opinion, as of the date of the report, the increase in the number of customers browsing the cellular Internet did not materially affect the scope of Bezeq's Internet activity.

However, the potential for increase in the use of cellular networks at the expense of the use of the Bezeq network exists and may increase with the establishment of 5G (see section 3.1.5), since it will also be able to provide ultra-fast internet at the customer's home.

Bezeq also develops and provides services based on wireless technologies for IoT (Internet of Things) solutions, including for smart homes, businesses and complexes. See Section 2.2.5.

2.1.5. The critical success factors in the field of activity and the changes that apply to them

2.1.5.1 The ability to offer reliable communication systems at a competitive price based on a cost structure adapted to the frequent changes in Bezeq's business environment.

2.1.5.2 Regulatory decisions and the ability to deal with them.

2.1.5.3 The ability to maintain innovation and technological leadership and translate it into advanced, reliable and valuable applications for the customer in short response times, as well as marketing primacy.

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

2.1.5.5 Effectiveness of sales and service systems.

2.1.5.6 Informed pricing policy management, subject to regulatory restrictions.

2.1.6. The main barriers to entry and exit of this field of activity and changes that apply to them

Activities in the field of landline interior communications require the receipt of appropriate licenses. For a memorandum of understanding of the bill regarding a change in the format of the regulation and transfer to the issuance of communication services through registration in the registry only, see Section 1.7.4.

Traditionally, the main barrier to entry into this field has stemmed from the need for heavy investments in technological infrastructure and enveloping systems to achieve size advantages, and high costs associated with setting up marketing, sales, collection and customer support systems and brand building. Over the years, the traditional barriers to entry into Bezeq's areas of activity have significantly decreased as a result of the following factors: technological improvements, declining prices of infrastructure and equipment, changes in the rules of regulation (see sections 2.7.2 and 2.16.5), regulatory relief granted to new competitors, the obligation to allow the use of Bezeq (and Hot) infrastructure and services - including within the wholesale market and the use of VoB technology that enables telephony services over another operator's broadband infrastructure, without the need for an independent landline telephony infrastructure.

The main barriers to exit stem from the following: Bezeq's obligation, set forth in its license, to provide its services on a universal basis (to the general public in Israel, except in relation to fiber as specified in section 2.16.5); Its subordination to the provisions of the Communications Order, regulations under the Communications Law, as well as provisions under Article 13a of the Communications Law regarding emergency activities; Its commitment to some of its employees employed under collective agreements; Large investments that require a long return on investment; And a commitment to repay long-term debentures and loans taken to finance investments. Some of these exit barriers are unique to Bezeq and are not relevant to other operators operating in this field of activity.

2.1.7. Substitutes for products in this field of activity and changes that apply thereto

Cellular communication services are a substitute product for Bezeq services, both in the field of telephony, Including through apps and in IP technologies such as VoB (see Section 2.6.3.1), and in the field of the Internet (see Section 2.6.2), transmission and data communication. Technological developments (such as 4G and 5G in cellular, fiber-optic-based infrastructure, millimeter waves and advanced cable Internet protocols) enable the provision of new services at high speeds and at competitive prices.

2.1.8. The structure of competition in this field of activity and changes that apply thereto

The field of interior landline communications is regulated and supervised by the Ministry of Communications, among other things, by allowing communication service providers to register as authorized providers operating in accordance with the permit regulations as well as by granting licenses, in circumstances where a license is required, to bodies operating in the field.

In the communications market there are two licensees for the provision of landline interior communications services obligated to provide service to everyone, nationwide deployment and universal service (except in relation to the fiber network, where the Company is obliged to provide service according to the constituencies - see Section 2.7.2.3): Bezeq, and Hot Telecom. IBC is also indebted for deployment, so that at the end of 5 years from March 7, 211, 1.7 million households in Israel will be accessible to the network[18]. The three companies compete with each other. At the same time, they were allowed to make mutual use of each other’s physical infrastructure (except for infrastructure owned by the IEC needed to provide essential service) and other authorized provider’s infrastructure, so that in fact the competition could be through physical infrastructure of another authorized provider, and in practice, today, mainly on Bezeq's infrastructure (see Section 2.16.4.4 in this regard).

Cellcom and Partner, which have unique NIO licenses (which do not require universal deployment), are deploying an independent fiber network.

The Internet field is characterized by high penetration rates attributed to the deployment of national access infrastructure. In this field, there have been substantial changes in the last two years: starting from March 2021, Bezeq provides an Internet infrastructure service on an advanced network - the fiber network deployed by it; As of April 2022, Bezeq is also a player in the unified Internet service, which includes both infrastructure (fiber or copper) and an access service, and it is not allowed to market bundles with other access providers; Providers with a special broadband infrastructure NIO license were allowed to deploy landline infrastructure to provide Internet services and to use the Company's passive infrastructure in the incentive areas for this purpose. After Amendment 76 came into force, these and new providers became authorized providers registered in the registry.

Bezeq's main competitor in the field of services provided over a traditional (copper) network is Hot. Hot was handed over to provide a unified service in August 2022. Bezeq's main competitor in service to communication providers on an advanced fiber network is IBC (also owned by Hot and Cellcom), and in fiber Internet services for subscribers Bezeq's main competitors are Partner and Cellcom. In addition, Bezeq is also exposed to competition from the cellular networks (see Section 2.1.4).

Access service providers (ISP) became competitors of the Company upon the implementation of the wholesale market in 2015, as they provide a package of services that includes a broadband Internet access infrastructure through Bezeq infrastructures that they use as part of the wholesale services. Starting in the middle of 2021, they can also do so on the Company's fiber network.

The field of landline telephony is in competition, and Bezeq's competitors, some of them within communication groups (see Section 1.7.1), are the cellular companies (see Section 2.6.3.2), Hot Telecom, as well as VoB service providers operating under licenses without universal service obligation For several years now, without their own self-access infrastructure. For details about wholesale telephony services see Section 2.16.4.

In the field of wholesale services, Bezeq Hot and IBC compete as infrastructure owners committed to providing wholesale services. In practice, wholesale BSA services on the Hot network began in the second half of 2018 (see also Section 2.16.4). Anyone who deploys in the incentive area (whose license or an administrative order issued to an NIO determines the obligation to deploy in the region it won in the tender) is also obligated to provide a BSA wholesale service to other authorized suppliers in the same incentive area.

In the field of data transmission and communication, Bezeq’s main competitors are Hot Telecom, Cellcom and Partner, operating within the framework of communication groups

18 The duty of nationwide service for all also applies to holders of general licenses for the provision of mobile radio telephone services such as Pelephone, Cellcom and Partner, as well as in the field of internaiotnal operator services - such as Bezeq International.

and offering a complete communication solution to the customer.

Competition in the industry depends on various factors such as: regulatory decisions, possible changes in the terms of the licenses of Bezeq and its subsidiaries and the terms of the licenses of their competitors; mergers and collaborations between companies competing with the Group companies; Possible implications of the Centralization Law; Continued development of the wholesale market and the asymmetry between Bezeq's ability and the ability of competitors to sell a comprehensive service; The new services that Bezeq will be allowed to provide; The rates policy, elimination of the structural separation and the degree of flexibility that will be given to Bezeq in offering undetachable service packages, 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

Bezeq provides a wide range of communication services to its business and private customers as detailed below.

2.2.2. Telephony

Bezeq's telephony services mainly include the basic telephone services via the home telephone line, and ancillary services such as: voicemail and caller ID.

Bezeq also provides its customers with national numbering services for businesses ("1-800", "1-700"), the calls in which are paid in full or in part by the business.

Bezeq operates a unified call center[19], under the code (1344) established by the Ministry of Communications also for operators of landline and cellular telephony, as well as a unified website free of charge, in addition to Bezeq's 144 service.

For the provision of a resale service and for wholesale telephony service, see section 2.16.4.4.

2.2.3. Internet access infrastructure services and ISP

Bezeq provides broadband internet services over the copper infrastructure using xDSL technology, wirelessly using VBAND technology and over the fiber network in statistical areas subject to milestones in its license. Bezeq's fiber infrastructure allows for higher speed, and accordingly, there will be an increase in the average package rate. Also, as of April 3, 2022, Bezeq markets and provides a unified internet service, infrastructure and internet access (for this matter, see Section 1.7.5.1).

For details regarding changes in the number of Bezeq Internet subscribers, the average monthly income per Internet subscriber, and the average package speed, see Section 1.5.4. For details regarding Bezeq's market share in this field, see Section 2.6.2.

The Internet service is one of Bezeq's main occupations and a major route in its investments in technologies, marketing, advertising and customer acquisition and upgrade. The average package speed of Bezeq's Internet subscribers.[20]

Broadband Internet service is also provided on a subscriber line without telephony at no extra charge for the access line.

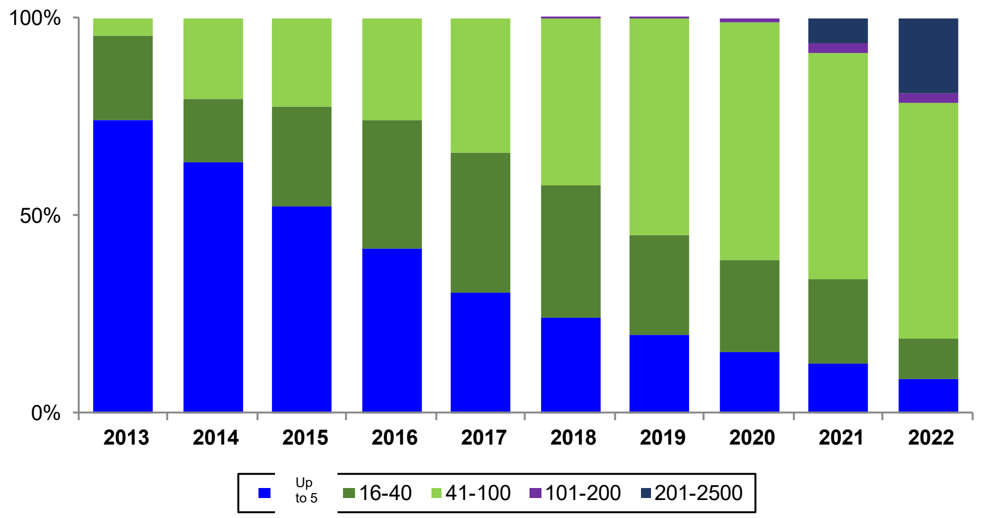
Bezeq is obligated to provide a broadband Internet access service (including on an advanced fiber network) in a BSA wholesale format to authorized providers, who in this way provide their customers with a uniform Internet service, including infrastructure. For this service see Section 2.16.4. For the agreement for the provision of the indefeasible right-of-use (IRU) service in the BSA fiber service (wholesale market) by Bezeq to Partner,

19 "Unified" information service is an information service that contains data regarding the subscribers of all operators. Landline and cellular telephony operators are required to provide unified intelligence services by virtue of their communications licenses. The activity is exempt from receiving a restrictive arrangement approval, valid until November 11, 2023.

20 Including revenue from service providers in wholesale service

see Section 2.6.2.1.

Diagram - Changes in the package speeds of Bezeq Internet subscribers in the years 2013-2022 (Mbps, as of the end of each year)*:



* In packages where there is a range of speeds, the maximum speed in the package is taken into account

2.2.4. Data transmission and communication services

Data communication services are network services for transferring data from point to point, data transfer between computers and various communication networks, services for connecting communication networks to the Internet and remote business access services.

Bezeq offers transmission services, including at high speeds, to communications operators, international parites and its business customers in 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 home", "smart business" and smart complexes services, virtual private hub services (IP Centrex), as well as the B144 service which is Bezeq's advertising platform for digital advertising and marketing for small businesses, BCAM, SMS, WiFi and remote backup.

2.2.6. Other services

2.2.6.1 Additional services for communications operators

Bezeq provides services to other communications operators, including: cellular operators; International operators; Hot; Network endpoint operators; Internet Service Providers (ISPs); Interior operators; Palestinian communications providers.

The services that Bezeq provides, as stated, include infrastructure services, linking to the Bezeq network, billing and collection services, renting areas and providing services in rented properties.

For the provision of wholesale services to communications operators and for the possibility of using Bezeq's physical infrastructure also for infrastructure owners, see section 1.7.4. In this regard, it should be noted that as of 2019, there has been a certain deterioration in the payment ethics of communications operators, deferral of payments and an increase in the volume of dispute claims. This state of affairs, in parallel with the erosion in the financial strength of various operators, increases the risk of having to recognize loan-loss and bad debt. However, as of this date, this deterioration does not have a material effect on Bezeq. On April 27, 2020, Bezeq, through its attorney, contacted the Ministry of Communications and announced that it does not intend to allow the continued provision of wholesale services to service providers who do not pay for these services.

Following an investigation by the Ministry of Communications and a hearing it published on the subject, on March 25, 2021, the Ministry decided to establish a procedure for dealing with the issue, stating, among other things, that the staff handling complaints in the Ministry of Communications can recommend to the authorized factor within the Ministry that the Ministry will not prevent the affected licensees from taking steps such as stopping the provision of service, not connecting new subscribers and more, depending on the circumstances and the severity of the case. Despite this, there are still operator debts to Bezeq. Upon the expansion of the obligation to also provide wholesale services to authorized providers, including use of the Company's infrastructure (see Section 1.7.4, also regarding the hearing), there may be a deterioration in this matter.

2.2.6.2 Broadcast services

Bezeq operates and maintains radio transmitters, among others, for the broadcasting corporation, Galei Tzahal and a number of regional radio stations. Bezeq also operates the DTT broadcasters for the Second Authority. Bezeq is responsible solely for operating and maintaining the transmitters for the purpose of distributing the broadcast of the radio and television programs, and not for the content of the broadcasts. For this matter, see also section 2.15.

2.2.6.3 Contractor work

Bezeq performs construction and operation of networks or sub-networks for various customers (such as the Ministry of Defense, radio and television broadcasting companies, cellular operators, international communications operators, local authorities, municipalities and government bodies).

2.2.6.4 Electricity supply license

On September 1, 2021, Bezeq received a license from the Electricity Authority to supply electricity without means of production. The Company provides services to a small number of customers in accordance with the terms of the license.

2.2.7. Sale of end equipment and devices

As of 2019, Bezeq has been selling smartphones (in addition to other end equipment sold thereby). Bezeq has expanded its offering to additional equipment and devices.

2.3. Revenue segmentation of products and services

The following is data about the distribution of Bezeq's revenues according to the main products and services in its field of activity in the years 2020-2022 (in NIS million):

	2022	2021	2020
Revenue from Internet infrastructure services	1,789	1,624	1,622
Rate out of the total Company revenue in the field of activity	41.55%	38.83%	39.0%
Revenue from landline telephony	780	913	1,008
Rate out of the total Company revenue in the field of activity	18.11%	21.83%	24.24%
Revenue from transmission and data communication services	1,132	1,087	1,011
Rate out of the total Company revenue in the field of activity	26.29%	26.0%	24.31%
Revenue from Cloud and digital services	331	318	288
Rate out of the total Company revenue in the field of activity	7.69%	7.6%	6.92%
Revenue from other services and sale of end equipment	274	240	230
Rate out of the total Company revenue in the field of activity	6.36%	5.74%	5.53%
Total revenues from the field of landline interior communications	**4,306**	**4,182**	**4,159**

2.4. Customers

Bezeq is not dependent on a single customer, and there is no customer Bezeq's revenues from whom constitute 10% or more of its total revenues. Bezeq's revenues are divided into two main types of customers: private customers (approximately 50%) and business customers (approximately 50%).[21]. The aforesaid distribution is according to revenue, as detailed in the table below (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

Bezeq has marketing, sales and service systems for businesses and private customers, including customer managers for the business segment, integrated sales and service centers throughout Israel, technical support centers for private customers and business customers, several points of sale and service (Bezeq Store chain of stores) throughout Israel, as well as an online virtual store.

Bezeq markets its services mainly through advertising in the mass media, telephone sales centers, customer managers and through a system of marketers that includes outsourced sales centers. Bezeq has independent service and sales channels on its website, in a dedicated application (My Bezeq), and through a computerized voice answering service.

Also, the internet providers (ISPs) provide a unified internet service based on Bezeq's BSA wholesale service and as of April 3, 2022, they can no longer market Bezeq's internet infrastructure to private customers in a bundle outside of the wholesale market.

21 Including revenue from wholesale service providers.

2.6. Competition

The following is a description of the development of competition in the field of landline interior communications:

2.6.1. Wholesale market (see also section 2.16.4)

The wholesale market allows telecommunications providers to compete with Bezeq using its services and physical infrastructure, at regulated maximum prices not determined by Bezeq. The wholesale market allows telecommunications providers to offer their subscribers, among other things, broadband services.

To the best of Bezeq's knowledge, the volume of wholesale subscribers on the Hot network is not large (see in this regard section 2.16.4).

2.6.2. The field of Internet

Bezeq estimates that as of the end of 2022 its market share in the Internet infrastructure market (retail and wholesale customers) was about 55% (compared to about 57% at the end of 2021). Also, according to Bezeq, its market share in terms of retail customers as of the end of 2022 is about 38%[22]. Also, the proportion of the Company's unified internet customers out of its retail customers by the end of 2022 is about 47%.

Beginning in March 2021, Bezeq marketed an Internet infrastructure service to customers over an advanced network - the fiber network deployed by it, and competes with this service against Partner, which deployed its own fiber network, Cellcom and Hot. Authorized providers are also allowed to deploy a broadband Internet infrastructure, including through the use of the Company's passive infrastructure, and provide services through it.

As of April 2022, Bezeq is also a player in the unified Internet service, which includes both infrastructure (fiber or copper) and an access service. Bezeq may continue to provide infrastructure service only (without access service) to existing customers of this service, but it cannot market the infrastructure service in a bundle with other access providers. In this area, the competition is against service license holders and authorized suppliers.

2.6.3. The field of Internet access

There is lively competition in the field, as detailed below:

<u>Competition from Hot Group</u>:

Hot has a traditional nationwide internet infrastructure through which a variety of communication services can be provided. On July 28, 2019, the Minister of Communications adopted the recommendations of the advisory committee and approved for Hot to provide its services in areas lacking infrastructure in a technologically neutral format, i.e. without being obligated to deploy a landline infrastructure, but rather be allowed to use any cellular network to provide its services with download rates of up to 12/30 Mbps, as well as to provide television service through the Company's services. The adopted recommendations set, among other things, milestones for upgrading the network for the cellular network alternative, minimum service quality and reporting obligations.

Hot's network is currently a main alternative to competition with the Company's infrastructure in the private segment in regards to traditional networks. An obligation was imposed on Hot to provide wholesale services, including the BSA service, and to the best of the Company's knowledge, a BSA wholesale service over Hot's network has been marketed simce the middle of 2018.

During 2021 Hot announced that it launched its new fiber network. Hot and Celcom have holdings in IBC (see this section below).

22 The Company's assessment of its market share in the field of Internet infrastructure services for the end of 2022 is based on the number of customers consuming services over the Company's infrastructure (retail and wholesale) and 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 corporations and their data is not public, accordingly there is difficulty in giving accurate data regarding market shares and these are only estimates.

Competition from IBC

IBC's license enables the provision of services mainly to license holders. IBC is also committed to the deployment so that at the end of 5 years from March 7, 2021, 1.7 million households in Israel will have access to the network. IBC is owned by the Electric Company (30%) and by Hot, Cellcom and the Israel Infrastructure Fund 23.3% each. In this framework, to the best of Bezeq's knowledge, Cellcom sold its optical fiber infrastructure to IBC, Hot's investment agreement in IBC and the IRU agreement according to which Hot will acquire the right to use the infrastructure that IBC will build were signed. In addition, the Ministry of Communications made an amendment to Hot's license, which, among other things, permits the marketing of a shared basket of services on the IBC network as well as an amendment to the IBC license, which requires it to submit for the Ministry's approval a shelf proposal for the purchase of the fiber infrastructure service (in IRU format) at a reduced rate, as was done in fact. IBC is a main competitor in providing the fiber infrastructure service to service providers.

As far as Cellcom is concerned - in March 2023, Cellcom reported the formation of an agreement with IBC (which has not yet been signed) in which it undertakes to increase its commitment to purchase infrastructure lines from IBC in the IRU agreement to 12.5% and later to 15% of connected customer homes. Cellcom also stated that against IBC's obligation to act to expand the scope of infrastructure deployment beyond its obligations according to its license, Cellcom undertakes to purchase IRU services only from IBC for a period not less than 3 years, under certain conditions.

Competition from Partner

Communications group Partner provides Internet services on its own fiber infrastructure, while also using the company's infrastructure within the wholesale market, and within the framework of the IRU agreement signed between the Company and Partner as detailed below.

Competition from small providers

Holders of special licenses were allowed, in the decision of the Minister of Communications dated October 13, 2020, to deploy broadband infrastructure and provide services over it (a step that significantly reduced the threshold requirements for obtaining a license enabling the provision of broadband infrastructure services). These special licenses were limited to up to 8,000 private subscribers or up to 800 network endpoints of business subscribers, or up to 3 years from the date of the decision, whichever is earlier.[23] As part of Amendment 76 to the Communications Law, which changed the format of the regulation, authorized providers without a license were also allowed to deploy a broadband infrastructure and provide services over it without the need for a license, but by registering in the registry and operating in accordance with the permit regulations. As part of the regulations by virtue of Amendment 76, a threshold is set 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 of indefeasible right-of-use (IRU) of the BSA service between the Company and Partner

On December 21, 2022, a long-term agreement was signed between Bezeq and Partner for the provision of the indefeasible right-of-use (IRU) service in the BSA fiber service (wholesale market) by Bezeq to Partner. In accordance with the agreement, Partner was granted a non-transferable and irrevocable right of self-use for providing service to its customers on 120,000 unspecified Bezeq fiber optic lines at a rate of 1 gigabyte download per line, for a period of 15 years starting on January 1, 2023 (beginning of the right to use the lines will be in pulses, in a graded manner, over a period of up to five years). The consideration for the provision of the service, which includes one-time payments and annual payments, is expected to reach a total amount of approximately NIS one billion (approximately NIS 574 million for one-time payments, annual maintenance fees at the rate of 4% of the one-time payments for the lines for which the right of use will be granted

[23] These restrictions were actually abolished in accordance with Amendment 76 to the Communications Law, and the holders of the special licenses became licensed providers operating subject to the permit regulations.

until that year, and with the addition of interest and/or linkage differences according to the terms of the agreement), with most of the consideration amount expected to be paid during the first 9 years of the agreement. The agreement includes the option to increase the number of lines by up to 48k additional lines under the same conditions, to upgrade rates as well as to extend the agreement period for two five-year option periods each with less lines than in the first agreement period. Increasing the content of the aforementioned 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 in a way that weighs the price of the regulatory line, 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, as well as its free cash flow (mainly during the first 9 years of the agreement), and will create certainty regarding future revenues from the wholesale market from the lines included therein. At the same time, the agreement embodies a discount for a commitment to quantity and period in relation to the wholesale market rates.

On December 27, 2022, Bezeq received a letter from the Ministry of Communications according to which, from a preliminary point of view, it was found that the agreement raises competitive concerns, noting that it is tailored to the characteristics of a single authorized provider (Partner) and therefore cannot be used as a relevant off-the-shelf offer for other authorized providers in the wholesale market. Following this, Bezeq held talks with the Ministry of Communications for the purpose of making adjustments following which the Company will reduce the prices of individual lines in the BSA fiber service (at an aggregate rate of up to 1.1 gigabit/second) to a price of NIS 72[24] per month (indexed in accordance with the current customary price update mechanism) with the addition of VAT, so that after this price reduction the Ministry will see the agreement as a shelf offer for anyone interested in it. On January 16, 2023, the Ministry informed Bezeq that, after taking into account the aforementioned price reduction, Bezeq's obligation to act in an equitable manner and without discrimination, as well as the Company's presentation of the agreement as an alternative available to anyone who requires it, it is of the opinion that the agreement does not create a concern of significant harm to competition. Accordingly, the Ministry does not object to the agreement.

It should be noted that in light of the number of lines in the BSA fiber service, which currently stands at tens of thousands, the aforementioned reduction in the prices of individual lines does not have material consequences for Bezeq's business results, and it does not change its assessment regarding the benefits of the agreement for it as detailed above.

Some of the information contained in this section is forward-looking information as defined in the Securities Law based on Bezeq's assessments, among other things, in relation to the structure of competition and regulation in the field of communication, the behavior of communication operators and the behavior of consumers, as well as in relation to how a partner will choose to take advantage of the right to use lines in the various regions (distinguishing between areas where only the Company's fiber network is deployed and areas where additional fiber infrastructure to that of the Company is deployed). Estimates and actual results may vary depending on changes in the aforementioned variables.

2.6.4. Internet service area

Multiple unified service operators

The competition in the field of providing a unified Internet service has increased in the last year, after Bezeq, and later Hot, were also allowed to provide a unified Internet service (see Section 1.7.5.1); Holders of special licenses were allowed to deploy broadband infrastructure and provide services on it, licensed providers without a license were also allowed to do so, and some were allowed to use Bezeq infrastructure and its wholesale services for that purpose. Also, in the incentive areas, the winners of the tenders and other providers are allowed to provide service on an advanced network,

[24] It should be noted that as of the date of the report, the price in the regulations for an individual line with an aggregate rate of up to 550 Mbps and the price for an individual line with an aggregate rate of over 550 Mbps and up to 1,100 Mbps is NIS 76.5 and NIS 85.2, respectively, plus VAT .

while the Group is prohibited from doing so for five years from the date of the determination of the obligation to deploy in the winner's license or by administrative order. For this matter see also see Sections 2.16.4 and 2.16.5.

Partner and Cellcom launched and began marketing the internet service over fiber several years before the Company, which gave them an advantage over Bezeq. Bezeq markets the service over fiber from March 2021 (and the unified service from April 2022).

As of 2015, the wholesale market allows Internet providers and related companies to offer customers service packages that also include Internet infrastructure based on Bezeq infrastructure and services in return for payment (the Company's maximum rates are regulated).

The service providers are allowed to provide BSA service also on the Company's fiber infrastructure in return for payment (the Company's maximum rates in this segment are also regulated). It should be noted that the provider that deploys infrastructure in the incentive area (whose license or an administrative order issued to an NIO determines the obligation to deploy an advanced network according to Article 14d(f) of the Telecommunications Law) is also obligated to provide BSA service via fiber in the incnetive areas.

The cellular companies have deepened their activities in the internet field on the cellular medium both in the private segment and in the business segment. Browsing services are provided both from the cellular device and through a cellular modem that connects to mobile and stationary computers.

2.6.5. The field of telephony

The field of private landline telephony is characterized by a decrease in the number of owners of a landline telephone line and a gradual erosion in the number of calls originating from landline networks (see section 2.1.3.2). Bezeq estimates that in 2022 the entire telephony market continued to erode at a similar rate to 2021 and at a higher rate compared to previous years. For this matter, see also Section 2.3. In Bezeq's estimation, as of the end of 2022, its market share in the landline telephony market was about 53% in the private market and about 69% in the business market, a decrease of about 1% in both markets compared to 2021.[25]

2.6.5.1 Competition from additional NIO licensees

Bezeq and Hot Group have a fixed telephony infrastructure nationwide, and there is competition between them, which is reflected, among other things, in the fact that Hot Group markets a "Triple" (which combines Internet infrastructure, telephony and cable television), and possibly also cellular services, especially for households. In addition, Hot Group markets telephony services for business customers.

In addition, there is competition with licensees for the provision of landline interior communications services, including VoB (see Section 2.1.8), which provide the service (including via "Triple"), *inter alia*, over Bezeq's broadband access service, including the wholesale BSA service.

As of July 2017, Bezeq allows holders of unified licenses who are authorized to provide NIO services, reselleing telephony service over Bezeq’s network. As of the date of the report, there is no demand for service. For the wholesale telephony service, see Section 2.16.4.

2.6.5.2 Telephony competition from cellular companies

Bezeq is of the opinion that the high penetration rate of cellular phones, combined with low airtime rates compared to the rest of the world, packages that include call minutes with no effective limit on a fixed monthly fee, and diminishing interconnect rates have made cellular telephony a substitute for landline telephony. In Bezeq's estimation, the deepening of the interchangeability between a landline and a mobile line is one of the

25 These market shares are in terms of lines and are based on Bezeq’s estimates.It should be noted that Hot is not a reporting corporation, and its data is not public, and accordingly, there is difficulty in obtaining accurate data regarding the market shares, and these are only estimates.

main reasons for the decrease in the average traffic per line, and the high rate of removal of telephone lines (see section 2.1.3).

In the field of cellular telephony, there is a trend of moving to the use of applications allowing you to make calls and send text messages over the Internet.

Partner and Cellcom also provide landline NIO services through corporations owned by them and also sell service baskets that combine landline telephony, cellular telephony and Internet services.

2.6.6. The field of transmission and data communication

In this field there is increasing competition, when, mainly Cellcom , Partner and Hot, as well as ISP companies operate in this field in addition to Bezeq.

To the best of Bezeq's knowledge, Cellcom has established a transmission network, which is used both for its own needs and for competition with Bezeq's services in the transmission and data communications market. Partner also operates in the field of providing transmission and data communication services, combined with telephony and Internet, to business customers (Regarding the sale of Cellcom's network to IBC, see Section 2.6.2.1).

Cellcom and Partner use Bezeq's physical infrastructure as part of the wholesale service (see Section 2.16.4.3)[26], *inter alia*, in order to compete with Bezeq in this field.

Operating in this field are also infrastructure owners IBC and Hot (in a national but not complete deployment). These infrastructure owners may use Bezeq's physical infrastructure. In this matter see Sections 2.16.4.3 and 2.6.5.

IBC's is allowed to provide IPVPN services and broadband data communication lines.

2.6.7. Additional competing infrastructures[27]

In addition, there are currently a number of infrastructures in Israel that have the potential to serve as communications infrastructures, which are based on fiber optics and mostly owned by companies and government bodies, such as: Israel Railways, Mekorot, Oil Infrastructure Company and Trans-Israel Highway. Some local authorities are also trying to create an alternative for laying pipes or fibers using their infrastructures. Amendment 76 to the Communications Law states that a service requested by a local authority, including a municipal company and a municipal subsidiary company, will require a license in any case (and not just registration in the registry). It should be noted that the amendment of the Communications Law regarding the deployment of fibers and the decision of the Ministry regarding the granting of special licenses that allow for a limited deployment may accelerate the deployment by such bodies.

2.6.8. Bezeq's preparations and ways of dealing with the growing competition

Bezeq faces competition in the landline interior Bezeq services in a number of ways:

2.6.8.1 Bezeq launches communication services and new value-added applications (such as a smart home, smart business, smart complexes, integration services and more) as well as product and service packages and shared baskets (equivalent to certain baskets marketed by its competitors, although under a detachability limit, see Section 1.7.3), in order to expand the scope of use of subscriber lines, to meet customer needs and strengthen its image of technological innovation. Bezeq is investing in the improvement and modernization of Bezeq's infrastructure, in order to enable the provision of advanced services and products to its subscribers.

Bezeq is working to introduce the high-speed Internet infrastructure service and to increase the number of its customers in this field (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). Bezeq also has broadband wireless service VBAND technology.

[26] Unified license owners eligible to provide NIO services are also eligible to receive wholesale service for the use Bezeq's physical infrastructure.
27 Beyond Hot and IBC infrastructure.

2.6.8.2 Bezeq is constantly working to improve the quality of its services and retain its customers, simplify processes and automate and adapt its operations to the structure of competition in its areas of activity.

2.6.8.3 Bezeq offers to telephony customers packages, consumption-adjusted plans and promotions.

2.6.8.4 Bezeq is working to reduce its operating expenses and to focus investments on growth activities and as a means of reducing maintenance expenses. However, Bezeq's ability to make short- and medium-term adjustments to its expenses is limited due to its cost structure, which is mainly rigid short- and medium-term costs (mainly depreciation and payroll-related expenses, as well as operating costs, such as infrastructure maintenance and rental and maintenance of buildings).

2.6.8.5 As of 2018, Bezeq has been marketing its Be router. This is an advanced router with an innovative design and advanced capabilities that include, among other things, Smart Wi-Fi that enables quality and continuous browsing over the home Internet and Cyber protection. The router and services are managed by a dedicated app. As of the end of 2022, Bezeq's customer base using the Be router is approximately 764k customers (approximately 74% of Bezeq's retail Internet customers). Bezeq also markets products to improve the reception range of the Be spot and Be mesh home Internet networks, while as of the end of 2022, about 146k units of these products were marketed by Bezeq. With the advent of Internet services on the fiber, a router was launched that improves the reception range that is compatible with the fiber network at ultra-fast speeds.

2.6.9. Main positive and negative factors affecting Bezeq's competitive position

2.6.9.1 Positive factors

a. Quality nationwide infrastructure, through which a variety of services are provided.

b. Presence in most businesses and households.

c. A well-known and strong brand.

d. Technological innovation.

e. High positive cash flow, financial resilience and access to financing sources

f. Extensive service infrastructure and diverse customer interfaces.

g. Professional, experienced and skilled personnel.

2.6.9.2 Negative factors

a. Bezeq believes that various restrictions that apply to it make it difficult for it to compete in its areas of activity. The following are the main limitations in this regard:

Wholesale market (see section 2.16.4) - operating a wholesale market at regulated prices, arrangements prone to intervention by the regulator, implementation of a mechanism for supervising Bezeq's retail marketing offers, Expanding uses and those authorized to use Bezeq infrastructure.

b. Limited rate flexibility

Bezeq is limited in its ability to provide discounts on its main services and offer differential rates.

For the hearing on the prevention of "margins reduction" in the wholesale market, see Section 2.16.4.2.

c. Structural separation obligation

Regarding the obligation of structural separation applicable to Bezeq, see section 1.7.3.

d. The universal service and fiber deployment obligation

Bezeq has an obligation to provide service to the general public in Israel at a uniform price (universal service), except in relation to advanced network (fiber) for private customers. By virtue of this obligation, Bezeq is required to provide services even in non-economic circumstances (subject to the possibility of obtaining an exemption in exceptional circumstances). Regarding the scope of the obligation in relation to the provision of services on an ultra-broadband fiber infrastructure, see Section 2.16.5. This obligation does not apply to other authorized providers for the provision of stationary services (except Hot. Regarding Hot and IBC, see Section 2.6.2.1), who may offer their services to profitable customers only, who constitute a substantial source of income for Bezeq. These companies has carried out and are carrying out an accelerated deployment of fibers in economically viable areas. In addition, Hot, which has a universal service obligation, received various reliefs in the implementation of full deployment obligation, significant exemptions and reliefs were granted to IBC, and Bezeq is committed to allowing Hot and IBC to use Bezeq's passive infrastructure. (see section 2.16.4).

e. Restrictions on the marketing of shared service packages by Bezeq and Group companies

See Section 1.7.3.2.

f. The nature of end equipment in landline telephony

End equipment in the field of landline telephony does not have personal characteristics. It is also less technologically advanced compared to cellular end equipment, and the range of advanced services that can be consumed through it is limited.

2.7. Property, plant and equipment and facilities

2.7.1. General

Bezeq's property, plant and equipment include, mainly: infrastructure and equipment for interior communications, real estate assets (land and buildings), computer systems, vehicles and office equipment.

2.7.2. Infrastructure and stationary interior communications equipment

2.7.2.1 Telephony network

The infrastructure of Bezeq's telephony network consists of exchanges (used to switch the calls and transfer them from the origin to the destination), a transmission network (through which the connection between the exchanges takes place), data communication networks, an access network (connecting the subscriber's endpoint to the switchboard). The infrastructure connects to the end equipment installed with the subscriber. The connection from the end equipment to the access network is based on copper cables, and this copper network forms Bezeq's access infrastructure for telephony services (it should be noted that those copper cables also form part of Bezeq's Internet network as detailed below). Subscriber management is performed using a Class 5 telephony switch. During 2020, Bezeq completed the replacement of its telephony switch with a new switch and the conversion of all telephony customers to the new switch.

2.7.2.2 Internet

Bezeq has an NGN network based on the core of an IP network and the deployment of fiber optic infrastructure to street cabinets (a network topology known as FTTC-Fiber To The Curb), as well as an access network (a system that connects the network endpoint with the network subscriber) and engineering systems. The connection from the home to the access network is based on the copper cables (mentioned in the description of the telephony network above) and the connection from the access systems to the transmission network (Backbone) is based mainly on optical cables. In addition, some of the end equipment (equipment installed by the subscriber, such as routers) is owned by Bezeq and is rented by the customer. The NNG network can now provide, through VDSL2 technology, bandwidths of up to 100Mbps in the downloading channel, and through the use of 35B technology, through which download rates of up to 200Mbps can be provided in part of the Bezeq network, depending on the quality of the copper infrastructure, as well as innovative value-added services. Additional benefits of this network are simplification of network structure and improved management capability.

2.7.2.3 Ultra-broadband fiber infrastructure

The Company works according to a plan for the deployment of ultra-broadband landline infrastructure (“**the Fiber Project**"). The Fiber Project is a complex and resource-intensive project that involves significant investments of billions of NIS by Bezeq over the years of the project.

As part of this, Bezeq began deploying fiber to buildings, including the deployment of vertical GPON equipment in buildings, and on March 14, 2021, Bezeq announced the launch of services to its customers over its fiber optic network.

For the amendment to Bezeq's license and the selection of areas for the deployment of the fiber network by Bezeq, see Section 2.16.12.

As of the date of publication of the report, Bezeq has completed the physical deployment of the fiber network to approximately 1.654 million households throughout Israel that are available for commercial connection, of which about 332k subscribers were connected to Bezeq’s fiber network (of which 235k retail and 97k wholesale).

2.7.2.4 Public appeal – closure of the copper networks

On September 19, 2022, Bezeq accepted a public appeal published by the Ministry of Communications regarding policy principles for closing the copper networks, in which the Ministry reviews the main issues, challenges and principles for closing the copper networks and transitioning to networks based on fiber infrastructure. According to the public appeal, there are several possible regulatory actions that the Ministry of Communications can take regarding the closure of the copper networks, among other things, establishing an outline and milestones for the implementation of the closure of the copper networks, and it asked the public and all license holders to submit references and positions to the public appeal (until November 24, 2022). Bezeq submitted its comments, according to which, in view of the complexity of the issue, the handling and phases must be separated between existing customers on copper infrastructure and customers in new neighborhoods and service areas, in a process that begins with stopping the deployment of a new copper network and providing solutions for connecting new lines.

2.7.3. Computing

Bezeq's computing system supports four main areas: marketing and customer management, Bezeq's engineering infrastructure, Bezeq's resource management and lateral systems.

Bezeq's computer system is large and complex, it supports critical work processes and handles very large volumes of data. This system consists of a large number of systems, some are information systems whose development began many years ago, and some of which are modern systems developed and implemented in recent years. Most systems operate in open computing environments.

2.7.4. Real estate

2.7.4.1 General

Bezeq has real estate assets from four sources: assets transferred to Bezeq by the State in 1984 as part of the asset transfer agreement (see Section 2.17.2.1), assets the rights in which were acquired by Bezeq after this date, assets that it leases from third parties, and assets in which Bezeq has received a right-of-use, according to the provisions of the Communications Law and the regulations established pursuant to it, for the purpose of providing Bezeq services and/or performing Bezeq operations, whether or not there is a written arrangement of rights. In addition, the Company has easements (rights of passage, etc.) in other real estate for the purpose of providing Bezeq services (such as for laying cables)..

The following is a list of Bezeq assets in accordance with the nature of the rights in the asset. In addition, Bezeq has easements (passage rights, etc.) in other real estate (such as for the purpose of setting up transmitters and laying cables):

The essence of the right	Number of assets	Lot area (sqm. thousands)	Built-up area (sqm. thousands)	Notes
Ownership, lease or right to lease	Approx. 298	Approx. 825	Approx. 181	From this, approx.. 295 field assets in the area approx. 805k thousand sqm. of plots, approx. 71k sqm. built-up are assets for communication needs and the rest are for administrative needs.
Possession (authorized by right / right of possession according to law)	Approx. 40	Approx. 1.5	Approx. 0.8	Properties in Israeli localities in Judea and Samaria, all for communication purposes. There is no written series of contractual rights, but in Bezeq's opinion this does not create material exposure.
rent	Approx. 332	Approx. 31	Approx. 64	Approx. 313 assets, of which a built-up area of about 17k sqm. are for communication needs and the rest for administrative needs. Approx. 2k sqm. built-up of which are sublet.
Various rights in "concentration rooms"	Approx. 2,600	Irrelevant	Approx. 27 (based on an estimate)	These are cable rooms and facilities for neighborhood communication needs. As for most of the properties, this is a right-of-use granted to Bezeq in accordance with the Communications Law and regulations thereunder, and there is no written rights arrangement with the asset owners. In Bezeq's opinion and based on past experience, this does not create material exposure.

2.7.4.2 Registration

As of the date of the periodic report, Bezeq's rights in a significant portion of its real estate assets are not registered with the Land Registry, and therefore are contractual rights. Bezeq is in the ongoing process of registering in its name the real estate assets that can be registered with the Land Registry.

2.7.4.3 Settlement agreement regarding the real estate

On March 10, 2004, an agreement signed on May 15, 2003 between Bezeq and the Israel Land Administration (now ILA) and the State ("**Settlement Agreement**") regarding most of the real estate assets which were transferred to Bezeq as part of the transfer agreement signed prior to the beginning of Bezeq's business operations was given the validitiy of a ruling. The Settlement Agreement stipulated that the assets remaining with Bezeq are in the status of a discounted lease, and subject to the signing of individual lease contracts, Bezeq will be entitled to carry out any transaction in the assets, as well as improvement operations. The agreement stipulates a mechanism for payment to ILA for improvement actions to be performed on the assets (if any) beyond rights under plans approved until 1993 as stipulated in the agreement, at a rate of 51% of the increase in value of the asset following the improvement actions (when in the event that the Company also pays an improvement levy for that improvement operation, it will be entitled to receive from ILA a refund of half of the payment paid to RAMI due to the increase in value or from the improvement levy, whichever is the lower). The Settlement Agreement also stipulates that 17 assets will be returned to the State, through ILA, on various dates (until 2010) and under the conditions set forth in the Settlement Agreement.

As of the publication date of this periodic report, Bezeq has returned 15 assets to ILA. Another asset will be returned in about a year and a half, after Bezeq is currently receiving a replacement asset in its place. The remaining asset will be returned to ILA after Bezeq receives a replacement property in its place in accordance with the settlement agreement.

2.7.4.4 Real estate exercise

General

Subject to the approval of Bezeq’s Board of Directors, Bezeq continues to act for the sale of assets that are inactive and / or that can be vacated relatively easily and without significant expenses, or that the consideration for them justifies the presentation of another suitable alternative, and during the last few years Bezeq has sold such assets while registering equity gains for these sales, which in some years were substantial.

Bezeq has completed the sale of most of the assets (in terms of value) that met the aforesaid definition and intends to complete the sale of the balance of such assets in the coming years. The sale of the balance of such assets may yield Bezeq additional capital gains in substantial amounts (although in a significantly lower amount than the cumulative amount of equity gains that Bezeq has recorded in recent years for the sale of said assets).

It should be emphasized that the aforesaid also applies to real estate assets for the sale of which a concrete decision has not yet been made and there is no certainty as to the timing of their sale, if it is decided to sell them. Also, the sale of some assets may involve difficulties, including circumstances of lack of demand or various planning constraints.

In light of the aforesaid, it should be emphasized that Bezeq's assessments as aforesaid are forward-looking information as defined in the Securities Law, which may not materialize or materialize in a materially different manner than anticipated. These assessments are based, among other things, on Bezeq's assessments of the value of the real estate assets it owns in relation to their book value, since Bezeq does not have appraisals in relation to some of the assets, or Bezeq's appraisals are not up-to-date, therefore, the assessments are also based on Bezeq's internal estimates, Bezeq cannot anticipate the amount of consideration actually paid in respect of the assets to be sold (if and to the extent that they are sold).

The asset in Sakia

On January 21, 2018, Bezeq entered into an agreement for sale of an near the Mesubim junction where Bezeq had a discounted lease right (“**the Assets**”). On May 5, 2019, the transaction was completed, when the total consideration received by Bezeq for the asset (including linkage differences and interest in accordance with the provisions of the agreement) amounted to NIS 511 million, plus VAT.

On May 21, 2018, Bezeq received a demand from ILA for the payment of a permit fee in the amount of NIS 148 million plus VAT, in respect of a property improvement plan that was approved prior to the signing of the agreement (“**the Improvement Plan**"). Bezeq filed an appeal on legal grounds to this demand January 20, 2019, ILA rejected all of Bezeq's claims in the legal attainment, however, the parties conducted contacts within the framework of the dispute resolution mechanism set forth in the Settlement Agreement.

At the same time, Bezeq submitted an appraisal contention on the Demand. On August 5, 2018, Bezeq received a demand from the Or Yehuda Local Planning and Construction Committee to pay an improvements levy in the amount of NIS 143.5 million due to the sale of the asset by way of a sale ("**the Improvements Levy Demand**”). On September 17, 2018, Bezeq filed an appeal against the Improvements Levy Demand, and sent ILA a demand for payment of the full improvements levy in accordance with the Authority's obligation under the Settlement Agreement. On January 20, 2019, ILA rejected Bezeq's demand for payment of the said improvement levy. Upon completion of the sale transaction as stated above and receipt of the full consideration, Bezeq paid half of the improvements levy in the amount of NIS 75 million and provided a bank guarantee for the other half of the levy, without detracting from or harming the proceedings that Bezeq has taken or will take in order to cause the cancellation or reduction of this levy.

On June 27, 2021, Bezeq filed a lawsuit against ILA with the District Court in Tel Aviv to recover all of the funds it paid as permit fees and the improvement levy in a total amount of approximately NIS 217 million, as well as to receive declaratory relief according to which ILA must pay Bezeq any amount that is forfeited, if any, out of the bank guarantee in the amount of NIS 75 million that Bezeq provided to the Or Yehuda Local Planning and Construction Committee to guarantee the balance of the improvement levy. As part of the lawsuit, Bezeq claimed that it is not obligated to pay the permit fee and the improvement levy since, in accordance with the provisions of the settlement agreement signed between itself, ILA, and the State of Israel, it was entitled to receive the lease contract relating to the asset when it is improved according to the plan and without paying the permit fee to ILA, and that the liability The payment of the improvement levy applies in accordance with the provisions of the settlement agreement, to ILA.

On January 17 ,2022, the Israel Land Authority filed a letter of defense in which it argued that the lawsuit should be dismissed for the following reasons: (1) The payment of the permit fee, which Bezeq demands to be returned, was lawfully imposed on Bezeq, since the Improvement Plan deviated from the limited rights granted to Bezeq in the settlement agreement; (2) With regard to Bezeq's claim to receive from the Authority the improvement levy that Bezeq paid to the Local Committee, the Authority's obligation in the settlement agreement to pay the improvement levy, on which Bezeq bases its claim, was in relation to the above limited rights, and today it is not possible to calculate the share of the improvement levy that applies to Bezeq for the deviation from the restricted rights in the Improvement Plan.

It should be noted that the amount of the permit fee that will be imposed on the Company at the end of the procedures can also affect the amount of the improvement levy that the Company will have to bear. In the Company's estimation, the amount of the permit fee and the improvement levy it will be required to pay is expected to be substantially lower than the total amount of the requirements. therefore, Bezeq recorded an equity gain of NIS 403 million. The equity gain recorded as aforesaid is on the basis of Bezeq's assessment regarding the amount of the permit fee and the improvements levy that it will be required to pay as aforesaid. To the extent that Bezeq’s aforesaid estimates do not materialize, the final capital gain will range from approximately NIS 250 million to approximately NIS 450 million. For this matter see also Note 6.6 to the 2021 statements.

On January 1, 2023, in an interim decision, the appeals committee dismissed Bezeq's claim that at the time the improvement plan was approved, it did not own rights for which it could be charged the improvement levy. Bezeq appealed this decision to the District Court. Following the aforementioned interim decision, Bezeq's claims regarding the amount of the improvement will be discussed in the appeals committee. It will be clarified that the aforementioned interim decision does not lead to a change in the Company's estimates regarding the amount of equity gain recorded as mentioned, since Bezeq's estimates were also based on the legal situation in the lawsuit against Rami , which as mentioned also includes an obligation on the part of ILA in the settlement agreement to bear the improvement levy for the asset.

The information contained in this section regarding Bezeq valuations and capital gains as a result of the sale of the asset is forward-looking information as defined in this term in the Securities Law, and is based, *inter alia*, on the above as well as on Bezeq's assessments of the Company's claims regarding the payment of the requirements. The information may not fully materialize as long as the said Bezeq assessments take place in a manner different than expected.

2.8. Intangible assets

2.8.1. Bezeq's licenses

Bezeq operates under an NIO license, which, among other things, forms the basis for its activity in the field of landline interior communications (for a description of the main points of the NIO license, see section 2.16.2). Also, the Company has a general NIO license for the Judea and Samaria region (see Section 2.16.2.9).

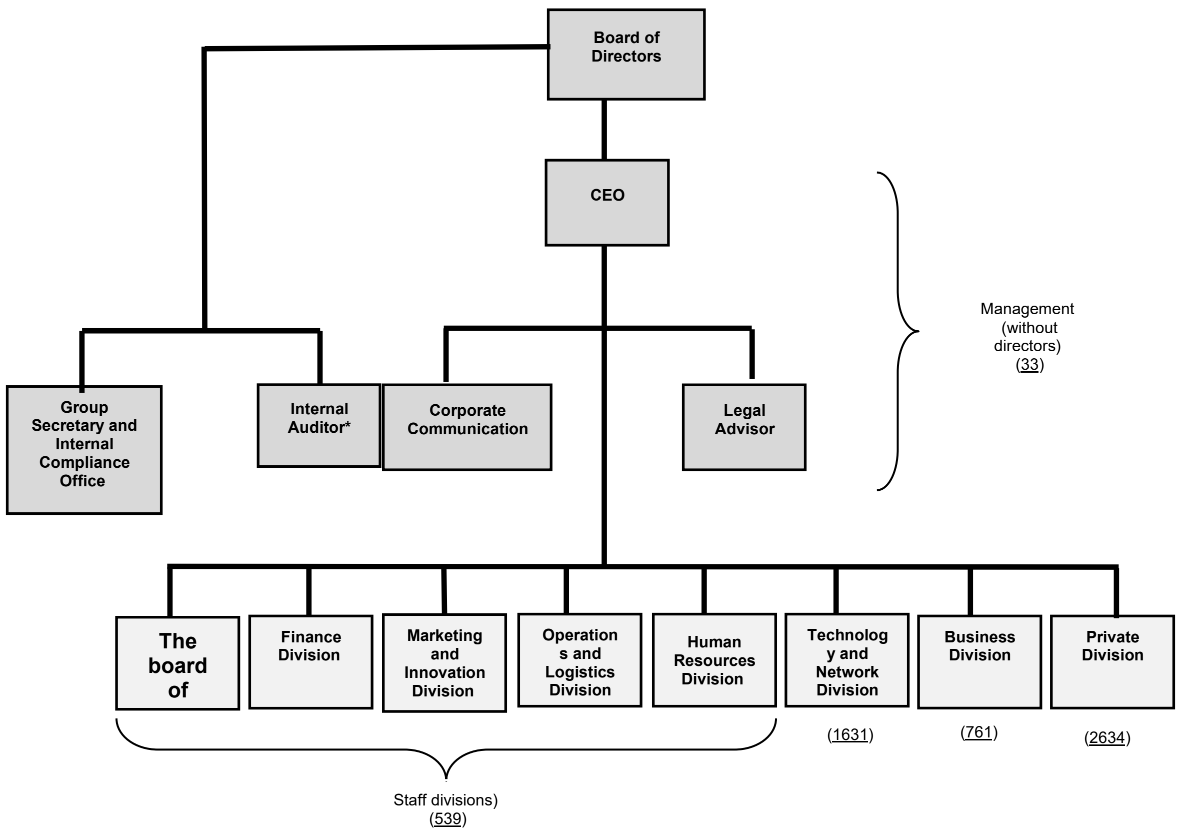
2.8.2. Trademarks

Bezeq uses trademarks that characterize its services and products. As of the date of publication of the periodic report, approximately 160 trademarks are registered in Bezeq's name, or are in the process of being registered with the Registrar of Trademarks as well as three samples. The main trademarks are **Bezeq** – Bezeq's name, and "**B**" – Bezeq's logo.

2.9. Human capital

2.9.1. Organizational structure and employee base according to organizational structure

The following is a diagram of Bezeq's general organizational structure as of December 31, 2022:



2.9.2. Number of Bezeq employees and employment frameworks

The number of employees at Bezeq as of December 31, 2022 was 5,598 employees (compared to 5,475 employees at the end of 2021). About 93% of Bezeq employees are employed under collective agreements (of which approximately 56% are permanent employees and the rest are non-permanent employees). The rest of Bezeq's employees (approximately 7%) are employed under individual agreements not within the framework of the collective agreements.

For details regarding the special collective agreement from December 2006 and its amendments, see Section 2.9.4.

2.9.3. Early retirement plans for employees

During 2022, 74 permanent Bezeq employees retired in accordance with the retirement plan in Bezeq.

On December 28, 2022, as part of the implementation of a streamlining plan and under the collective agreement in Bezeq, Bezeq's Board of Directors approved the retirement of approximately 80 veteran permanent employees during 2023 in the early retirement track at a total cost of approximately NIS 95 million. In light of the aforesaid, Bezeq recorded an expense accordingly in its statements for the fourth quarter of 2022.

For this matter see also Note 16.5 to the 2022 statements.

2.9.4. The nature of the employment agreements with Bezeq

The employment relationship with Bezeq is regulated in collective agreements signed between Bezeq and the representatives of Bezeq employees and the Histadrut, and in individual agreements. Bezeq employees are also subject to extension orders for certain general collective agreements, such as cost of living increase agreements.

The following are the main points of the special collective agreement between Bezeq, the employees' organization and the Histadrut from December 2006 and the amendments to it that have been signed over the years (all together will be referred to in this section as "**the Agreement**"), which regulates labor relations in the Company:

According to the Agreement, all existing agreements, arrangements and practices at Bezeq on the eve of the signing of the Agreement, including the wage linkage mechanism for the public sector, will continue to apply only to Bezeq's veteran permanent employees, to whom the Agreement applies, subject to changes explicitly included in the Agreement. The employment of existing and new temporary employees will be carried out on the basis of monthly / hourly wage agreements based on a market wage model by occupation, with high managerial flexibility. The Agreement set limits on certain types of future organizational changes, as well as a mechanism for notification, dialogue and arbitration with the employees' organization in the event of organizational changes.

According to the Agreement, during the period of validity of the Agreement, two directors from among the employees will serve on Bezeq's Board of Directors[28] which will be proposed by the employees' organization (subject to the approval of their identity by the Chairman of the Board and their election to the general meeting). The directors from among the employees are not entitled to payment for their office as directors and do not participate in Board of Directors discussions dealing with the terms of employment of senior executives.

The Agreement defined the status of "new permanent employee", whose terms of employment are different from Bezeq's veteran permanent employee (according to the collective agreement): his salary model is in accordance with Bezeq's salary policy in accordance with market wages. Upon termination of his employment with Bezeq, he will be entitled to an increased severance track only (in accordance with seniority).

28 At the beginning of 2016, the employees' representation announced that it agrees that as long as up to 15 directors serve on Bezeq's Board of Directors, one representative from among the employees will serve on the Board, and as the number of directors exceeds 15, another representative from among the employees will serve on the Board.

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

As part of the retirement arrangements (as they are in effect as of the date of publication of the report and as arranged as part of the last amendment, dated December 16, 2020, to the collective agreement) Bezeq may, at its discretion, terminate the work of up to 80 permanent employees (including employees with the status of "new permanent employee") in any year (and this is in addition to the retirement quota of about 300 permanent employees that was not realized according to the agreement, whose employment Bezeq could terminate at the end of the agreement period)..

For a list of other material agreements in the field of labor relations, see section 2.17.3.

2.9.5. Officers and employees of Bezeq's senior management

As of the date of publication of the periodic report, Bezeq has 9 directors (according to a composition of 9 directors decided by Bezeq's Board of Directors), of which three are external directors, one independent director (who is not an external director) and 5 directors who are not independent directors (including one director from among the employees). In addition, Bezeq has 11 senior management members.

As of June 19, 2022, Mr. Ran Guron serves as CEO of Bezeq in place of Mr. Dudu Mizrahi, who ended his term (before his appointment as CEO of Bezeq, Mr. Guron served as CEO of the subsidiaries Pelephone, Bezeq International and DBS). On September 14, 2022, the general assembly of Bezeq's shareholders approved the terms of office and employment of Mr. Guron as CEO of Bezeq.

Senior management members are employed under personal agreements that include, but are not limited to, pension coverage, payment of target-based bonuses and early notice period upon retirement.

For details regarding remuneration for office holders, see Section 7 of Chapter D of this periodic report and Note 29 of the 2021 statements.

On December 10, 2020, Bezeq's Board of Directors approved a capital remuneration plan ("**the Plan**") by virtue of which options may be assigned which, as of the date of the Board of Directors' approval, represented approximately 2.94% of Bezeq's fuully diluted, issued and paid-up equity after exercise. On December 12, 2020 an outline based on the plan (as amended on January 1, 2021 and May 9, 2022) was published ("**the Outline**"). The Company makes assignments from time to time by virtue of the Outline to office holders and/or employees in the company and its subsidiaries.

On April 18, 2022, the general assembly of the Company's shareholders approved, among other things, an updated remuneration policy for a period of three (3) years, effective as of January 1, 2022, which includes, among other things, clarifications regarding the return of remuneration given on the basis of erroneous financial information, an adjustment that allows the awarding of performance-dependent variable remuneration to the Chairman of the Company's Board of Directors, as well as wording corrections and other technical corrections. For more details on the updated remuneration policy, see the immediate report on assembly convening dated March 23, 2022, which is included in this report by way of reference.

Also, on March 13, 2023, Bezeq's Board of Directors approved the convening of a special general assembly of Bezeq's shareholders, concerned, among other things, with the approval of various amendments to Bezeq's remuneration policy, so that the remuneration policy which includes such amendments will be in effect for a period of three years from the date of its approval by the general assembly. The amendments include, among other things, the application of the remuneration policy to the Chairman of the Board of Directors, as well as the possibility of linking wages to the consumer price index, reflecting expenses and related conditions, adjustment period grant and a signature grant to officers. For this matter, see Bezeq's immediate report of March 14, 2023 regarding the convening of a general assembly included in this report by way of reference.

For the capital remuneration plan - see Note 26 to the 2021 statements.

2.10. Equipment and suppliers

2.10.2. Equipment

Most of the equipment used by Bezeq is: swithcboards, communication cabinets (MSAG), copper cables, optical cables, transmission equipment, data communication systems and equipment, servers, routers and Internet modems. Bezeq purchases most of the equipment needed for its communications infrastructure from Israeli companies associated with manufacturers of communications equipment around the world. In addition, Bezeq purchases hardware and software from a number of suppliers.

2.10.3. Rate of purchase from major suppliers and the form of contact therewith

Bezeq sees as a "major supplier", for the purposes of Article 23 of the First Schedule to the Prospectus Details Regulations, a supplier whose scope of Bezeq's annual purchases exceeds 5% of the Group's total annual purchases and the volume of purchases from which out of the total volume of purchases in the field of activity exceeded 10%.

During 2022, Bezeq had no major supplier as defined above.

2.10.4. Dependence on suppliers

Most of the equipment purchased in the fields of data communications, switching, transmission and radio systems is unique equipment and the possibility of receiving support for it throughout all its years of operation other than from the manufacturer is limited. In view of the importance of the manufacturer's support in certain systems used by Bezeq, Bezeq believes that it may be dependent on the following suppliers:

Supplier name	Field
Nokia Solutions and Networks Israel Ltd.	Metro transmission and NGN network access systems GPON equipment for the fiber project.
Juniper Networks	Metro transmission
Cisco / BroadSoft	Subscriber switches
Dialogic Networks (Israel) Ltd.	Transition switchboards for linking operators to the Bezeq switching network
Adtran Holdings Ltd.	Network access systems - NGN
IBM	Hardware and solutions for backups, restorations and system and infrastructure survivability, storage equipment
VMware	Infrastructure for most of the server virtualization system
Hits Telecom Ltd.	Be Router
F5 Networks, Inc	ISP service (Carrier-grade NAT router)

Agreements with suppliers on which Bezeq may have a dependency as stated in this section usually include a warranty period for a period of time and under the conditions set forth in the agreements, followed by another period of maintenance or support. If necessary, Bezeq may enter into an agreement with the supplier for the provision of support and maintenance services for an additional period of time. As a rule, these agreements will include various remedies to Bezeq in the event of a breach of the agreement by the supplier. Usually, at the time of contracting with these providers, the contract is long term.

2.11. Working equity

For details regarding Bezeq's working equity, see Section 1.4 of the Board of Directors' Report.

2.12. Investments

For information on investments in investee companies, see Note 12 to the 2022 statements, and also see Sections 3 and 4 of Chapter D of this periodic report.

2.13. Funding

2.13.1. The average and effective interest rate on loans

As of December 31, 2022, Bezeq is not financed by short-term credit (less than a year). The following is the distribution of long-term loans (including current liabilities):

Loan period	Source of funding	The principal amount (NIS millions)	Currency or linkage type	Type of interest rate and change mechanism	Average interest rate	Effective interest rate	Interest rate range in 2021
Long-term loans	Banks	705	NIS unlinked	Fixed	3.43%	3.36%	-3.20% 4.30%
	Banks	700	NIS unlinked	Variable on the basis of the short-term loan interest rate per year *	5.21%	5.30%	2.13%- 5.21%
	Non-banking sources	3,449	NIS unlinked	Fixed	3.07%	3.17%	-2.79% 4.00%
	Non-banking sources	2,416	CPI-linked NIS	Fixed	1.54%	1.58%	-0.58% 2.20%

* Prime interest rate – 5.75% (as of February 2023)

For more details about Bezeq loans, see Note 13 to the 2022 statements.

2.13.2. Credti receipt limitations

2.13.2.1 Limitations included in Bezeq loans

See Note 14 to the 2022 statements. As of the date of publication of the statements and as of the date publication of of this periodic report, Bezeq meets all the restrictions that apply to it.

2.13.2.2 Restrictions of the Bank of Israel related to a single borrower and a group of borrowers

The directives of the Supervisor of Banks in Israel include restrictions on the liability of a borrower and a group of borrowers towards the banks. The Supervisor of Banks' instructions may from time to time influence the ability of banking corporations to grant additional credit to Bezeq. Regarding the authorization to set restrictions on the provision of credit to a business group in the Centralization Law, see section 1.7.7.6.

2.13.3. Reportable credit

As of December 31, 2022, Bezeq's reportable credit, in accordance with legal position 104-15 of the Securities Authority (reportable credit incident) is Bezeq's debentures from series 6, 9, 10, 11 and 12, all as specified Note 13 to the 2022 statements and in Section 4 of the Board of Directors' report.

Further to the update to the Securities Authority staff legal position No. 104-15: Reportable Credit Event, it should be noted that all of Bezeq's loan agreements (public debentures and private loan agreements) include a cross breach clause in which a right to immediate repayment is established in the case of a third party lender made Bezeq's debts to him due for immediate payment as a result of a breach event (default) in amounts that exceed the amounts stipulated in the various loan agreements. As of the date of the report, Bezeq loans do not include financial benchmarks, so the cross breach clause is not relevant to financial benchmarks.

2.13.4. Amounts of credit received during the reporting period

On April 7, 2020, Bezeq published a prospectus of registration for trading and unblocking of Bezeq debentures (Series 11 and 12) and a shelf prospectus (dated April 8, 2020) ("**the Prospectus**"). In April 2022, the Securities Authority approved to extend the period for offering securities according to a prospectus until April 7, 2023. In accordance with the authority's approval, in light of the existence of enforcement procedures in Bezeq's case, to the extent that Bezeq wishes to publish a shelf offer report by virtue of a prospectus during the aforementioned period and as long as the procedures continue, each such shelf offer report will be subject to obtaining a permit from the Securities Authority, in accordance with Rule 2(8)) to the Securities Rules (cases in which the publication of a shelf offer report will require a permit from the Securities Authority), 5776-2016

For the purposes of this section, see also Section 4 of the Board of Directors' Report and Note 13 to the 2021 statements.

2.13.5. Bezeq's debentures

For details regarding the debentures issued by the Company and by Bezeq see Note 13 to the 2022 statements and Section 4 of the Board of Directors' Report. Also, see Section 2.13.4.

On January 23, 2021, Bezeq made a partial early repayment, on its own intiative, of Bezeq’s debentures (Series 9) in the amount of approx. NIS 370 million par value. Also, on December 1, 2022, the Company's debentures from series 6 and 7 were paid off.

2.13.6. Credit rating

Bezeq's debentures are rated by Standard & Force Maalot Ltd. as il/AA-/Stable and by Midroog Ltd. as Aa3.il rating with a stable rating horizon.

For details regarding the history of Bezeq ratings in the last two years, see Bezeq's immediate reports dated May 12, 2021, November 30, 2021 and May 10, 2022 (Standard & Poors Maalot Ltd.), as well as dated May 2, 2021, December 1, 2021 and May 15, 2022 (Midroog Ltd.) included in this report by way of reference.

For this matter see also Section 4 of the Board of Directors' Report.

2.13.7. Bezeq's assessment in relation to debt raising in the coming year (2023) and the sources of borrowing

During 2023, Bezeq is expected to repay a total of NIS 1.2 billion for the principal and the interest on its loans, including debentures.

Bezeq raises funds from time to time for the purpose of managing its cash flow. The financing options available to Bezeq are: Raising debt through loans from banking corporations and institutional bodies and by issuing securities (private or marketable).

2.13.8. Liens and collateral

For information regarding Bezeq's liens and collateral, see Note 19 to the 2022 statements.

2.14. Taxation

For information on taxation, including losses carried forward for tax purposes in DBS, see Note 7 to the 2022 statements.

On December 11, 2022, Bezeq received a letter from the Tax Authority extending, at Bezeq's request, the validity of the taxation decision in the agreement that includes the prior approval of the Tax Authority for tax purposes for the merger of DBS with and into Bezeq in accordance with the provisions of Article 103b of the Income Tax Ordinance ("**the Taxation Decision**") for one year, i.e., until December 31, 2023. It should be noted that the letter included a similar statement to the one included in the extension letter from the previous year, according to which, in light of the fact that there were no material developments regarding the abolition of the structural separation between Bezeq and DBS from the date of the Taxation Decision until the date of this extension, and in light of the long time elapsed from the taxation on the subject, the Tax Authority will consider not extending the validity of the taxation decision beyond December 31, 2023, as long as there are no significant developments in 2023 regarding the abolition of the structural separation between Bezeq and DBS. According to Bezeq's position, it is entitled to an extension of the Tax Authority's approval in accordance with the terms of the Taxation Decision, and anyway, even if the validity of the Taxation Decision is not extended, this does not prevent Bezeq from requesting from the Tax Authority at any relevant time in the future a new taxation decision instead of the said taxation decision. It should also be noted that Bezeq continues to work with the various regulatory bodies to abolish the structural separation.

2.15. Environmental risks and their ways of management

2.15.2. General

Some Bezeq facilities, such as broadcasting facilities, wireless communication facilities, or high-voltage facilities[29] are sources of electromagnetic radiation which are included in the definition of "radiation source" in the Non-Ionizing Radiation Law.

2.15.3. Non-Ionizing Radiation Law

The law regulates the practice of radiation sources, their establishment and operation, as well as their supervision. Among other things, the law stipulates that the construction and operation of a radiation source is subject to a permit; Provides for punitive provisions, and strict liability for a company that has violated the provisions of the law, its employees and its officers; Imposes registration and reporting obligations on the permit holder and confers supervisory powers mainly to the Commissioner for Non-Ionizing Radiation in the Ministry of Environmental Protection (in this section - "**the Commissioner**"), including regarding conditions in the permit, revocation of the permit and disposal of radiation source.

Bezeq has operating permits from the Commissioner for the communication facilities and broadcasting sites operated by it. In addition, Bezeq performed the necessary actions for issuing radiation permits for high-voltage facilities located on its assets, and as of the date of the report, the Company has radiation permits for 13 high-voltage facilities, all of which have a construction and operating permit or a valid type approval.

It should be noted that the Commissioner requires building permits as a condition for the continued validity of operating permits for communication facilities (including broadcasting facilities) issued by him, as well as the existence of additional conditions, *inter alia*, in relation to "wireless access facilities" that have a "type certificate" issued by the Commissioner . See also section 2.16.11.

The law includes a penalty chapter which stipulates, *inter alia*, that the construction or operation of a radiation source in violation of the terms of the permit and the construction or operation of a radiation source without a permit after receiving written notice from the Commissioner, are a criminal offense.

2.15.4. Permits

For permits for broadcasting facilities required by the Planning and Construction Law, see Section 2.16.10.

2.15.5. Bezeq policy regarding radiation risk management

Bezeq implements a work procedure regarding the establishment, operation and measurement of non-ionizing radiation sources, and an appropriate enforcement procedure approved by Bezeq's Board of Directors. Bezeq has been appointed an enforcement procedure implementation officer. Periodic reports on the status of radiation sources are forwarded to Bezeq's CEO and the Board of Directors.

2.16. Restrictions and supervision of Bezeq operations

Bezeq is subject to various legal systems that regulate and limit its business activities. The main body that supervises Bezeq's activities as a communications company and may give instructions on various subjects is the Ministry of Communications.

2.16.1. Supervision of Bezeq rates

Arrangements under Sections 5 and 15 to 17 of the Communications Act and under the NIO license apply to Bezeq’s rates, as detailed later in this section.

Bezeq rates are subject to regulatory intervention (even if not provided for in regulations), and from time to time, Bezeq is exposed to significant changes in its rate structure and rate level. Rate control creates or may create difficulties for Bezeq in providing an appropriate timely competitive response to changes in the market and competitors' offers. In addition, the restrictions on the granting of discounts in rates limit Bezeq’s

[29] The construction and operation of these facilities requires an establishment permit as well as an operating permit in accordance with the Non-Ionizing Radiation Law. The construction of high-voltage facilities (transformers) at Bezeq sites is intended for the supply of energy for the use of Bezeq facilities.

participation in certain tenders. The transition to maximum prices instead of FIX prices in relation to Bezeq services stipulated in the regulations (mainly telephony) and the exclusion of certain marginal services from the scope of the regulations as of April 1, 2022 gives Bezeq greater flexibility in relation to these services.

The following are the main principles of the control arrangements on Bezeq rates:

2.16.1.1 In accordance with the Communications Law, the Minister of Communications, with the consent of the Minister of Finance, may determine payments (including maximum or minimum payments) for licensee services. Determination of payments can be made, *inter alia*, based on (1) cost according to a calculation method ordered by the Minister plus a reasonable profit; Or (2) by reference points derived from one of the following: payment for services provided by the licensee, payment for comparable services, payments in other countries for such services. Bezeq's regulated service rates (telephony and other services) were set in the regulations as fixed rates, which were updated according to the linkage formula minus a reduction coefficient as stipulated in the regulations, so that on average Bezeq's supervised rates were eroded in real terms

As of April 1, 2022, amendments to the payment regulations and the Bezeq license entered into force, the FIX rates were canceled and in their place maximum rates were set, so that the maximum payments for telephone line usage fees and outgoing call rates (applicable to a subscriber who owns 3 lines or less) were gradually reduced on two dates – April 1, 2022 and July 1, 2023, the regulations determining the update mechanism were canceled.

a. The following is a breakdown of the rates in accordance with the aforementioned dates (in NIS):

Two stages	**Service**	**Maximum rate**	
		Net of VAT	VAT included
April 1, 2022 until July 1, 2023	Monthly usage fee per telephone line	29.91	35
	Rate for call minutes to landline networks[30]	Peak 0.035 Low 0.0857	Peak 0.041 Low 0.100
	Rate for call minutes to mobile networks [31]	1139 until June 14, 2023; From 6/15/2023 to 6/30/2023: 0.088	0.128
Starting from July 1, 2023	Monthly usage fee per telephone line	20.82	24.36
	Rate for call minutes to landline networks [32]	0.0142	0.017
	Rate for call minutes to mobile networks [33]	1327 until June 14, 2023; From 6/15/2023 to 6/30/2023: 0.103	0.086

b. Upon the transition to a mechanism of maximum payments, the existing alternative payment baskets that Bezeq has been marketing in accordance with the provision of Article 15A of the Communications Law were eliminated. In parallel, until July 1, 2023, with regard to existing subscribers in these baskets, the maximum payment will be the maximum payment for subscribers who, on the eve of the entry into force of the amendment, paid for a cluster of services according to an

30 Including interconnectivity rate to landline destinations.

31 Including interconnectivity rate to mobile networks.

32 Including interconnectivity rate to landline destinations.

33 Including interconnectivity rate to mobile networks.

alternative payment basket, according to the conditions established in that alternative payment basket or according to the payment regulations as drafted after the Amendment, whichever is lower. Also, Bezeq may market telephony service packages that include a telephone line and call minutes, at rates that will be determined by it in accordance with Section 17 of the Communications Law, provided that the payments in these packages are lower than the payments derived from the maximum rates that will be determined

The Ministry of Communications estimates (as indicated in the decision of the Minister of Communications dated December 30, 2021) that such a change in rates is expected to reduce telephony expenses of the Company’s discrete line subscribers and reduce the Company’s landline telephony consumers' expenses by NIS 370 million per year from July 1, 2023 onwards (including VAT).

The Minister of Communications' decision also states that in view of the expected technological changes, in particular the transition to advanced networks, the decrease in the number of subscribers to the landline telephony service and changes in the competitive situation, whatever the situation, the Minister of Communications intends to Bezeq's landline telephony service.

Bezeq estimates that the reduction of rates in accordance with the decision is expected to have a material adverse effect on Bezeq's financial results. At the same time, Bezeq estimates that the decrease in its revenues is expected to be lower than that stated in the Ministry of Communications' estimates.

According to Bezeq estimates, if the number of telephony lines and call minutes in the Bezeq network had remained at their level as of the date of this report, the reduction in rates would have led to a decrease in Bezeq’s revenues in 2022 of NIS 70 million; a decrease in Bezeq's revenues in 2023 in the amount of approximately NIS 150 million; and from 2024 onwards, to a decrease in Bezeq's revenues in the amount of approximately NIS 200 million per year. However, in light of the continuing declining trend in both the number of Bezeq telephony lines and the number of call minutes, which led to an erosion in Bezeq's revenues from telephony services[34], the impact of the decision alone on Bezeq's revenues is expected to be smaller compared to this section.

Some of the information contained in this section is forward-looking information as defined in the Securities Law based on assessments, assumptions and expectations, including the demands for Bezeq services and the behavior of various communications operators and any other information relating to future events or matters whose materialization is uncertain and out of the control of the Company. Forward-looking information is inherently uncertain, and accordingly, the information may not materialize or materialize differently, even materially, from what is stated depending on the materialization of the above assessments.

2.16.1.2 Rates stipulated in the regulations according to Article 5 of the Communications Law - the Minister of Communications and Finance has the authority (according to Article 5 of the Communications Law) to determine payments for interconnection or for the use of a license holder in the Bezeq facilities of another license holder and to issue instructions on the matter (including in relation to ancillary arrangements) , among other things, based on the parameters listed in Section 2.16.1.1. For the the outline of the reduction of interconnection rates as stipulated in the interconnection regulations, see Section 1.7.7.1.

2.16.1.3 Determining rates according to Article 15 of the Communications Law - a

[34] Except in 2020 which was affected by the consequences of the COVID crisis.

service for which no payment has been set or for which a maximum or minimum payment has been set according to Articles 5 or 15 of the Communications Law, Bezeq may demand a reasonable payment for it. In accordance with the Bezeq license, it will offer rates as stated, to anyone who requires it throughout Israel, and for an advanced network in the service area specified in Appendix 11-1, without discrimination, and at a uniform rate according to the types of services.

The Minister of Communications may order Bezeq to report to him the payment that it intends to demand as stated and any change in payment prior to the provision of the service or the implementation of the change. If the Minister of Communications deems that Bezeq intends to demand a payment that is unreasonable, or a payment that raises concerns about harming competition, he will be entitled to order Bezeq (for a period not to exceed one year) on the amount of payment that it is entitled to demand for the service, or to order the separation of payment for service from the payment for the services cluster.

The Minister's examination of whether a payment is unreasonable can be done, among other things, in accordance with the parameters stated in Section 2.16.1.1(1), and the Minister may examine the payment based on what is stated in Section 2.16.1.1(2). According to the license, Bezeq must notify the Ministry of Communications of the rate it sets 14 days in advance.

2.16.1.4 On December 20, 2022, a hearing was published on behalf of the Ministry of Communications regarding the determination of a format for examining the reduction of margins by owners of landline communications infrastructure.[35] Among other things, it is proposed that the margin reduction test will take place on a retail product based on an advanced network of authorized suppliers who have significant market power (including the Company). The recommendation details the method of calculating the prices underlying the test and suggests that the retail margin component be calculated as a 25% addition to the wholesale costs, or alternatively - as a 20% reduction from the retail price to the end customer. It is suggested that the test be used as part of a self-examination, and this goes beyond establishing a rigid framework that includes reports and pre-approvals of every marketing proposal. Failure to comply with the margin reduction test will lead, among other things, to the exercise of the authority of the Minister of Communications according to Article 17(c) of the Communications Law and to a reduction of the wholesale payment for the BSA service in a way that will bring it within the limits of the proposed test for a period of one year. It should be noted that the Company is still conducting a self-examination for not reducing margins in the BSA service, so that insofar as the hearing is applied to the Company in the published format, it does not expect it to have a material impact on its business.[36]

Some of the information contained in this paragraph is forward-looking information as defined in the Securities Law based on the Company's assessments regarding the final decisions that will be made following the hearing and their effects. Actual estimates may vary depending on the aforementioned variables.

2.16.1.5 For wholesale rates and new pricing for all wholesale rates see Section

[35] According to what was said in the hearing, it replaces two previous hearings (from the years 2014 and 2017) in which no final decision was made due to implementation difficulties. "Margin Squeeze" takes place when an infrastructure owner who holds market power and provides wholesale services to his competitors, reduces the margin between his retail rate to the consumer and his wholesale rate to the competitors, in a way that harms the economic viability of the competitors to purchase wholesale inputs from him and market retail services to the consumer based on them.

[36] In this context, it should be noted that according to the test applied by the Ministry of Communications to check the reduction of margins between Hot's retail rates and wholesale rates (including on a traditional network - Co-ax), the retail rate is required to be 25% above the wholesale rate and the wholesale rate is required to be 20% below the retail rate. The retail rate included infrastructure and provider and did not include the component of international gigas.

2.16.4, and regarding margin reduction see Section 2.16.4.2.

2.16.2. Bezeq's NIO license

Bezeq operates, among other things, under the NIO license[37]. The NIO license contains provisions that mainly concern:

2.16.2.1 The scope of the license, the services that Bezeq must provide and the universal service obligation

Bezeq must provide its services to everyone on equal terms for each type of service, regardless of location or unique cost. The license is not limited in time; The Minister may change, revoke, and suspend the license; The license and any part thereof may not be transferred, encumbered or foreclosed. Regarding the addition of wholesale services to the Bezeq license, see section 1.7.6. Regarding the deployment and universal service obligation in connection with advanced infrastructure (fibers), see Section 2.7.2.

2.16.2.2 Rules of structural separation

For a description of the structural separation rules applicable to Bezeq, see Section 1.7.3.

2.16.2.3 Rates

For a description of the main provisions regarding rates, see Section 2.16.1.

2.16.2.4 Marketing shared service baskets

For the provisions in the NIO license that allow Bezeq to apply to market baskets of shared services subject to restrictions, see Section 1.7.3.2.

2.16.2.5 Operation of Bezeq's networks and the level of its services

Bezeq must maintain and operate the network, and maintain its services at all times, including in times of emergency, in a proper and regular manner, in accordance with the technical requirements and the quality of service requirements, and act to improve its services. The license includes an appendix regarding the "level of service to the subscriber". Bezeq forwarded proposals to the Ministry to amend the appendix while adapting it to the customary reality and licenses of other operators, but as of the publication of the report, the amendment has not yet been made. For the amendment to the license regarding answering at the call centers, see Section 1.7.7.3.a.

2.16.2.6 Interconnectivity and use

Provisions have been made regarding the obligation of interconnectivity to another public network and allowing the use of another licensee (including wholesale service); There is also an obligation to provide infrastructure services to the another licensee on reasonable and equal terms, and to refrain from preferring a licensee who is an affiliated company.

2.16.2.7 Arrangements in the field of security

Provisions have been made regarding the operation of Bezeq's network in time of emergency, including an obligation to operate in a manner that will prevent it from collapsing in an emergency.

Bezeq must perform Bezeq services and construction and maintenance services for infrastructure and end equipment for defense forces in Israel and abroad, as stipulated in its agreements with the defense forces. Bezeq will also provide special services to the defense forces. Bezeq will work to ensure that all purchases and installation of hardware in its Bezeq facilities, with the exception of terminal equipment, will be made in full compliance with the instructions given to Bezeq under Article 13 of the Communications Law.

37 A copy of the NIO license is published on the Ministry of Communications' website at - www.moc.gov.il.

Bezeq must appoint a security officer and strictly comply with the security provisions in the appendix to the license. For the provisions of the license regarding preparation for cyber defense management, see Section 1.7.10.

2.16.2.8 Supervision and reporting

Bezeq has extensive reporting obligations to the Ministry of Communications. In addition, the Director General of the Ministry of Communications (as defined in Bezeq's license) was granted access rights to the facilities and offices used by Bezeq and the seizure of documents. On August 1, 2019, Bezeq's general license was amended so that the reporting obligations were consolidated and reduced.

2.16.2.9 Miscellaneous matters

a. The NIO license includes restrictions on the acquisition, possession and transfer of means of control in accordance with the provisions of the Communications Order (see section 2.16.3), as well as restrictions on "cross-ownership", the main principle of which is the prohibition on cross-holding by entities that have an affiliation with another material NIO[38] as stated in the license, and restrictions on cross-holding by entities with NIO licenses or general licenses in the same segment of activity.

b. Bezeq provided the Director General of the Ministry of Communications with a bank guarantee in the total amount of NIS 15 million to ensure compliance with the terms of the license and to indemnify the State for any damage caused to it due to their violation by Bezeq.

c. The Director General of the Ministry of Communications is authorized to impose a financial sanction for violating the terms of the license (for this matter, see also Section 1.7.7.5).

d. Bezeq may invest during a calendar year up to 25% of its annual income in activities not intended for the provision of Bezeq services (when the income of subsidiaries is not considered Bezeq's revenue for this purpose).

e. License to provide services in the Judea and Samaria region - On October 26, 2020, Bezeq received a general license for the provision of landline interior Bezeq services in the Judea and Samaria area (before that, the provision of the service was included in the provision of Bezeq's general license). In accordance with what is stated in the preamble to the license, this is a license in the form of a reference to Bezeq's general license granted to it by the competent bodies in the Ministry of Communications, while making the necessary adjustments in the area, and it is nothing but an existing snapshot in the field of infrastructure that is under the responsibility and ownership of Bezeq. Accordingly, no material change is expected in Bezeq's conduct in Judea and Samaria in relation to the existing situation prior to the granting of the license (at the same time, it should be noted that the license in principle allows Bezeq to streamline the service in the area through the use of technicians from the entire Group, subject to the approval of an appropriate procedure to be formulated by Bezeq and brought for approval by the Communications Officer).

f. On May 16, 2022, Bezeq received a public appeal published by the Ministry of Communications regarding the provision of communication services to the business segment, within the framework of which the Ministry calls on companies in the communication market that provide communication services to the medium-large business segment, to detail their activities in the field and the barriers agaist expanding this activity. This is in order to promote regulation that will increase competition in the field. In accordance with what was said in the voice

38 NIO with a market share of 25% or more.

of the reader, the market of medium-large business customers is characterized by a significant advantage for size, and significant barriers to entry and expansion that limit even players who have been operating in it for many years. Also, Bezeq's market shares in the segment and the rate of change in them are an indication of a low level of competition in the segment, which affects the prices and the level of services received by businesses in Israel, and therefore, the Ministry is starting a process of examining the state of competition and the barriers in the segment, and is turning to receive the references of the players. On June 20, 2022, Bezeq submitted its response to the public appeal, according to which the field of communications for large and medium-sized businesses is a competitive market where there are no barriers to entry and expansion and no market failures, and in these circumstances no regulatory intervention is required.

For the wholesale market and wholesale service portfolios see Section 2.16.4.

Regarding the amendment of Bezeq’s license regarding the determination of advanced network deployment obligations - see Section 2.16.5

2.16.3. The Communication Order

Bezeq has been declared a provider of essential Bezeq services in accordance with the Communication Order. By virtue of this declaration, Bezeq is obligated to provide certain types of services and may not stop or reduce them, including basic telephone service, infrastructure service, transmission service and data communication service, including interconnectivity, and other services listed in the addendum to the Order.

Main additional provisions in the Communication Order (regarding proposed amendments to the Communication Order regarding the control of the Company, see Section 1.1.4):

2.16.3.1 Restrictions on the transfer and purchase of means of control in Bezeq, including a restriction on the possession of means of control of a certain type at a rate of 5% or more without the prior written approval of the Prime Minister and the Minister of Communications (“**the Ministers**").

2.16.3.2 The transfer or acquisition of control of Bezeq requires the approval of the Ministers ("**Control Permit**"). The Control Permit will determine a minimum holding rate in each of Bezeq's means of control by the Control Permit holder, with the transfer of shares or the issuance of shares by a company, as a result of which the controlling shareholder's holdings fall below the minimum rate – is prohibited without the Minsiters’ prior approval, subject to permissible exceptions (including public offering under a prospectus or sale or private allotment to institutional investors)[39]. Regarding the amendment to the Communication Order regarding the control permit, see Section 1.1.4.

2.16.3.3 Holdings that have not been approved as aforesaid will be considered "excess holdings". The Order stipulated that there would be no validity to the exercise of a right by virtue of excess holdings, and also stipulated provisions authorizing the Ministers and Bezeq to apply to the court for a forced sale of excess holdings.

2.16.3.4 Bezeq was required to report to Ministers, upon request, on all information on matters related to the provision of an essential service.

2.16.3.5 At least 75% of the members of Bezeq's Board of Directors will be citizens of Israel and its residents with a security classification and security suitability, as determined by the General Security Service. The Chairman of the Board of Directors, the external directors, the CEO of Bezeq and other Bezeq officials as specified in the Order will be citizens of Israel and its

[39] For the minimum holding rate in Bezeq Group's control permit, see Section 8 of Chapter D of this periodic report..

residents and have a security classification according to the classification of the position.

2.16.3.6 "Israeliness" requirements for the controlling shareholder in Bezeq: in the case of an individual - he is an Israeli entity (as defined in the Order), in the case of a corporation - it is incorporated in Israel, its business center in Israel and an Israeli entity (as defined in the Order) holds at least 19% of any of the means of control in it, or holds at least 19% of the voting rights at the general meeting and the right to appoint directors in the controlling shareholder and it has the right to appoint at least one-fifth of the number of directors in Bezeq and Bezeq's subsidiaries, and no less than one director, in each them, to be appointed by it, provided that the rate of his holdings in Bezeq, both directly and indirectly, will not at any time be less than 3% of any type of means of control in Bezeq.

On July 8, 2020, an amendment was published in the records to part of the media regulations that stipulate the requirement of Israeliness so that it was added the option to convert the Israeliness requirement into a provision under Article 13 of the Communications Law, which will apply to the relevant licensee alternative provisions to the Israeliness requirement.

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

2.16.3.8 Certain Bezeq operations require the approval of the Minister of Communications, including voluntary dissolution, compromise or settlement between Bezeq and its creditors, change or reorganization of Bezeq's structure, merger and splitting of Bezeq.

2.16.4. Wholesale market

In recent years, Bezeq has been providing services under the "wholesale market" model, in which it has imposed obligations on the owners of the lanlinde interior access infrastructure in Israel (Bezeq and Hot) to sell wholesale services to other communications operators.

The regulatory determinations in relation to the wholesale market as well as its implementation and development during the reported period have an impact on a significant part of the Group’s activity.

2.16.4.1 Policy document

Following the policy document, at the end of 2014, the Ministry of Communications established service portfolios for the various services, which determine the format of the provision of services by the infrastructure owners. The maximum rates that Bezeq may charge for these services were set by the Minister of Communications with the consent of the Minister of Finance in the regulations for the use of that year. On June 26, 2017, the rates for Hot’s wholesale services were announced.

2.16.4.2 BSA service

Bezeq began providing the service on February 17, 2015. This service enables infrastructure-less service providers to offer their customers a unified Internet service which includes both an Internet connection service and Bezeq's infrastructure service[40]. The service is provided both on the

[40] It should be noted that in the first days of the service, the Ministry conducted a supervisory procedure at Bezeq that led to the imposition of sanctions in the amount of NIS 8.5 million paid by Bezeq. After Bezeq's Board of Directors rejected the applicant's motion to file a derivative claim in the matter against Bezeq's officers, and ruled that in the circumstances of the case, Bezeq does not have a good cause of action against officers and other officials who served during the relevant periods, and that conducting legal proceedings will not promote Bezeq's benefit. In February 2022, the applicant submitted a motion for approval of a derivative claim against Bezeq's officers (all but one are former executives) in the amount of the financial sanction plus interest and linkage differences.

Company's traditional network (copper) and on the fiber network. Since the launch of the service, hundreds of thousands of customers have moved to receive service through such service providers, in this regard, see Sections 1.5.4.1 and- 2.1.3.

The service portfolio, to which in February 2022 a "Fiber BSA service" chapter was also added, imposes on the owners of the infrastructure, including Bezeq, obligations of periodic publication in the automated interface (API) and on their website about the deployment of an advanced network (this obligation applies to the Company and IBC). In addition, the owners of the infrastructure, including in the incentive areas, must publish detailed statistical information in an internal interface between the operators, which refers to a wide range of parameters. On June 20, 2021, the Ministry added to the reporting obligations a detailed periodic information requirement regarding access to and connection to optical fibers, in accordance with uniform parameters and about the number of subscribers to the service over optical fibers divided into statistical areas. This obligation applies to providers who deploy fiber.

<u>BSA service rates over the copper network</u>

The usage regulations set the maximum rates for the service and they were updated between 2017 and 2022 in accordance with the demand forecast index according to formulas established by the Minister in his notices to the usage regulations. For the years 2017 and 2018, the update according to the demand forecast index was applied retroactively and also included a graduated offset mechanism.

In the usage regulations, in an amendment dated February 15, 2022, it was established the duty of a deployer in the incentive area (whose license an or administrative order issued to an NIO established the obligation to deploy an advanced network according to Article 14d(f) of the law) to provide BSA service via fiber in the incentive areas. The maximum payment deployed in the area Timretz may demand from another licensed provider in favor of a managed broadband access service at a nationwide connection level identical to that which Bezeq may demand, and does not include installation and fault repair in the subscriber's home, for which a deployer in the incentive area may charge a reasonable rate to be determined and he will also be required to meet a margin reduction test.

The update for the 2022 report year increased the weighted BSA rates on copper compared to the rate in 2021. The impact 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 that was used in the past regarding the demand forecast indicators for updating Bezeq's BSA service rates on the copper network will be applied. This, as was explained in the hearing that preceded the decision, among other things because the Ministry of Communications is in the midst of work to determine updated payments for wholesale use in accordance with the regulations (for this matter, see Section 2.16.4.5). On December 26, 2022, a notice was published on updating the demand forecast indicators accordingly.

<u>Rates for the BSA service on fiber infrastructure **("Fiber BSA")**</u>

In the usage regulations, the rates for the service were determined as maximum rates for an accessibility service and data transmission at an aggregate rate of up to 550 Mbps and above 550 Mbps and up to 1,100 Mbps. The rates are updated once a year, on January 1 starting in 2021, in accordance with changes in the consumer price index. According to the recommendation of the professional staff at the Ministry, which was the basis for the decision regarding the rates, the aforementioned rates will be valid for a period of three years and will then be replaced by a non-temporary rate. Bezeq is entitled to demand a reasonable payment for the service of initial installation of internal wiring[41] to the subscriber's premises. In accordance with the Telecommunications Law, internal wiring installed for the provision of Bezeq service on an advanced network will be owned by the person whose premises the internal wiring is intended to serve only.

For the agreement for the provision of the non-residential right of use (IRU) service in the BSA fiber service (wholesale market) by the Company to Partner and the subsequent reduction of the prices of individual lines in the BSA fiber service, see Section 2.6.3.

2.16.4.3 Wholesale service - use of passive infrastructure

The "Use of Physical Infrastructure" service portfolio came into force on the July 31, 2015 and accordingly allows Bezeq for infrastructure-less suppliers to use Bezeq's available physical infrastructure for the passage of communication cables, as well as to use available dark fiber from Bezeq's available optical cable, Maximum rates for this in the regulations of use. Subsequently, the obligation to provide use of Bezeq's passive infrastructure (with the exception of dark fiber and optical wavelength service) was extended in relation to infrastructure owners - IBC and Hot. At the same time, NIO licensees were required to allow other NIO licensees to use their passive infrastructure[42], and then a service portfolio was established for "mutual use" of passive infrastructure, in which the obligation imposed in the original service portfolio on an operator using infrastructure infrastructure to establish a passive infrastructure facility near Bezeq's passive infrastructure facility was abolished.

The mutual service portfolio does not include provisions for the dark fiber rental service and optical wavelength service, which remain in the original service portfolio used only by holders of a unique general national interior operator license.

Also, in accordance with the decision of the Minister of Communications dated February 2022, holders of special broadband infrastructure licenses were allowed to use Bezeq's passive infrastructure in the incentive areas.

Expanding the possibility to make use of Bezeq's passive infrastructures as mentioned may increase the extent of damage caused to Bezeq infrastructures by operators and the difficulty of monitoring what is done to them. On the other hand, use of Bezeq's passive infrastructure by authorized providers will involve a payment to Bezeq (even if reduced, as described in this section below).

For the determination of the Competition Authority in the matter of infrastructure and for the appeal by Bezeq, see Section 2.16.8.5, and for the motion for approval of a class action and two demands for the exercise of rights before filing a derivative claim in this matter, see Section 2.18.1(h).

Service rates

The usage rates for Bezeq's passive infrastructure and dark fiber are also set in the usage regulations. In accordance with the provision of Article 14 d(9) of the Communications Law, the Minister, in the regulations published on July 21, 2022, established a reduced rate for using the Company's passive infrastructure (including dark fiber) in the incentive areas, and in the area beyond the incentive area[43], which is about a quarter of the rate in the

[41] Internal cable is part of a Bezeq network that is installed on a person's premises and on shared premises and is intended to be used by that person's premises only.

[42] Except for the passive NIO infrastructure, which is held by the IEC and is required for its activities as a holder of an essential service provider license.

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

Company's connection areas in the case of access service for infrastructure and over a third for dark fiber service. As indicated in the Minister's decision attached to the amendment of the regulations (together with an economic expert) as part of a new pricing process for all wholesale rates planned for 2022, among other things, the determination of the abovementioend regulated rates will also be examined. It was also determined that the reduced rates will also apply in the deployment areas that the Company chose at a later stage, for a year.

2.16.4.4 Wholesale telephony service

This service enables service providers who do not have the infrastructure to offer their customers telephony service at wholesale rates through the Bezeq network. Until August 2018, a temporary arrangement was in effect which allowed Bezeq to provide the service in a resale format, i.e. - a format in which the service provider purchases a line and call minutes from Bezeq and receives a package of services (including technician services) from the Company. This is in accordance with the decision of the Minister of Communications' dated November 14, 2014 regarding the provision of a wholesale telephony service in the format of the service file as of May 17, 2015. The petition included, among other things, allegations of lack of applicability of the service in the format of the service portfolio and lack of authority.

Starting from August 2018, Bezeq was obligated, according to the Ministry of Communications' announcement, to provide the service in a "wholesale" format, i.e., a service format in which the service is provided via Bezeq's switch, but the call also passes through the service provider's switch, both as a discrete service and as an additional service to the BSA service. As of August 2018, Bezeq has been prepared to provide resale services at wholesale rates (excluding technician services) - although in this service the call does not pass through the service provider switch, and from the beginning of 2019 Bezeq is prepared to provide a wholesale telephony service solution through the service provider switch, and is based on both Bezeq's previous subscription switch and an additional component external to the switch, and from 2020 on the new switch that complies with the requirements of the Ministry of Communications for the service format (for more details see also Sections 2.1.8, 2.7.2 and 2.16.4). As it became clear after discussions that took place, among other places, in the Ministry of Communications, the service providers were not prepared to act according to the format of the service portfolio. On May 27, 2020, Bezeq received a letter from the Ministry of Communications according to which Bezeq's position was accepted regarding the interpretation of the service package, and determining that the services accompanying the telephony service according to the service package will be provided through the service provider’s switch, and the Company will not be obligated to offer the accompanying services through the switch it operates (except in the case that there is no possibility to provide them through the service provider's switch.[44]

The wholesale telephony service with all the features described above had no actual demand, and there were no customers, except for a few and for tests.

2.16.4.5 Wholesale market services pricing procedure

On September 6, 2022, Bezeq received a letter from the Director General of the Ministry of Communications, which includes a notice of the launch of a pricing process for wholesale market services - an update and a request for information (“**the Notice**"). The notice was accompanied by a request for

[44] In the Ministry's letter, it was stated that the Ministry's decision does not express a position regarding the Company's compliance with the provisions of the service file regarding the telephony service, and it does not prevent the Ministry from taking regulatory and enforcement procedures on this issue.

data from Axon Partners Group, which the Ministry chose to provide consulting services for assistance in building a cost model from which updated rates for the wholesale market will be derived. According to the Notice, the work process will progress according to the following steps: (1) Gathering information from licensees; (2) Building the economic model based on a pricing methodology, formulating an up-to-date list of wholesale services, and deriving maximum payments for wholesale services on the basis of the model that will be published for the hearing (the hearing on the cost model is expected, according to the notice, to be published in the first quarter of 2023); (3) Decision at the hearing and amendment to the usage regulations. Bezeq transmits data and information in accordance with the requirement, and at this stage it is unable to evaluate the results of the hearing The future and its consequences.

2.16.5. Advanced network - fiber

2.16.5.1 On December 24, 2020, an amendment to the Communications Law was published that regulates the deployment of an "advanced network". In accordance with the amendment to the law, Bezeq may select, from all of Israel, the statistical areas[45] in which it wishes to deploy an advanced network (not based on its metallic network) and provide Internet access service thereon.

The Company does not have to deploy the advanced network throughout all of Israel, but in all the statistical areas it has chosen, and this until no later than March 14, 2027 (which is six years from the deadline set in the Bezeq license).

After the obligation has been established in the Bezeq license to provide service in its choice areas (the service areas) as stated, the Company may deploy an advanced network that is not based on its metallic access network and provide Bezeq service over it even not to the general public throughout Israel, and landline Bezeq service provider other than the Company (such as Hot) may deploy an advanced network (which is not based on his metallic access network) and provide Bezeq service over it, even not to the general public throughout Israel, and not even at least in a service area. The Minister may set conditions for the deployment and provision of the service with licenses or a general permit. The Minister may permit Bezeq licenses or the license of another stationary Bezeq service provider to provide service over their metallic access network that has been upgraded to an advanced network, not to the general public throughout IIsrael and not at least in a service area, if he sees that this contributes to competition and level of service.

In the amendment to the law, incentives were established for deployment in statistical areas that are not from the deployment areas chosen by the Company ("**Incentive Areas**"), the main ones of which are a reduced payment for the use of the Company's passive infrastructure in the Incentive Areas, the opening of an incentive fund, managed by the Accountant General at the Ministry of Finance in order to encourage deployment, to which mandatory annual payments will be deposited by the liable entities, including Bezeq, at a rate of 0.5% of the liable entities' annual revenue. The Minister of Communications with the consent of the Minister of Finance and the approval of the Economic Committee may change this rate.

The allocation of the incentive funds will be through tenders. In the conditions of the tenders, the tenders committee may establish threshold conditions for participating in the tender, including a condition according to which a bidder must have a license.

45 "Statistical area" - a continuous area unit created from a geographic-statistical division, as ordered by the Minister according to Article 14f of the Communications Law; the division into statistical areas is based on the CBS.

The only benchmark for selecting tender winners will be the ratio between the number of households in the Incentive Areas in the bids of the contestants and between the amounts from the incentive fund that will be allocated as part of the tenders. No weight will be given to the geographical location of the Incentive Areas in the bids of the contestants or to the characteristics of the households in the Incentive Areas.

In the license of a winner of a tender or by administrative order, an obligation will be established to deploy an advanced network in a service area that includes the Incentive Areas which it won, including an obligation to provide an internet access service over the network to anyone in the area within the time periods specified in the license. Regarding the determination of such an obligation in the Judea and Samaria region, the provisions of the law in this matter applicable in the Judea and Samaria region will apply.

Bezeq and a corporation related to it are prohibited from participating in the tender for the allocation of the incentive funds, or deploying an advanced network and providing services over it in the Incentive Areas, except after five years have passed from the date of the establishment of the deployment obligation in the license of the winner of the tender.

The Minister may permit Bezeq, at its request, to deploy an advanced network and provide services on top of it in Incentive Areas for which the incentive funds have not yet been allocated, provided that 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 chosen by the Company. The Company made use of this option and selected 151 additional statistical areas. For details, see Section 2.16.5.2.

The above limitations do not detract from the ability of the Company or a related corporation to deploy an advanced network in the Timruts area in order to provide Bezeq service to a business subscriber, or to provide service to a business subscriber on an advanced network that has been deployed.

The amended law also stipulates that the ownership of the internal wiring in an advanced network will belong to the subscriber whose premises are used by the routing only. An authorized supplier may demand a reasonable payment for its installation.

2.16.5.2 On June 15, 2021, Bezeq's license was amended and, among other things, an appendix was added to it that includes the list of statistical areas selected by Bezeq, which cover about 76% of Israel’s population and, in the Company's estimation, about 80% of households. Milestones for completing the deployment of the advanced network were also established in the license as follows: Completion of deployment to buildings where the cumulative proportion of households is 60% of the total number of households in the service area (all statistical areas selected by the Company) - no later than the end of two years from the determining date (March 14, 2021)[46]; 80% - no later than three years from the determining date; 95% - no later than the end of five years from the determining date; Completion of layout for all the buildings in the service area no later than the end of six years from the determining date.

On October 3, 2022, the Minister of Communications approved Bezeq's request to allow it to deploy an advanced network and provide Bezeq service over in statistical areas additional to the areas specified in the Company's license and to amend the Company's license accordingly. This is a deployment in 151 additional areas, including about 60,000 households. As detailed in the decision of the Minister of Communications, the rate of households in the Company's deployment areas is 82.5% and this is an

[46] The date when the Company began to provide a fee-based Internet access service on the advanced network.

addition of about 2.3% to this rate, so that the updated rate of households in the Company's deployment areas will be about 84.7%.

2.16.5.3 On October 13, 2021, the Ministry of Communications published a tender "for extending a license to deploy an advanced network and to receive financial grants to encourage the deployment of advanced landline networks in areas lacking economic viability", i.e. in the Incentive Areas. Further to this, on March 7, 2022, an announcement by the Ministry of Communications was published on the website of the Ministry, which includes the names of the areas in which telecommunications companies that won a tender for an advanced network based on optical fibers will deploy. According to the announcement, the winning areas make up about 60% of the Incentive Areas, and the companies that win the tender will be given a period of one year and three months from the day their license is amended to complete the deployment obligations and provide the services to anyone in these areas. On February 1, 2023, the Ministry of Communications published a notice according to which the Inter-ministerial Tenders Committee published the results of the second tender for the deployment of the remaining Incentive Areas (published on October 26, 2022) in an outline that results in an obligation to fully deploy optical fibers. It should be noted that the provision of service by winners in the incentive areas may exacerbate the competition against the Company's services provided in these areas over the traditional (copper) infrastructure.

2.16.5.4 In providing Internet access services provided via fiber optics to the residential building (Fiber To The Home - FTTH) to private subscribers, providers are not allowed to offer subscribers offers under different conditions or at a different rate, depending on the proposed infrastructure (self or wholesale). The type of infrastructure offered will be a reasonable characteristic that justifies distinguishing one group of subscribers from another in relation to Internet access services that are not provided via optical fibers to the residential building. The type of infrastructure (own or wholesale) will not be used as a feature that allows different rates to be offered when it comes to internet service over fiber.

2.16.5.5 Fiber deployment in residential buildings

Regarding the deployment of fibers in new residential buildings, on June 8, 2021, an amendment to the Panning and Constuction Regulations (Permit Application, Conditions and Fees) was published regarding the obligation to lay optical fibers in new buildings. In addition, within the framework of the Economic Plan Law (Amendments to Legislation for the Implementation of the Economic Policy for the Budget Years 2021 and 2022) (5781-2021) approved on November 4, 2021 (the "Arrangements Law"), the provisions of the Communications Law regarding the conditions for laying an advanced network in a shared residential building in the absence of the consent of the majority of the apartment owners were also amended.

2.16.6. Powers in respect of real estate

Pursuant to the provisions of Article 4 (f) of the Communications Law, the Minister of Communications granted Bezeq real estate-related powers in accordance with the provisions of Chapter F of the Law.

The law distinguishes between state-owned land, the Development Authority, the Jewish National Fund, a local authority or a corporation established by law and held by one of them, as well as a road ("**public land**") and other land ("**private land**"). With regard to public land, Bezeq, and any person authorized thereby, may enter for the purpose of performing works for laying and maintaining a network and providing Bezeq services, provided that the laying of the network was done in accordance with the provisions of the Planning and Construction Law. The amendment to the Communications Law and the Planning and Construction Law abolished the obligation to obtain approval from the local planning and construction committee, so that certain actions are not subject to a building permit if they are carried out by a licensee who has been granted powers under Chapter F of the Communications Law if they are made according to an approved plan.

Laying ofnetwork on private land will be done in accordance with the provisions of the Planning and Construction Law, and requires the consent of the landowner, the tenant for generations or the protected tenant, as the case may be.

Pursuant to the provisions of the Bezeq Regulations (Installation, Operation and Maintenance), 5745-1985, if Bezeq believes that the provision of a Bezeq service to the applicant requires the installation of a Bezeq facility, in the applicant's premises (or in common premises), Bezeq may require the applicant as a precondition for providing the requested Bezeq service to assign a suitable place to Bezeq in the premises for the installation of the facility, for Bezeq use only, and it may provide service through the facility to other applicants as well.

According to the Planning and Construction Regulations (Application for a Permit, its Terms and Fees), 5730-1970, an applicant for a permit for the construction of a residential building, it is mandatory to install infrastructure for telephone, radio, television and Internet services so that the customer can choose a provider of his choice. At the same time, Bezeq’s license (as well as the Hot Telecom and DBS licenses) was amended so that as long as Bezeq uses the internal threading (the part of the access network, installed in a person's premises and common premises, and intended to serve that person's premises only), it is obligated to provide a maintenance service for the internal threading installed by said person, without giving it any property rights in the internal threading. Regarding the draft amendment of these regulations for the purpose of imposing an obligation on the laying of infrastructure in favor of fiber, see Section 2.16.5.

2.16.7. Immunities and limitations of liability

The Minister of Communications granted Bezeq certain immunities from liability for damages, listed in Chapter I of the Communications Law, in accordance with his authority to grant immunities to a general licensee.

In addition, Article 13 of the Communications Law stipulates restrictions on criminal and civil liability in fact made in the framework of the fulfillment of a provision for the provision of services to the security forces by virtue of the article.

2.16.8. Regulations and rules under the Communications Law

As of the date of publication of the periodic report, Bezeq is subject to regulations in two other main areas: (1) cessation, delay or limitation of Bezeq operations and Bezeq services; (2) Installation, operation and maintenance.

2.16.9. Laws of Economic Competition

2.16.9.1 The Competition Commissioner (in this section - "**the Commissioner**") declared Bezeq as having a monopoly in these areas:

a. Basic telephone services, provision of communication infrastructure services, and transmission and transmission services of public broadcasts[47].

b. Providing fast-access services through subscriber access network[48].

c. Providing fast access services to Internet providers through a central Bezeq public network.

The declaration by the Commissioner of Bezeq as having a monopoly constitutes *prima facie* evidence to all that is determined in it, in any legal proceeding, including in criminal proceedings.

2.16.9.2 Bezeq has adopted an internal enforcement procedure with rules, guidelines and an internal reporting and control system, the purpose of which is to ensure that Bezeq and its employees' activities are carried out in accordance with the provisions of the Economic Competition Law.

2.16.9.3 In accordance with the conditions set forth in the approval of the Competition Authority dated March 26, 2014 for the merger (as defined in

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47 Announcement dated 30.7.1995.

48 On November 10, 2004, the Commissioner split his announcement of December 11, 2000 in the field of Internet access infrastructure into two separate Announcements (Announcements B and C).

the Economic Competition Law) between Bezeq and DBS, the following restrictions apply in relation to Bezeq and DBS:

a. Bezeq and any person related to it (in this section - "Bezeq") will not impose any restriction on the consumption of landline Internet infrastructure services resulting from the customer's cumulative browsing volume, nor will they cause a restriction or block of the customer's ability to use any service or application the Internet.

b. Bezeq will deduct from the payments of an Internet provider for its connection to the Bezeq network sums for the provision of multi-channel television services.

c. Bezeq will sell and provide Internet infrastructure services and television services on equal terms to all Bezeq customers (sale of Internet infrastructure services as part of a basket of services will not in itself be considered for sale on unequal terms).

d. Bezeq and DBS will cancel all exclusivity arrangements regarding non-original productions and will not be a party to such exclusivity arrangements (except in relation to a third party who has a license to broadcast at the time of the decision). In addition, for two years from the date of approval of the merger (which have since passed), Bezeq will not prevent any party (except those who have a broadcasting license at the time of the decision) from acquiring rights in original productions (does not apply to new productions).

For the full text of the decision of the Competition Authority, see Bezeq's immediate report dated March 26, 2014.

On April 12, 2021, the Competition Authority published a decision of the Competition Commissioner regarding the amendment of the terms of the merger. According to the amendment, the Commissioner decided to allow Bezeq's subsidiaries: Pelephone, Bezeq International and DBS (and not Bezeq), to sell communication packages that include Internet infrastructure, Internet provider and TV services without the obligation to sell the TV services, at a separate price that will be uniform for package buyers and for those who are not package buyers. In addition, the Commissioner decided to allow greater flexibility with regard to the purchase of foreign content, so that the condition stipulating the cancellation of exclusivity arrangements between Bezeq and DBS regarding non-original TV content, and the prohibition on being parties to such exclusivity arrangements will not apply to foreign content purchase, excluding sports content, and thus allow for greater flexibility when it comes to purchasing foreign content.

2.16.9.4 As part of the approval of the merger of Bezeq and Pelephone dated August 26, 2004 (as amended below), restrictive conditions were imposed, the main of which is the prohibition of discrimination in favor of Pelephone in the supply of a product in which Bezeq is a monopoly, prohibition of the conditioning of the supply of certain products by one of the companies with the purchase of products or services from the other and restrictions on certain joint activities.

2.16.9.5 On March 7, 2018, Bezeq received a notice from the Competition Authority, according to which the Competition Commissioner is considering determining in accordance with its authority under Article 43 (a) (5) of the Economic Competition Law that Bezeq abused its position in violation of Article 29A (a) and Article 29A (b) (3) of the Economic Competition Law, and to impose financial sanctions on Bezeq and the former CEO of Bezeq for alleged violation of the provisions of Article 29 of the law and of the provisions of the aforementioned sections. According to the announcement, the evidence in its possession indicates that Bezeq allegedly used the market power it has as a result of its control of the passive infrastructure and has placed barriers before new players seeking to use Bezeq's passive infrastructure that will be used to compete with Bezeq in providing communication services to consumers, in a way that could have deterred and even prevented them from setting up an self-landline communications network or at least delayed them and limited the scope of the network. According to the notice, Bezeq's actions raise concerns about harm to the final consumer. The violations alleged against Bezeq are the blocking of access to private areas and placing a demand for fiber cutting.

Following a hearing held in the matter, in which Bezeq and the former CEO of Bezeq presented arguments and evidence that there was no defect in their moves and that they did not violate the Economic Competition Law, on September 4, 2019, Bezeq received a determination ("**the Determination**") from the Competition Commissioner regarding the abuse of Bezeq's position in violation of the provisions of Article 29A of the Economic Competition Law and the demand for payment under the provisions of Article 50H of the law of NIS 30 million from Bezeq and NIS 0.5 million from the former Bezeq CEO. On May 7, 2020, Bezeq filed an appeal on the Determination. The Competition Commissioner submitted a response to the appeal, which was submitted to Bezeq on December 23, 2020. Bezeq's response to the Commissioner's response was submitted on February 1, 2022. Regarding the motion for approval of a class action and requirements for exhaustion of rights before filing a derivative claim, further to this determination, see Section 2.18.1h.

2.16.10. Telegraph Order

The government is addressing the existing shortage of radio frequencies for public use in Israel (due in part to the allocation of many frequencies for security uses), by limiting the number of licenses that can be used for frequencies, and by providing incentives for the efficient use of frequencies.

The Telegraph Order regulates the use of the electromagnetic spectrum, and applies, among other things, to Bezeq's use of radio frequencies, as part of its infrastructure. Establishment and operation of a system that uses radio frequencies is subject, under the Telegraph Order, to licensing, and the use of radio frequencies is subject to the Commission and allocation of an appropriate frequency. According to the Telegraph Order, license fees and fees are imposed for the Frequencies Committee and their allocation.

2.16.11. Establishment of communication facilities

The National Communications Outline Plans, National Outline Plan 36 (within the Green Line) and National Outline Plan 56 (in the Territories) are intended to regulate the deployment and manner of construction of communications facilities in such a way as to enable transmission and reception of radio, television and wireless communications, while preventing radiation and minimizing environmental and landscape damage, and with a view to simplifying and streamlining the construction processes of the facilities.

Bezeq has established and is setting up transmission facilities and wireless communication facilities for the transmission services of its customers, and also uses wireless communication facilities mainly for the purpose of providing services to areas that are not connected to the fixed communication infrastructure (remote areas or new localities).

2.16.11.1 National Outline Plan 36 - Communication facilities within the Green Line

NOP 36 was divided into two parts according to the classification of the transmission facilities, made in accordance with the technical variables and physical dimensions of the facilities, which ultimately affect the determination of safety ranges for protection against radiation effects and the degree of prominence of the facilities in the landscape. Part A of the NPA, which has been approved by the Government and is in force, deals with guidelines for the construction of small and micro broadcasting facilities, while Part B, which was not approved by the Government and is not in force, deals with guidelines for the construction of large broadcasting facilities. As a result, there are currently no special guidelines regarding

Bezeq's large transmission facilities, most of which were established by the state before Bezeq was established.

Bezeq has issued building permits for most of the small transmission facilities in accordance with National Outline Plan 36A. From time to time, there is a need to add transmission facilities that require the issuance of building permits in accordance with National Outline Plan 36A. Bezeq believes that it is not obliged to obtain building permits for miniature broadcasting facilities, due to the exemption granted in this matter in the Planning and Construction Law and in the Communications Law with respect to "wireless access facilities" (which include the miniature broadcasting facilities).

2.16.11.2 National Outline Plan 56 - Communication facilities in the Territories

National Outline Plan 56 regulates the manner of construction and licensing of communications facilities in the Territories. The plan includes transitional provisions to facilities established in the permit and to existing facilities.

The plan includes a requirement to obtain a communications license and to obtain the consent of the Commissioner of Government Property in the Civil Administration.

Bezeq has regulated the licensing of vast majority of the facilities located in the Territories and which are owned by Bezeq (there are a few additional sites that have not been regulated). In addition, Bezeq also arranged with the Communications Officer in the Civil Administration the licensing of the facilities located in the premises of the customer in accordance with the requirement that the Communications Officer sent to Bezeq in November 2016.

2.16.11.3 Radiation permits

Regarding radiation permits for communication and transmission facilities, see Section 0.

Exemption from the permit to add antennas to legally existing transmission facilities

Addition of an antenna to a legally existing transmission facility is exempt from obtaining a permit subject to the existence of cumulative conditions and exceptions specified in the Planning and Construction Regulations (exemption from the permit).

2.16.12. Consumer legislation

Regarding consumer legislation applicable to Bezeq, see Section 1.7.7.4.

2.17. Material agreements

The following is a concise description of material agreements, not in the ordinary course of Bezeq's business, that were signed during the period of the periodic report and / or that were in force during the said period:

2.17.1. The trust deeds in respect of debentures (Series 9, 10, 11, 12, 13, 14) issued by Bezeq.

For this matter, see details in Note 13 to the 2021 statements and in Section 4 of the Board of Directors' Report.

2.17.2. Real estate

2.17.2.1 Agreement on the transfer of assets between Bezeq and the state dated January 31, 1984

An agreement between the state and Bezeq, according to which Bezeq was granted the State’s rights in assets available to the Ministry of Communications for the provision of Bezeq services, and Bezeq replaced the state with respect to the rights in the said assets and regarding the obligations and duties relating to those rights on the eve of the agreement.

In addition, according to the said agreement, Bezeq was transferred the rights, powers, obligations and duties of the State under the agreements, as well as the agreements and transactions that were valid in the field of Bezeq services on the eve of the beginning of the agreement.

2.17.2.2 Settlement agreement dated May 15, 2003 between Bezeq and the State and the Israel Land Administration regarding the rights relating to the land. See section 2.7.4.3.

2.17.2.3 Agreement between Bezeq and the Postal Authority (now the Israel Postal Company) dated June 30, 2004

An agreement between Bezeq and the Postal Authority for the definition and regulation of Bezeq and the Postal Authority in their joint assets. The agreement specified the common assets and defined the share of each party in them. It is stipulated that each of the parties will have exclusive rights in part, except in the matter of rights in common property, building rights or rights in respect of which it is expressly stated otherwise. The agreement stipulates, among other things, a mechanism of the right of refusal if a party wishes to make a sale transaction and a right of way in the matter of a lease transaction. With respect to a number of additional assets it has been determined that the sole rights holder in them, in its entirety, will be one determined party.

2.17.3. Labor agreements

2.17.3.1 Special collective agreement from December 2006

For this agreement and amendments thereto, see Section 2.9.4.

2.17.3.2 Early retirement agreements.

On April 24, 2014, Bezeq entered into an agreement with Menora Mivtachim Insurance Ltd. ("**Menora**") to regulate pension payments for early retirement of Bezeq employees, as well as the differences in old-age and survivors' pension payments, to employees who retire from Bezeq under a special collective agreement for retirement which was signed between Bezeq, the employees' representation and the Histadrut on February 12, 2014. The insurance policy was approved by the Supervisor of Insurance and it entered into force on March 31, 2016. Accordingly, as of May 1, 2016, Menora is issuing policies to retiring employees, and benefit payments and related payments are paid on the basis of these policies. The term of the agreement (after being extended three times) is until the end of 2024.

2.17.3.3 IRU agreement between Bezeq and the partner

For the agreement for the provision of the indefeasible right-of-use (IRU) service in the BSA fiber service (wholesale market) by Bezeq to Partner, see Section 2.6.3.

2.18. Legal Proceedings

Bezeq's reporting policy is based on qualitative considerations and quantitative considerations. Bezeq decided that the quantitative materiality threshold in relation to events affecting the net profit would be an effect of about 5% and more on Bezeq's average adjusted net profit (as defined in Section 1.6) according to Bezeq's consolidated annual statements from the past three years (2020-2022). Therefore, in the absence of relevant qualitative considerations, this section describes legal proceedings to the extent of NIS 75 million or more[49], before tax, as well as legal proceedings in which the amount claimed is not specified in the statement of claim, unless it is a claim that does not reach the aforementioned quantitative threshold (and all - unless Bezeq assesses additional aspects or consequences of the procedure beyond its financial scope)[50]. With regard to class actions, attention is drawn to the fact that the filing of class actions in Israel does not involve the payment of a fee as a derivative of the amount of the claim. Thus, the claim amounts in such claims may be significantly higher than the actual exposure volume in respect of those claims.

2.18.1. Procedures are pending

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
a.	January 2015	Shareholder vs. Bezeq and former Bezeq executives	District (Tel Aviv - Economics Department)	Motion for approval of a class action	Claim for compensation of shareholders for losses alleged to have been caused by "Bezeq's failure to report to the Tel Aviv Stock Exchange and concealment of material information from the investing public" regarding two significant and material moves: "Reduction of reciprocal link fees" and "Wholesale market reform". On August 27, 2018, the decision of the Economic Department of the Tel Aviv District Court was approved, approving the claim as a class action ("**the Approval Decision**"). On October 28, 2018, Bezeq and the defendants submitted to the Economic Department of the Tel Aviv District Court a request for a reconsideration of the approval decision in which the Court was requested to revoke the approval decision and reject the application for approval of a class action. On December 1, 2019, a verdict was given at a rehearing held at the Company's request regarding the decision to approve the claim as a class action, and it was determined as follows: 1. <u>In the matter of reducing the interconnectivity fee</u> - the Court granted the motion as far as claims concerning reports of reduction of the interconnectivity fee were concerned, after concluding that the plaintiff had not even ostensibly proved the existence of damage in respect of the reduction of the interconnect fee, and therefore there was no need to approve the class action on this ground. 2. <u>In the matter of wholesale market reform</u> - the Court denied the motion in relation to the defendants' claims regarding the reports about the wholesale market reform. In parallel, it reduced the definition of the class of plaintiffs in relation to this cause. On July 12, 2020, an amended statement of claim was filed, including corrections, in accordance with the judgment in the rehearing. As part of it, the total amount of the claim was also revised to a total of NIS 687 million. On November 14, 2022, following the mediation process conducted in the case, the parties submitted for the Court's approval a settlement agreement under which the plaintiffs will be paid by the officers' insurance company and at no cost to Bezeq and the defendant officers, a total amount of NIS 75 million (including attorney's fees). On February 8, 2023, the Court issued a judgment approving the settlement agreement. In view of the provisions of accounting standards, a provision in the amount of the settlement amount was recorded in the Company's financial statements for the first quarter of 2022 (during the negotiations for a settlement in the case), and on the other hand, in view of the existence of full insurance coverage, an indemnity asset in the amount of	687

49 In order to examine the compliance of the claim amounts with the said threshold, the amounts were linked to the consumer price index. The amounts specified in this section are the original amounts (excluding linkage differences). With regard to the aforesaid threshold, in the case of similar proceedings against several companies in the Group, the amount of the claim may be examined cumulatively in respect of all the proceedings together. It is also clarified that if certain proceedings largely concern common legal or factual issues, or it is known that such issues are examined or considered together, then for the purpose of meeting the quantitative materiality threshold as stated in these sections, the amount involved in all those proceedings together.

50 In view of the update of the materiality threshold, as of the date of approval of this periodic report, no legal proceedings are described in the periodic report for 2020 that do not reach the current materiality threshold as follows: Section 2.18.1 (12) (section number in the Periodic Report for 2020).

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					the provision was recognized in the same report, with no effect on the Company's results. With the issuance of the aforementioned judgment, the recording of the provision and the aforementioned indemnity asset will be canceled in the first quarter 2023 statements.	
b.	March 2015	Shareholder vs. Bezeq and former Bezeq executives	District (Tel Aviv - Economics Department)	Motion for approval of a claim as a derivative claim together with a derivative claim statement	Motion against Bezeq, as well as against Mr. Shaul Elovich, former controlling shareholder and chairman of the board of Bezeq against directors of Bezeq at the relevant times who voted in favor of Bezeq's engagement in the transaction that is the subject of the motion as detailed below (“**the Respondents**"). The matter of the application, according to what is alleged in it, IS Bezeq's decision, through the respondents, to enter into a transaction for the purchase of full holdings and shareholder loans of Eurocom DBS (a company under the indirect control of Bezeq's controlling shareholder) in DBS for NIS 680 million in Cash and contingent consideration of up to an additional NIS 370 million. According to the applicant, the consideration was excessive, and the Respondents' decisions to enter into the transaction caused Bezeq a great deal of damage after they violated their duties of care and reliability to Bezeq, and were negligent in their role. It was also alleged by the applicant that Bezeq's controlling shareholder had breached its duty of fairness, and that Bezeq had breached the duty of disclosure and reporting regarding the trustee's commitment to Eurocom DBS's holdings in DBS to sell the holdings beginning at the end of March 2015. In light of the aforesaid, the petitioner requests that the Court approve the filing of a derivative claim on behalf of Bezeq against the Respondents for the claim for damage caused to us by Bezeq as a result of the Respondents' decisions regarding the transaction in the amount of NIS 502 million. on July 3, 2017, the Court approved the filing of an amended motion by the applicant, which includes additional allegations relating, *inter alia*, to the independence of the entities that advised Bezeq, alleged defects in the work of the Audit Committee, the Board of Directors and the general meeting, and alleged defects resulting from Eurocom being represented by Bezeq directors. In light of the Securities Authority's investigation, *inter alia*, regarding the engagement that is the subject of this lawsuit and the position of the Securities Authority that it was improper to delay the proceedings, the Court decided to delay the proceedings in this case. On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings). Following the Attorney General's request, the procedure is delayed at this stage until July 10, 2022, in light of the Securities Authority's investigation and indictments filed later in it (see Section 1.1.7).	502
c.	November 2015 And March 2018	Customer against Bezeq	Central District Court	Two claims together with motions for approval as class actions	<u>The motion from November 2015</u> - It is alleged that Bezeq abused its monopolistic position, *inter alia*, by "preventing and blocking the existence of competition in general and the existence of effective competition in the communications market in Israel" and acted to delay and thwart the wholesale market reform, thereby harming the Israeli public and earning unreasonable profits as a result of the abuse of power as a monopoly. According to the plaintiffs, the damage caused by Bezeq to the communications market in Israel is reflected in Bezeq's excess and unreasonable profitability, and they seek to claim damage in the amount of NIS 800 million, which they claim is based on 10% of Bezeq's excess operating profit due to abuse of monopolistic power. The plaintiffs set the amount of the claim at NIS 556 million, after a reduction of the amount claimed in another proceeding (which in the meantime ended in departure). In December 2017, the Court approved the attachment as evidence in the case of an immediate report published by Bezeq on October 22, 2017, in which Bezeq reported on a final inspection report by the Ministry of Communications regarding the implementation of a wholesale telephony service and an announcement of an intention to impose a financial sanction. In December 2018, the Ministry of Communications imposed a financial sanction in the amount of NIS 11 million on Bezeq. On March 3, 2019, Bezeq informed the Court that in light of the expected change of case in the case as soon as the request for approval is received, it agrees to the Court's proposal to approve the motion to conduct the class action without a reasoned decision by the Court and preserving all its claims. It should be noted that in the same announcement, Bezeq informed the Court that on February 25, 2019, it filed an administrative petition against the decision of the Director General of the Ministry of	556 in the motion from November 2015 and 258 in the motion from March 2018

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					Communications from December 2018 described above. Subsequently, on March 5, 2019, the Court approved the motion to conduct the class action lawsuit and clarified that all the parties' claims are reserved for them to discuss the lawsuit itself and that all evidence and investigations heard in the motion for approval will form part of the evidence in the class action lawsuit. In view of conducting a criminal proceeding ("**Case 4000**") related to this proceeding, on November 1, 2021, the Attorney General announced his appearance in this proceeding. In the latest motion submitted by the Attorney General, it was requested that the procedure be delayed until July 20, 2023. The motion from March 2018- a motion similar to the November 2015 motion submitted by the same applicants in relation to the period from the date of filing the application from November 2015 to the end of 2017, in view of the plaintiffs' claim In addition to the abuse of power by Bezeq, there were also "acts of corruption and unlawful acts and foreign and improper purposes of the Director General of the Ministry of Communications". According to the plaintiffs, the damage caused by Bezeq to the communications market in Israel is reflected in Bezeq's excess and unreasonable profitability. On May 31, 2018, Bezeq submitted a request to delay the procedure in light of the Securities Authority's investigation and indictments filed subsequently, the Court approved a motion on behalf of the Attorney General to continue the stay in the proceedings in the case, at this stage, until July 20, 2023. In September 2019, the applicants submitted a request for the submission of a new motion for approval of a class action (a request filed against Bezeq in September 2019 following the determination dated Septemebr 4, 2019 of the Competition Commissioner regarding the abuse of Bezeq's status - see description below subsection H) to the Court where this proceeding is conducted and to the deletion of that motion on the ground that it was a similar late motion. In addition, on October 23, 2019, Bezeq was submitted a request from the applicants for the motion for approval to order the amendment of the motion for approval by adding respondents (directors and officers from the relevant period, some of whom still serve at Bezeq) and to attach additional evidence to the motion for approval. On October 30, 2019, the Court announced that in view of its decision to delay the proceedings in the case, it does not consider it appropriate at this time to order the transfer of the request to amend the motion for approval for Bezeq's response, and that upon termination of the proceedings in the case, the applicants must petition for appropriate instructions.	
d.	June 2017	Bezeq shareholders Against Bezeq, Chairman of the Board of Bezeq and former members of the Board of Bezeq, as well as members of the Eurocom Group (the first application also against the former CEO of Bezeq and the former CEO and CFO of DBS)	In the District Court (Economic Department) in Tel Aviv	Two motions for approval of class actions	The interest in the requests in the 2015 transaction in which Bezeq acquired from Eurocom DBS (a company controlled by Bezeq's controlling shareholders at the time) the balance of DBS shares held by it (in this section: "**the Transaction**"): The first motion was submitted on behalf of everyone who purchased the Bezeq shares from February 11, 2015 until June 19, 2017 (except for the respondents and / or those on their behalf and / or related to them). The motion alleges misleading and / or missing reporting in connection with the Transaction, and that following an open investigation by the Securities Authority regarding the Transaction, the public became aware of details regarding the transaction and its implementation, which led to a decline in Bezeq's share price. According to the applicant, the respondents acted in violation of the provisions of the Securities Law and in violation of other legal provisions, causing Bezeq's securities holders heavy financial damages, amounting to hundreds of millions of NIS, if not more than that. The second motion was submitted on behalf of three sub-groups - anyone who purchased on the Tel Aviv Stock Exchange from May 21, 2015 to June 19, 2017 (1) the Bezeq shares, (2) the Company's shares and (3) the Internet Gold shares. According to the applicant, a serious misrepresentation of the investors who invested in the shares of the aforementioned companies was made, which was revealed following the opening of an open investigation into the Securities Authority on June 20, 2017, by increasing the increase in DBS' cash flow reported in Bezeq According to the claim, artificially misleading the reasonable investor who relied on DBS' cash flow data to estimate its value, which led to overpricing of the above companies. The applicant also claims additional damages caused to groups of Company and Internet Gold shareholders.	About 1,240 in the first application and-568 in the second application

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					Pursuant to a hearing arrangement approved earlier by the Court, the petitioners have agreed in the above petitions on their joint management and they are to file a consolidated petition on their behalf. Following the request of the Attorney General (who announced in 2017 his appearance in the proceedings regarding the delay of the proceedings and not the body of the proceedings), the proceedings are delayed at this stage until July 20, 2022 in light of the Securities Authority investigation and indictments filed further thereto (see section 1.1.7)	
e.	June - August 2017 and June 2018	Bezeq shareholders against Bezeq and DBS	Tel Aviv District Court	Various motions for disclosure of documents before submitting a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law	An amended and consolidated motion submitted following the Court's decision of April 15, 2018 regarding the consolidation of four applications filed in the same matter. The Court is requested to order Bezeq (and DBS, as the case may be) to provide the applicants with certain documents in connection with a stakeholder transaction between DBS and Space from 2013 as amended at the beginning of 2017 (in this section: "**DBS-Space Transaction**")[51]. On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings). Following the Attorney General's request, the procedure is delayed at this stage until July 20, 2022, in light of the Securities Authority's investigation and indictments filed later in it (see section 1.1.6).	
f.	February 2018	Bezeq shareholders against Bezeq as a formal respondent, as well as against Bezeq directors at times relevant to the motion and against Bezeq's controlling shareholders at the times relevant to the motion, Mr. Shaul Elovich and Mr. Yosef Elovich (the "**Respondents**").	Tel Aviv District Court - Economic Department	Motion for approval of a derivative claim	The matter of the motion, according to what is claimed in it, is Bezeq's conclusion in an assessment agreement with the Tax Authority which was signed on September 15, 2016 ("**the Assessment Agreement**") and according to which Bezeq paid tax to the Tax Authority on financing income from loans to DBS in the amount of NIS 462 million, while on the other hand, it was agreed, among other things, that DBS' losses in respect of financing expenses in respect of Bezeq's owner loans to DBS will be fully recognized to Bezeq after the merger between Bezeq and DBS. According to the applicants, as a result of the signing of the assessment agreement, Bezeq paid a total of NIS 660 million. Of this total, NIS 462 million was paid to the Tax Authority and approximately NIS 198 million was paid to Bezeq's controlling shareholders as a **conditional consideration** stipulated in the agreement for the acquisition of full holdings and shareholder loans of Eurocom DBS, a company under the indirect control of the controlling owner of Bezeq, in DBS ("**DBS Transaction**"). According to the petitioners, Bezeq's engagement in the assessment agreement constituted an exceptional transaction of a public company in which Bezeq's controlling shareholders have a personal interest, and was carried out illegally because it was contrary to the Company's benefit and because the required legal approvals were not obtained. According to the plaintiffs, the damage caused to Bezeq following the conclusion of the Assessment Agreement ranges from a minimum threshold of NIS 65 million (as long as all DBS losses in respect of financing expenses are allowed to be offset by Bezeq). According to the plaintiffs, the respondents who are directors violated, *inter alia*, the duties of care and trust (and with regard to the respondents controlling Bezeq, also the duty of fairness), and accordingly the plaintiffs motion that the Court approve the filing of a derivative claim on behalf of Bezeq and Yes, because it will oblige them to compensate Bezeq for the said damages caused to it, according to them, as a result of the breach of their obligations to Bezeq. On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings). Following the Attorney General's motion, the procedure is delayed at this stage until July 20, 2023, in light of the Securities Authority's investigation and indictments filed later there (see	65 Minimum threshold 219 Maximum threshold

51 It should be noted that on July 23, 2017, a motion was submitted to the District Court (Economic Department) in Tel Aviv for approval of a class action in the amount of approx. NIS 37 million against Space, controlling shareholders and officers in it as well as against Bezeq CEO and Bezeq Secretary at the relevant times to the claim in connection with the DBS-Space Transaction. The proceedings in this motion are also delayed, at this stage, until July 20, 2022.

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					Section 1.1.6).	
g.	June 2018	Shareholder against Bezeq, DBS, Mr. Shaul Elovich, and Mr. Or Elovich	Tel Aviv District Court (Economic Department)	Motion for disclosure and review of documents under Article 198A of the Companies Law	It is requested that the Court order Bezeq, DBS, the former controlling shareholder in Bezeq, Mr. Shaul Elovich, and his son, Mr. Or Elovich (hereinafter collectively "**Elovich**"), to submit to the applicant, as a shareholder in Bezeq, various documents for examination Filing an application for approval of a derivative claim in the name of Bezeq. According to the applicant, the controlling shareholder of Bezeq, the Company, and Elovich violated their fairness and fiduciary obligations to Bezeq by selling 115 million Bezeq shares on February 2, 2016 by the Company using Bezeq's company and Elovich's insider information, and at a value significantly higher than the true value of the shares. According to the applicant, this sale provided the Company with illegitimate profits in the amount of approximately NIS 313 million.. The insider information that was allegedly used in the application is, among other things, that the financial statements of DBS and Bezeq do not reflect Bezeq's *de facto* financial position, but rather a "free cash flow" inflated for the purpose of increasing the consideration as part of the transaction in which Bezeq acquired the shares of Eurocom Communications in DBS ("**the Yes Transaction**"). It should be noted that Bezeq is pending another motion for approval of a derivative claim in the matter of the Yes Transaction (see Section 2.18.1b). According to the applicant in the motion that is the subject of this report, although his motion is based in part on the same factual background, its matter is different from the existing procedures in the matter. At the request of the Securities Authority, the procedure is delayed, at this stage until July 20, 2022, in light of the Securities Authority's investigation and the indictments filed thereafter (see Section 1.1.6). On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings). At the request of the Securities Authority, the procedure is suspended, at this stage until July 20, 2023, in view of the investigation by the Securities Authority and the indictments filed subsequently (see Section 1.1.7).	
h.	(1) September 2019	Customers against Bezeq	Tel Aviv District Court	Application for approval of a class action	Motion submitted following the determination dated September 4, 2019 of the Competition Commissioner regarding the abuse of Bezeq's status ("**the Determination**") (for this matter, see Section 2.16.9.5) in which it was alleged that Bezeq's acts and omissions as described in the Determination (blocking the transition of Bezeq competitors from Bezeq's infrastructure to the building access section, as well as refusing to thread cables in the continuous method and conditioning the deployment in an inferior, expensive and problematic threading method) caused substantial damage to consumers. The definition of the group in whose name the class action will be conducted is anyone who purchased landline communication services in Israel, in the period between July 2015 and March 2018, whether or not he purchased these communication services from Bezeq. Damage is claimed due to the loss from the decrease in the rate for communications packages, which was prevented from the group members due to Bezeq's alleged acts or omissions. Regarding a request for the transfer of this motion and its cancellation due to the fact that it is a similar late motion that was submitted by the applicants in another motion for approval of a class action in March 2018 - see subsection C. On June 25, 2020, the Court ruled that the parties will petition for the provision of appropriate instructions in the proceedings upon termination of the stay of proceedings in the same motion for approval of a class action from March 2018. The parties will petition for appropriate instructions.	400
	(2) March 2020	Shareholders against Bezeq	Haifa District Court	Consolidated request for disclosure of documents prior to request for approval of a derivative claim	Two motions (unified) for the disclosure of documents under Article 198A of the Companies Law for the purpose of examining the submission of a motion for approval of a derivative claim regarding the exercise of Bezeq's rights against officers in connection with the Determination. It is alleged that the findings and violations included in the Determination give Bezeq cause of action against Bezeq's officers and that Bezeq is entitled to compensation from the officers for the damages that were caused and that will be caused to it. On June 23, 2020, Bezeq submitted a request to delay the proceedings in the motions for disclosure, until the work of the Claims Committee established for the purpose and the submission of its recommendations to Bezeq's Board of Directors. On July 19, 2020, Bezeq submitted its response to the motions. The Attorney General submitted a notice of his appearance in the proceedings, and at the same time submitted his position, according to which a decision to appeal the deterrmination that the petitioners claim constitutes the damage caused to Bezeq, may be a derivative proceeding as long as the above decision is	

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					not final. On April 4, 2021, the plaintiffs accepted the Court's proposal to delay the proceedings until after the completion of the work of the Claims Committee established by Bezeq and a decision on Bezeq's request to delay the proceedings. Subsequently, on October 13, 2021, Bezeq's Board of Directors decided to adopt the Claims Committee's recommendation of October 7, 2021, according to which in the circumstances Bezeq does not have a good cause of action against officers and other officials who served during the relevant periods, and that conducting legal proceedings will not promote Bezeq benefit. The Committee came to this conclusion after examining the implications, benefits, damages, costs and gains involved in conducting such legal proceedings, and came to the conclusion that their conduct would harm Bezeq. Bezeq submitted a notice to the Court.	
i.	January 2021	Bezeq shareholders v Bezeq et al.	Tel Aviv District Court - Economic Department	Motion for approval of a class action	A consolidated motion (filed *in lieu* of two similar motions in the same matter that was deleted) against Bezeq, the Company, and 90 other respondents, including past and present officers at Bezeq, the Company and Bezeq International, as well as the auditor firm (the "**Respondents**"). The motion deals, as alleged in it, with damages caused to the applicants and members of the represented groups (as detailed below) as a result of acts and omissions of the respondents who violated the provisions of the law, including that Bezeq and the Company included misleading details in their reports. In accordance with the provisions of the law, in connection with Bezeq's and the Company's report dated November 9, 2020, according to which Bezeq International's books contain discrepancies in the amounts of hundreds of millions of NIS.[52] The definition of the groups according to the application is: (a) Everyone who purchased Bezeq shares as of March 9, 2003 (date of publication of the annual report for the year 2002) until November 9, 2020, and held them on November 9, 2020, except for the respondents or those on their behalf and (b) anyone who purchased the Company's shares on the Tel Aviv Stock Exchange from October 25, 2009 until November 9, 2020, and held them on November 9, 2020, except for the respondents or those on their behalf. In accordance with the economic opinion attached to the motion, it was alleged that following the publication of the immediate report dated November 9, 2020 published by Bezeq and BCOM, the Company's share price decreased by 5.26%-5.40% (it should be noted that the motion also claims, in accordance with another opinion attached to it, that compared to Bezeq's benchmark indices, the damage to Bezeq's shareholders is higher than the decrease in the value of the shares, and is about 7%), and the Company's share price decreased in the range of 9.07%-9.36%. Accordingly, it was argued that the damage caused to the applicants is in the amount obtained from doubling the amount of shares held by the members of the groups as aforesaid at the rate of the aforesaid decrease in the shares of Bezeq and the Company. The case is in mediation proceedings.	"Over NIS 2.5 million (for the purposes of substantive authority)"
l	April 2021	Customer VS Bezeq	Central District Court	Motion for approval of a class action	It was alleged that Bezeq caused pecuniary and non-pecuniary damages to the class members who paid an increased amount for a higher level of browsing speed than they could actually use, for upgrading the modem so that they could browse at this rate, as well as for harassment, inconvenience, mental distress and impaired autonomy. According to the motion, the class of plaintiffs must include anyone who used Bezeq's Internet infrastructure in the seven years prior to the date of submission of the motion for approval until the date of its approval of the class action, and paid for a certain speed level, while the infrastructure in his home is capable of providing speed that matches a lower speed level.	* The amount of the class action cannot be estimated. It was stated that these are damages amounting to NIS million, which fall within the jurisdiction of the Court.

2.18.2. Legal proceedings completed during the period of the report or until the date of

52 As part of the preparation of the Company and Bezeq International Ltd. for the publication of their statements for the period ending on September 30, 2020, it was found by Bezeq International that there are unexplained net asset balances in its books (debtors minus creditors). Subsequently, the statements were restated.

publication of the report

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
a.	November 2020	Shareholder in the Company against the Company and Bezeq International	Jerusalem District Court	Motion for discovery and review of documents before filing a derivative claim	Motion for discovery and review of documents prior to filing a derivative claim in which an order is requested directed to the respondents for discovery and review of various documents regarding asset balances in Bezeq International's books following the immediate report published by the Company on November 9, 2020 - on March 25, 2022 the Court approved an agreed motion by the applicants to withdraw from the motion for discovery and review of documents by way of dismissing it.	* Claim for an unknown amount
b.	May 2021	Customers VS Bezeq	Tel Aviv District Court	Motion for approval of a class action	A motion for approval of a class action lawsuit replacing a similar motion from May 2020 was filed and ended (see section 2.18.2). It was alleged that Bezeq misled customers who joined an online business advertising service through B144 ("**the Service**") into thinking that the cost of the service depends on actual use, up to a billing ceiling, while in fact Bezeq charged its customers the amount of the billing ceiling even if in practice a lower amount was used. On March 23, 2022, a judgment was issued dismissing the motion for approval, while it was determined that the applicants did not establish an evidentiary or factual foundation, even the minimal one, that would show a cause of action in the case.	* Total claim amount not specified
c.	August 2021	Customer VS Bezeq	Tel Aviv District Court	Motion for approval of a class action	It was alleged that during the COVID crisis Bezeq charged its telephony customers in excess of the amounts determined and approved by the Ministry of Communications under arrangements established in view of the increase in landline telephone use during the COVID crisis, which were valid 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 issued approving an agreed motion to withdraw from the motion for approval of a class action lawsuit after it was clarified that Bezeq had fully credited its overcharged customers to the extent of approximately NIS 2.5 million. The judgment also includes payment of damages, fees and expenses in a total amount of approximately NIS half million.	* The aggregate amount of damage was estimated at more than NIS 2.5 million.

2.19. Targets and business strategy

2.19.1. Forward-looking information

Bezeq's strategy review below includes forward-looking information within the meaning thereof in the Securities Law, and involves assessments of future developments in the economy in general regarding customer behavior and needs, the pace of adoption of new services, technological changes, regulatory policy, competitors' marketing strategy, and the effectiveness of strategic marketing. .

Bezeq's strategy and the business objectives derived from it are based on internal research and analysis, secondary sources of information, especially research company statements, publications regarding activities undertaken by similar communications operators in Israel and around the world, and consulting work by which Bezeq is assisted.

However there is no assurance that the main strategy and activities described below will be implemented in practice or in the manner described below. The circumstances that may lead to the non-implementation of the strategy or even to its failure are due to the general situation in the economy, frequent technological changes, regulatory constraints, formulation of a sustainable business model for new services that Bezeq intends to provide and adopting a superior marketing strategy from competitors. In addition, changes in the composition of Bezeq's Board of Directors or ownership of Bezeq, which will lead to a change in the composition of the Board of Directors, may lead to a change in its strategy and business objectives.

2.19.2. The essence of the strategy and intentions for the future

2.19.2.1 Vision and purpose

Bezeq has set itself the target of being the leading communications company in Israel, providing a wide range of communications services and solutions, to private and business customers.

Bezeq works to maintain its competitive position and continue to be the customer's first choice in telephony, Internet and IT, and for this purpose it has set itself a number of targets:

a. Preservation of leadership in the aggravating competitive environment (service leadership and strengthening perceived values - product innovation, reliability, price perception), and within this framework, leading the optical fiber market;

b. Encouraging the recruitment of new customers and strengthening a sense of loyalty and closeness among existing customers;

c. Creating new sources of income through the launch of new and innovative services and products;

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

2.19.2.2 Means

To implement the said strategy and objectives, Bezeq operates a wide range of advanced communication networks, which operate on a wide range of infrastructures nationwide, and enable the provision of the most advanced communication services in the world. Bezeq is working to upgrade and develop the communications networks it operates, including the fiber infrastructure through a wide fiber deployment. The Company strives to constantly expand and improve the basket of products and services, and it also offers and operates a service network, including technical and commercial centers, and a wide range of service and installation technicians.

2.19.3. Major projects in planning or execution

Regarding the deployment of a fiber optic network by Bezeq, see section 2.7.2.

2.20. Discussion of risk factors

There are risk factors that arise from the macroeconomic environment, from the unique characteristics of the industry in which Bezeq operates, and risk factors that tare unique to Bezeq, which may have significant consequences for Bezeq and affect, among other things, Bezeq's status, its results, its credit rating and its ability to repay its debt, all as specified below:

2.20.1. Competition

Competition in the field of landline interior communications increasing in recent years, both in the field of deploying independent networks (see Section 2.6), and in the field of providing services using the wholesale market, through which telecommunication groups and other telecommunications operators (those with a special or unified license and even licensed providers) compete with Bezeq in the sale of unified Internet service packages based on Bezeq infrastructure, at prices set by the regulator (see Section 1.7.4 and Section 2.16.4). A large number of customers receive wholesale Internet services, which are provided on the Bezeq network, when Bezeq does not have contact with those customers. Increased competition in the field of interior communications causes the abandonment of some of Bezeq's customers and leads to lower prices of some of Bezeq's services and an increase in the costs of recruiting new customers and retaining existing customers. The entities that compete with Bezeq at present, or may compete with it in the future, enjoy greater business flexibility than Bezeq, including the ability to cooperate with subsidiaries and affiliates and market shared service packages with them (see Section 1.7.3 and Section 1.7.4). The ability of competitors to market service packages with rate flexibility, in the face of Bezeq's limitations to do so as of this date, impairs Bezeq's competitive ability.

2.20.2. Governmental supervision and regulation

Bezeq is subject to governmental supervision and regulation relating, *inter alia*, to licensing activities, determining permitted areas of activity, determining rates, operations, competition, payment of royalties and depositing funds to the incentive fund, universal service obligation, the possibility of holding its shares, the relationship between Bezeq and its subsidiaries and prohibiting cessation or restriction of its services (which may oblige Bezeq to provide services even in non-economic circumstances) - for details, see Section 2.16. The aforesaid supervision and regulation sometimes causes government intervention, which in Bezeq's opinion burdens its business activities. In this context, Bezeq is exposed to various sanctions by the Ministry of Communications, including the imposition of financial sanctions (for this matter, see Section 1.7.7.5).

In addition, the Minister of Communications may revoke Bezeq's license, restrict it or suspend it as appropriate, in accordance with the conditions set forth in the Communications Law, and is authorized to change the terms of Bezeq's license, interfere with existing rates and marketing proposals and issue instructions. Substantial changes in the rules of regulation that apply in the field of communications in general, and to Bezeq in particular, may oblige Bezeq to make changes to its strategic plans and impair its ability to carry out long-term planning of its business activities. For possible changes following the wholesale market reform, see section 2.16.4. For possible restrictions under the Centralization Law on the renewal of licenses and the allocation of new licenses, see Section 1.7.7.6.

2.20.3. Rates supervision

Bezeq rates for a key part of its services (including rates for reciprocal linking and use of Bezeq infrastructure and its network) are subject to government supervision and intervention. The Minister of Communications has the authority to intervene in existing rates and marketing proposals and to give it instructions (see Section 2.16.1). On average, supervised Bezeq rates are eroding in real terms. Substantial changes in Bezeq's regulated rates, if implemented, could have a material adverse effect on its business and its results. Regarding the supervision of the supervised Bezeq rates and their updating, see sections 2.16.1 (Including regarding a hearing on the determination of maximum rates for Bezeq's retail telephony services) and 2.16.4. In addition, the restrictions that apply to Bezeq in marketing alternative payment baskets may make it difficult to provide an appropriate competitive response to changes in the market, and they are significantly reflected in Bezeq's competitors on the basis of its infrastructure in selling unified Internet service packages through Bezeq's wholesale service. As part of the application of a wholesale market, the Ministry of Communications updates the rates and terms for wholesale services according to which Bezeq will sell its services to licensees. The update of the rates leads to lower prices in a way that could adversely affect Bezeq's level of revenue and its profitability (for the wholesale market, see section 2.16.4).

2.20.4. Streamlining procedures and labor relations

Implementation of personnel and organization programs (including retirement plans and organizational changes) involves coordination with employees and significant costs, including early retirement compensation costs. Processes of implementing such plans may cause unrest in the employment relationship and harm Bezeq's day-to-day operations - see also Sections 2.9.3 and 2.17.2.

Also, as described in section 1.8, according to the report, Bezeq, like the other companies in the Group, implements streamlining procedures, which include, among other things, moving to new offices, organizational changes and reducing the workforce, while managing significant infrastructure and other projects. Streamlining procedures, by nature, carry with them the risks of loss of knowledge, turnover of employees, shift of managerial focus, and so on.

2.20.5. Restrictions regarding the relationship between Bezeq and companies in the Bezeq Group

Structural separation - Bezeq's NIO license prohibits preferring the main companies in the Group over their competitors. A separation is required between the managements of Bezeq and the said companies, as well as a separation in the business systems, finances and marketing, assets and employees, which causes duplication, high overheads and also makes it difficult to manage strategy at the Group level. Also, at this stage, Bezeq's ability to offer shared service packages of Bezeq and the said companies is limited (see Section 1.7.3).

Regarding the possibility that in the future the Group will be granted a permit for the provision of non-detachable service packages and the elimination of structural separation and for further possible changes following the wholesale market, see Sections 1.7.3 and 2.16.4.

2.20.6. Legal Proceedings

Bezeq is a party to legal proceedings, including class actions, which may result in charges in substantial amounts, most of which cannot be estimated, and therefore no provision was made for most of them in Bezeq's financial statements. In addition, Bezeq's insurance policies are limited to defined coverage limits and for certain reasons, and may not cover claims for certain types of damages. In recent years, there has been a multiplicity of class action lawsuits against large commercial companies. By their very nature, class actions can reach large sums. In addition, since Bezeq provides communications infrastructure as well as billing and collection services to other licensees, other class action lawsuits against the said licensees may also involve Bezeq as a party in these proceedings. For a description of the legal proceedings, see Section 2.18.

2.20.7. Exposure to exchange rate fluctuations, inflation and interest rates

Bezeq measures exposure to changes in currency and inflation according to surplus or lack of assets versus liabilities, as well as according to cash flow forecasts, according to the type of linkage. Bezeq's exposure to changes in inflation is high and Bezeq's exposure to changes in the exchange rate against the shekel is low. Bezeq is hedging some of its exposure to inflation and foreign exchange. In addition, Bezeq has exposure to changes in interest rates in relation to the credit it receives. For this matter, see also Note 30 to the 2022 statements and Section 1.6 of the Board of Directors' report. In view of the trend of the increase in the inflation rate in 2022, Bezeq has updated the extent of the impact of this risk factor.

2.20.8. Electromagnetic radiation and licensing of transmission facilities

The issue of electromagnetic radiation emitted from transmission facilities is regulated mainly in the Non-Ionizing Radiation Law (see Sections 2.15 and 2.16.11). Bezeq works for the existence of construction and operation permits for its various transmission facilities, but the difficulties encountered by Bezeq in this activity, including difficulties arising from changing the policy of the relevant parties and changes in legislation and regulations, may adversely affect the infrastructure of the said facilities, the regularity of the provision of the services through them, and consequently also the Bezeq revenues from these services. Bezeq's third party insurance policy does not currently cover warranty for electromagnetic radiation.

2.20.9. Frequent technological changes

The field of communications is characterized by frequent technological changes and the shortening of the economic life of new technologies - see section 2.1.4. These trends require investing a lot of resources in upgrading Bezeq's existing technologies, lowering the barriers to entry for new competitors, increasing depreciation rates and in some cases there may be a redundancy of Bezeq-owned technologies and networks. The introduction of innovative technology that is not used by Bezeq or that Bezeq has refrained from using may harm Bezeq's competitive position.

2.20.10. Dependence on macro factors and on levels of business activity in the economy

The stability of the financial markets and the resilience of the economies of the countries of the world have been in recent years subject to high volatility. Bezeq estimates that as the local economy slides into a period of recession and deterioration in business activity due to external or internal events, including shocks in the global economy, political-security uncertainty, etc., then its business results may be harmed, among other things, as a result of Bezeq revenues (including investee revenues) or as a result of increased Group financing costs.

2.20.11. Failure of Bezeq systems and cyber risks

Bezeq provides its services through various systems, including, among others, exchanges, data transmission and access transmission networks, cables, computer systems, physical infrastructure and more ("**the systems**"). The systems are of critical importance in the operation of Bezeq's business and they play a vital role in its ability to successfully carry out its activities. Hacking, disruption, damage or collapse of systems can adversely affect Bezeq's business. Some Bezeq systems have backup, but at the same time, in the event of damage to some or all of the above systems, either due to various technical faults (including in the event of termination of contact with a supplier who is dependent on system support), or due to natural disasters (earthquakes, fire), whether due to damage to physical infrastructure by communications providers using them or due to malicious damage (including through Cyber attacks as detailed below), there may be significant difficulties, and more than significant, in providing Bezeq services, including in the event that Bezeq is unable to return the systems to capacity quickly.

Bezeq carries a risk of activity occurring that is intended to harm the use of a computer or computer material stored on it ("**cyber attack**"). Such attacks can disrupt business, theft of information / money, damage to reputation, and damage to systems, and from there, also to material damage to the Company's activity.. As a leading communications company that provides diverse communications services in various fields, it is a target for cyber attacks and experiences cyber attacks, which are handled by it.

Bezeq is a body guided by the State Authority for Information Security and is committed to meeting strict information security standards. The Company is subject to rules in this matter even by virtue of its licenses. In this context, Bezeq implements a defense policy that includes the most advanced security systems in the world operated in a configuration that combines effective security with Bezeq's operational needs and security circuits to protect Bezeq's infrastructure and systems designed to prevent and reduce the possibility of Bezeq data being exploited by an external or an internal party maliciously or inadvertently, as well as the possibility of an outsider taking over and managing network components or abusing information about Bezeq's infrastructure and networks in any way. In this framework, adequate resources are invested, including, among other things, technological resources for the purchase of information security solutions and products and resources for information security standards, and various actions are performed, including checking alerts and logs in the systems, periodic risk survey, practice according to an annual plan, as well as ongoing work in accordance with appropriate procedures. Bezeq is certified for three ISO standards (ISO 27001, ISO 27017, ISO 27018) related to information security (standards that define and test the principles of establishing, managing and maintaining information security in the organization), and as part of implementing the requirements of Bezeq standards ensures the availability, integrity, reliability and confidentiality of the databases for which it is responsible.

The cyber risk management policy is approved by the Company's information security steering committee with the participation of the Company's CEO and the Company's VP of Technologies and Network. The person responsible for implementing the policy in the company is the director of the Information and Cyber Security Department.

Bezeq monitors the implementation of its defense policy, which includes an examination of Bezeq's level of effectiveness and readiness. In this context, Bezeq conducts tests and assault drills with different frequency for different scenarios (including through external companies that specialize in the field). Also, the Company's Board of Directors is involved in and supervises the management of cyber risk in the Company within the framework of handling the Company's overall risk management policy. In Bezeq's estimation, the risk management policy in dealing with and reducing the cyber risk is effective.

Despite Bezeq's investments in measures to reduce such risks, Bezeq is unable to guarantee that these measures will succeed in preventing damage and / or disruption which may also be significant to systems and related information.

2.20.12. Impairment of subsidiaries

In accordance with the accounting standards, Bezeq performs valuations for subsidiaries for the purpose of examining the periodic impairment of goodwill and of assets in respect of which signs of impairment have been identified. Considering the business situation of the subsidiaries and the difference between the book value of Bezeq and their recoverable amount as a cash-generating unit, a decrease in the value of the subsidiaries' activity may lead to impairment loss (write-off) in Bezeq books. Also, a significant change in circumstances that leads to a change in estimates can occur as a result of a high-intensity discrete event and / or as a result of a sequence of small changes occurring over time that have a significant cumulative effect in the long run and / or a change in estimates (even at low rates). Valuations are based on assumptions as of the date of the statements that may not materialize or materialize partially and different aspects have different intensities affecting the value of the unit measured when long-term assumptions may have a relatively large weight compared to short-term assumptions.For this matter, see also Note 11 to the 2022 statements and Section 3.1 of the Board of Directors' Report.

2.20.13. Pandemic

Disease outbreaks and epidemic events in general (such as the outbreak of COVID-19 in 2020) may have consequences for the Company's business activities, depending on the extent of the spread and its severity and on the national and global measures that will be taken as a result. These consequences may be manifested, 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 changing events that are out of the Company's control, and their consequences are subject, among other things, to the decisions of countries and authorities in Israel and around the world that may affect the Company accordingly. For this matter see also Section 2.20.10.

2.20.14. Damage caused by nature, war, disaster

Damage to the Company's infrastructure and services as a result of natural disasters, including earthquakes, as well as as a result of war or disaster, may adversely affect the Company's business and results.

It should be noted that a significant part of Bezeq's operations (in a consolidated manner) is carried out in its subsidiaries. The risk factors of these companies and the assessments of their managements in relation to the risk factors are described in Sections 3.18, 4.14 and 5.18, and they are also relevant to the Group's activities and results.

The following is a rating of the impact of the risk factors described above on Bezeq's operations, in Bezeq's Management's assessment. It should be noted that Bezeq's assessments below regarding the degree of influence of the risk factor reflect the degree of influence of the risk factor in assuming the materialization of the risk factor, and the aforesaid does not express an assessment or give weight to the chances of such materialization. The order in which the risk factors appear above and below is not necessarily according to the degree of risk:

Risk Factors Summary Table – Landline Interior Communications[53]

	The extent of the impact of the risk factor on Bezeq's operations		
	High effect	**Medium effect**	**Low effect**
Macro risks			
Exposure to exchange rate fluctuations, inflation and interest rates			X
Dependence on macro factors and levels of business activity in the economy		X	
Pandemic		X[54]	
Damage caused by nature, war, disaster	X		
Industry risks			
Growing competition	X		
Governmental supervision and regulation	X		
Rate supervision	X		
Electromagnetic radiation / licensing of transmission facilities			X
Frequent technological changes		X	

53 It will be clarified that in the assessments of the Group companies regarding the effect of the risk factors in the summary tables (in this section and in Sections 3.19 , 4.14 and 5.19), the probability of the risk factor materialization was not estimated, but the effect of the risk factor on the relevant company if it materialized. It should be noted that some of the Group companies make estimates regarding the probability of the occurrence of some of the risk factors mentioned in these sections for their specific internal needs, but no orderly estimate was made at the Group level of all the risks listed in the summary tables in these sections. Also, in general, the degree of influence of a risk factor on the Company's operations depends in some cases also on the extent and duration of the materialization of the risk, so that it may differ from what is indicated.

54 The extent of the impact of this risk factor on Bezeq's activity was classified as moderate, assuming that the event would be limited in scope and time. Otherwise, the degree of impact may be great.

	The extent of the impact of the risk factor on Bezeq's operations		
	High effect	**Medium effect**	**Low effect**
Special risks for Bezeq			
Exposure to legal proceedings		X	
Streamlining processes and labor relations		X	
Restrictions regarding the relationship between Bezeq and companies in the Bezeq Group	X		
Failure of Company systems and cyber risks	X		
Impairment of subsidiaries		X	

The information contained in this section 2.20 and Bezeq's assessments regarding the impact of risk factors on Bezeq's activities and business are forward-looking information as defined in the Securities Law. The information and assessments are based on data published by the Ministry of Communications, Bezeq assessments of the market situation and the structure of competition in it and regarding possible developments in this market and in the Israeli economy. The actual results may differ materially from the estimates given above if there is a change in one of the factors taken into account in these estimates.

3. Pelephone - Mobile radio telephone (cellular telephony)

3.1. General information about the field of activity

3.1.1. Pelephone's field of activity

Pelephone provides cellular communication services and the sale and repair of end equipment. Pelephone services are detailed in the section 3.2. Pelephone is a company wholly owned by Bezeq.

3.1.2. Legislative and regulatory restrictions unique to the field of activity

3.1.2.1 Communications Law and mobile radio telephone license

Pelephone's activities are subject to regulation and supervision by virtue of the Communications Law and its regulations, by virtue of the Telegraph Order, and by virtue of mobile radio telephone license owned by it. The mobile radio telephone license sets conditions and rules that apply to Pelephone's operations (for details, see section 3.14.2).

3.1.2.2 Rate supervision

Interconnectivity fees (rates for completing a call and completing short message messages (SMS) charged by Pelephone from other communication operators are fixed in interconnectivity regulations. The rest of the rates are under a certain supervisory regime as regulated under the mobile radio telephone license and the Communications Law (see sections 3.14.1 and 3.14.2).

3.1.2.3 Environmental law and planning and construction law

Establishment and operation of wireless communication infrastructure, including cellular communications, is subject to the provisions of the Non-Ionizing Radiation Law and the permits required thereunder by the Ministry of Environmental Protection, as well as the provisions of planning and construction law (see section 3.13.1).

3.1.3. Changes in the scope of activity in the field

For financial data on the scope of Pelephone's activity, see sections 1.5.4.2 and 3.3.

Revenue from services

The cellular industry is characterized by fierce competition. Competition in the industry led to a high transfer of subscriptions between the cellular operators while continuously eroding the prices of the base packages along with a further increase in the browsing volumes included in the packages, which in recent years have caused another significant erosion of the average revenue per subscriber (see Section 3.6). The growth in the number of postpaid subscribers (subscribers who receive service for a monthly payment) in the past few years has partially compensated for the erosion of prices. In 2022, the downward trend continued (similarly to the year 2021) in the volume of mobilizations between companies has decreased compared to recent years. Also, a certain recovery was recorded in revenue from roaming services, which returned to their normal volume, after the decline that applied in 2020 due to the effects of the COVID-19 crisis on travel and stay abroad (see Section 3.19.1.2). In addition, starting from the end of 2020, companies in the market began to offer packages with a higher browsing volume that allow subscribers to browse with 5G technology, and whose prices are higher than 4G packages.

Revenue from the sale of end equipment and electronics

The end equipment market is also characterized by fierce competition among cellular operators and vis-à-vis many stores that sell end equipment in parallel imports. In 2022, fierce competition continued in this field. In order to reduce the damage to revenue, which was caused, among other things, due to the changes in the exchange rate, Pelephone is increasing the range of equipment sold by it and also sells electronic equipment and appliances other than cellular devices.

A signifant part of all end equipment is sold in installments. The decline in end equipment sales over the years has led to a decrease in the balance of customers in parallel with a decrease in the volume of payments to end equipment suppliers.

3.1.4. Market developments and changes in customer characteristics

The cellular market is characterized by low growth rates due to saturation in the penetration rate[55]. The estimated penetration rate as of September 30, 2022 is approximately 120%.

3.1.5. Technological changes that have a material impact on the field of activity

The cellular communications market is dynamic, and is characterized by frequent technological developments in all areas of activity in it (communications network technology, end equipment and value-added services).

Technological developments, as well as the desire to expand the range of services offered to the customer and their quality, require cellular operators to upgrade the technology of cellular networks from time to time. The cellular networks in Israel currently operate mainly in GSM technology, UMTS / and LTE technology, and during 2020 the use of NEW RADIO technology in the NONSTAND ALONE architecture (5G) began. Also, Pelephone is preparing to upgrade the 5G network core to the STAND ALONE architecture.

As of the date of the report, Pelephone's LTE network is deployed in most parts of Israel, and Pelephone continues to expand its network to improve coverage through the use of 700 MHz frequencies and to improve performance through 2600 MHz frequencies, in addition to launching 5G technology using 3500 MHz frequencies, which is carried out according to a regular deployment plan.

In addition, Pelephone operates additional network features that include CARRIER AGGREGATION and MASSIVE MIMO in 5G.

Pelephone offers technology-based services IMS[56]: Voice over WiFi as an improved response to coverage inside buildings (without the need to use the cellular frequency), as well as Voice over LTE which allows making voice calls on a 4G basis (using a data range). These two capabilities improve the quality of the voice call and enable the freeing of 3G frequency resources (traditionally used for calls) for the purpose of increasing additional capacity used for the data services that are gaining momentum over the years. In addition, the Voice over LTE service enables the continuation of a call with Voice over WiFi, that is, a transparent transition of the call (without disconnection) from a Voice over WiFi call (performed without using the cellular range), to a Voice over LTE call (performed on the cellular network) , and vice versa.

Pelephone is constantly following and examining the new technologies in the market and the need to upgrade the technology of its existing networks, in accordance with the state of competition in the market and the economic viability of investing in such technologies.

Expanding the capacities and speeds of technologies from the LTE (4G) and NEW RADIO (5G) as well as the development of future cellular generations are conditional on frequency allocation. For details, see Section 3.8.2.

Using Embedded SIM (eSIM) technology - this is a technology that allows a mobile device to be connected to the network using a non-removable built-in SIM card, unlike traditional SIM cards that can be removed and exchanged between devices. The eSIM technology allows greater flexibility and ease of use in the activation and management of several lines on the device, a simpler and faster transition between operators without the need for a new physical card, and higher accessibility to roaming packages of different operators ("main line" solutions). In addition, the technology also allows coupling of additional devices to the cellular line (secondary solution) such as watches and smart bracelets. In light of market trends, it is assumed that eSIM solutions as part of the main line offer will become more and more common.

Following the winning of the frequency tender, Pelephone began operating frequencies

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

[56] IMS - IP Multimedia Sub System - A system at the core of the network that is used, among other things, for switching calls made over IP networks (for example: Voice over LTE, Voice over Wifi). These two services are provided in combination to provide coverage within homes and to reduce traffic over the 3G network. The infrastructure will be used for additional services, such as One Number, Rich Call Services and more.

in the field of 700 MHz and 2600 MHz in 4G technology, and in addition operates 5G technology at a frequency of 3500 MHz in some sites (see Section 3.8.2.4).

3.1.6. Critical success factors

3.1.6.1 Nationwide deployment of a high-quality and advanced cellular network, ongoing maintenance of the network at a high level and significant investments on an ongoing basis in the cellular infrastructure, both for quality coverage throughout Israel and to provide customers with advanced services through advanced technological infrastructure (see also section 3.7.1).

3.1.6.2 Growth in the subscriber base.

3.1.6.3 Growth in the number of subscribers to 5G routes, with a larger browsing volume.

3.1.6.4 Ability ot offer a competitive price level.

3.1.6.5 Wide and varied distribution channels.

3.1.6.6 A variety of service channels, including digital channels, that provide efficient and quality support and service to a large variety of customers.

3.1.6.7 Adjusting the cost structure and implementing operational streamlining that make it possible to cope with increased competition.

3.1.6.8 A brand that represents a quality, reliable and advanced network.

3.1.6.9 High quality and skilled personnel.

3.1.7. The main barriers to entry and exit[57]

3.1.7.1 The main barriers to entry into the field of activity are:

a. Saturation in the penetration rate in the field (see section 3.1.4).

b. The need for a mobile radio telephone license for operators with frequencies (MVNO operators may operate on the basis of a permit only), the allocation of frequencies involved in high costs resulting, among other things, from the fact that these resources are in short supply (see section 3.8.2.1) and the subordination of the activity to regulatory supervision (see section 3.14.2).

c. The need for significant financial means for making heavy and continuous investments in infrastructure, which are affected by frequent technological changes (see also section 3.7.1.3).

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

3.1.7.2 The main barriers to exit from the field are:

a. Large investments that require a long return on investment.

b. The commitment to provide service to customers derives from the terms of the radio telephone license license and the agreements in accordance with the terms set forth in the license.

3.1.8. The structure of competition in the field and changes that apply in it

3.1.8.1 General

The cellular communications market in Israel is characterized by fierce competition, which is reflected in high subscriber turnover among operators in the past few years, rates erosion and profitability erosion.

As of the date of this report, five operators with a radio telephone license license are operating in the cellular communications market in Israel. Cellcom, Partner, Hot Mobile and XFONE), and a number of MVNO

57 Some of the above entry and exit barriers apply in a partial and limited manner to virtual operators.

operators with an radio telephone license in another network (virtual operators).

3.1.8.2 Infrastructure sharing

Infrastructure sharing enables the consolidation of cellular operator sites in a way that significantly reduces the cost of operating and maintaining radio sites for each operator. To the best of Pelephone's knowledge, as of the date of the report, infrastructure is shared in the market as described below:

a. Partner and Hot Mobile operate as part of an infrastructure sharing in the radio segment within a shared corporation.

b. Cellcom (who holds Golan Telecom) and XFONE operate as part of infrastructure sharing in the radio segment of the 4G network as part of a joint corporation and the acquisition of other interior roaming services.

3.1.8.3 Virtual operators MVNO

A number of MVNO licenses have been issued so far for vrtual operators. Only a few MVNO license holders are active in the market.

For more details on the structure of competition in the field, see section 3.6.

3.1.8.4 Hearing on private networks

Further to the public appeal published by the Ministry of Communications regarding private networks, on August 14, 2022, the Ministry of Communications published a hearing in which the public's opinion was requested on the Ministry's intention to allocate a frequency band in the 26 GHz range (as well as a narrow band in the 2100 MHz range), for use by parties that are not cellular operators or general landline telephony service operators, for the purpose of providing private network service (on a project or local basis). Pelephone submitted its position to the hearing. The implications of the issue will be clarified with the decision of the Ministry of Communications at the hearing.

3.2. Services and products

3.2.1. Services

Below is a description of the services that Pelephone provides to the subscriber:

3.2.1.1 Package services that include:

a. **Basic telephone services (VOICE)** - basic call services, call completion services as well as ancillary services such as - waiting call, "follow me", voicemail, voice conference call, caller ID, and more.

b. **Browsing and data communication services -** Internet browsing services using end equipment that is compatible with the use of 3G, 4G and 5G technologies.

c. **SMS delivery and receipt service and multimedia messages MMS -**SMS receiving and sending service (text messaging - SMS) and multimedia messaging (video / voice / text).

3.2.1.2 **Value Added Services -** Pelephone offers its customers value-added services and related services, such as data storage backup services (Pelephone Coud), antivirus services, cyber protection services, and more.

3.2.1.3 **Roaming services** - Pelephone Provides its customers with roaming coverage in about 190 countries around the world. In addition, Pelephone also provides inbound roaming services to the customers of foreign operators who stay in Israel.

3.2.1.4 **Private cellular networks with LTE (Long Term Evolution) or 5G technology -** Pelephone offers business customers the installation and maintenance of a private cellular network in the business customer's complex. A private network provides the business customer with various benefits, including:

business continuity, bandwidth management between the customer's end users, low latency, connection to IoT devices, contribution to securing the customer's networks and systems, and more.

3.2.1.5 **Maintenance and repair services** for end equipment - Pelephone offers repair service and extended warranty, for a monthly fee that entitles the customer to repair service and extended warranty for the cellular device, or for a one-time payment at the time of repair.

Pelephone provides some of these services also in the framework of hosting agreements, to holders of an mobile radio telephone license in another network that use the Pelephone network in order to provide service 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, and more.

b. PTT (Push to Talk) services - Pelephone offers its business customers some of the most advanced PTT services in the world, which enable fast and secure corporate communication at the push of a button.

3.2.2. Products

Peripheral devices - Pelephone offers various types of mobile phones, PTT devices, tablets, laptops, modems, smart watches, electrical products as well as supporting accessories such as speakers, headphones and more.

3.3. Segmentation of revenues from products and services

The following is data regarding 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
Rate of Pelephon’s total revenue	74.7%	71.7%	72.8%
Revenue from products (end equipment)	608	647	595
Rate of Pelephon’s total revenue	25.3%	28.3%	27.2%
Total revenue	**2,399**	**2,289**	**2,186**

3.4. Customers

The following is data on the distribution of revenue from customers (in NIS millions):

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 customers in business tracks includes revenue from hosting agreements (agreements that allow the provision of mobile telephony service through the Bezeq network of another authorized provider), which were received mainly from Rami Levy.

At the end of 2022, the number of Pelephone subscribers was approximately 2.7 million, including approximately 2.2 million postpaid subscribers (subscribers who receive service for a monthly payment), and approximately 0.3 million prepaid subscribers (advance payment for consumption of services).

Pelephone markets packages with an increased volume of use that are also adapted to the needs of 5G, and as of the date of publication of the report, Pelephone has about 813k subscribers in such packages.

3.5. Marketing, distribution and service

Pelephone's distribution system includes about 250 points of sale where you can join Pelephone services. The set of points of sale is diverse and includes stores and stalls operated by Pelephone, retail chains that market Pelephone products and about 20 Service and sales centers located throughout Israel that handle service, sales, device repair and customer retention. In addition, Pelephone operates an internal and external network of telephone marketers. As a rule, the remuneration to the marketers is paid as commissions from the sales.

Pelephone's service system for subscribers includes diverse digital channels including the Pelephone website hone, self-service app and call centers.

3.6. Competition

3.6.1. General

In recent years, the Ministry of Communications has taken regulatory moves designed to increase competition in the cellular communications market. The large number of cellular operators in the market led to a high level of competition in recent years, which is reflected in the transition of subscribers between operators and in a reduction in cellular package prices, which led to erosion in rates and profitability in both private and business customers.

In order to compensate for the erosion of package prices, Pelephone employs a strategy for growth in the number of subscribers alongside streamlining and costs structure adjustment (see section 3.17).

The following is data, to the best of Pelephone's assessment, about the number of subscribers of Pelephone and its competitors over the years 2021 and 2022 (thousands of subscribers, approximately):

		Pelephone	Cellcom (including Golan Telecom) (3)	Partner (3)	Hot Mobile (2)	MVNO And other operators (1)	Total subscribers in the market
As of December 31, 2021	Number 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 of September 30, 2022	Number 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 the other operators (which include, among others, XFONE) are private companies that do not publish data regarding the number of their subscribers, and the said data is based on an estimate of data on mobility between companies.
(2) Hot Mobile's Q3/2022 data is based on an estimate, according to data published in the reports of Altice, the controlling shareholder of Hot, to the best of Pelephone's knowledge.
(3) The number of subscribers is correct as of September 30, 2022, based on Cellcom and Partner reports to the public.

3.6.2. Infrastructure sharing and granting network use right agreements

For details regarding the existing infrastructure sharing agreements in the market as of the date of the report, see Section 3.1.8.2. As mentioned, infrastructure sharing enables the consolidation of cellular operator sites in a way that significantly reduces the cost of operating and maintaining radio sites for each operator.

Pelephone is not a party to the radio network sharing agreement, in accordance with the implementation of the Ministry of Communications policy on network sharing dated April 17, 2014, so it does not enjoy the savings resulting from the shared use of the radio network, but on the other hand it exclusively controls its cellular network, the maintenance of its technological route and the volume of investments in it.

3.6.3. Positive and negative factors that affect Pelephone's competitive position

3.6.3.1 Positive factors:

a. A cellular network with a broad and high-quality deployment.

b. Its position as a fast and advanced cellular network, especially against the background of the progress of the deployment of the 5G network.

c. A diverse and wide distribution system that operates through call centers and through a large number of fromtal points of sale and is operated by Pelephone, external marketers and through leading retail chains.

d. A wide range of services and a variety of customer service interfaces, including digital channels, which enable the provision of a high level of service to customers.

e. A solid capital structure and a positive cash flow.

3.6.3.2 Adverse factors:

a. As a subsidiary of Bezeq, Pelephone is subject to regulatory restrictions on entering additional areas of activity and expanding the basket of services to customers who do not apply to its competitors.

b. There are restrictions on joint activities with Bezeq, including the marketing of joint service packages (see Section 1.7.3).

c. The costs of setting up, operating and maintaining cellular networks in Pelephone are expected to be higher compared to competitors operating through the sharing of radio segment infrastructure.

Regarding negative factors, see also Section 1.7.2.

3.7. Property, plant and equipment, real estate and facilities

Pelephone's property, plant and equipment include infrastructure equipment of the network core, radio sites, electronic equipment, computers, vehicles, end equipment, office furniture and equipment, and leased improvements.

3.7.2. Infrastructure

3.7.2.1 Pelephone currently operates communication networks in three main technologies, as follows:

a. 5G - the NEW RADIO technology that uses a very broadband spectrum (100 MHz at Pelephone) and enables higher capacity and higher browsing rates for the user. In the future, the technology will enable IoT applications at significantly higher volumes than today and at a very high level of performance.

b. 4G - LTE technology from the GSM standards family. The advantages of the technology are high capacity for data communication and faster download and upload rates than those that exist in 3G. All end devices that support this technology also support 3G technology and there is a smooth transition between the technologies.

c. 3G - technology in the UMTS method based on GSM standard. This technology is very common in the world and enables subscriber identification and service through a subscriber identification card (SIM) that can be transferred from one end device to another. As part of a hearing held by the Ministry regarding the future closure of mobile radio-telephone networks operating with old technologies, (2G and 3G networks) an outline was established for the closure of these networks, which is expected to lead to their closure on December 31, 2025 (or at an earlier date at the request of each operator in relation to his network and provided that it meets the established conditions). The outline includes, among other things, milestones of stopping the import of devices that do not support modern technologies, informing the public, and stopping the connection of these devices to the network. It should be noted that Pelephone's 2G network was closed by it in the past. Pelephone is prepared in accordance with the above decision to close its 3G network, according to the timetables established in the decision

As of the date of the report, Pelephone's network infrastructure is mainly based on two switching farms connected to more than 2,500 sites.

3.7.2.2 Network investments

In recent years, Pelephone has invested in the deployment of a 4G and 5G network, including the implementation of innovative technologies such as Beam Forming, MASSIVE MIMO, QAM 256 and Carrier Aggregation in the access network, and in IMS in the network core (see Section 3.1.5).

In this framework, starting in 2020, Pelephone is expanding the access network (by operating additional frequencies in the 700, 2600 MHz range at over a thousand sites, as well as in the 3500 MHz range at approximately 500 sites, by installing and operating antennas and reception transmission equipment in the areas These frequencies on the various sites. It should be noted that among these, in the 700 MHz range, the target for deployment is nationwide.

Pelephone's activity outline for the deployment and implementation of advanced data communication services in the 5G, is high in investment and currently integrates with existing infrastructures and systems, when the operation of these advanced services will be based on the 5G technology which Pelephone will continue to deploy as mentioned, and later will be based on a new network core dedicated to 5G (See Section 3.8.2.4).

In addition, as part of its ongoing investments, in the next ten years Pelephone will be required to invest in the establishment of new broadcasting sites, among other things, in order to comply with the conditions of the mobile radio-telephone license.

Pelephone's estimates as aforesaid regarding the required investments are forward-looking information within its meaning of the Securities Law, based on Pelephone's forecasts and estimates, *inter alia*, regarding the rate of network expansion and upgrade of the network. Accordingly, the information may not fully or partially materialize or may materialize in a different format than that which was assessed, insofar as the said forecasts and assessments are not fulfilled or will be fulfilled in a different way than expected.

3.7.3. Areas used by Pelephone

Pelephone does not own real estate and it leases from others, including Bezeq, the areas it uses for its activities. The following is a description of most of the areas used by Pelephone:

3.7.3.1 The areas used by Pelephone to place communication sites and network centers as stated in the section 3.7.1 are spread throughout Israel and leased for different periods (in many cases for 5 years plus the option to extend the agreement for another 5 years). For site licensing, see section 3.14.3.

3.7.3.2 Until December 31, 2019, a license agreement was in force between Pelephone and ILA for the use of ILA real estate for the construction and operation of communication sites, which regulated, among other things, the license fee for such use for the period until December 31, 2019. On January 19, 2022, the decision of the Israel Lands Administration to extend the period of the roof agreement from December 31, 2019 to December 30, 2024 was amended, with various changes.

3.7.3.3 Pelephone's headquarters are in Petah Tikva.

3.7.3.4 For service and sales activities, Pelephone rents about 50 service centers and sales points spread throughout Israel.

3.7.3.5 Pelephone has additional lease agreements for warehouses (including a central logistics center with a central laboratory for repairing customer devices), offices, call centers and 2 switching farms used by it for its operations.

3.8. Intangible assets

3.8.1. Licenses

For details regarding Pelephone's mobile radio telephone license and operating license in Judea and Samaria, see section 3.14.2.

3.8.2. Right to use frequencies

3.8.2.1 Shortage IN Radio frequencies

In Israel, there is a shortage of radio frequencies for public use (among other things, due to the allocation of many frequencies for security uses). As a result, the government limits the number of licenses that can be used in frequencies.

3.8.2.2 Pelephone’s frequency inventory

Pelephone has the right to use frequencies by virtue of the mobile radio telephone license and the Telegraph Order in the ranges of 850 MHz[58] and 2100 MHz for operating the network in UMTS / HSPA technology, and in the 1800 MHz, 700 MHz and 2600 MHz range for network operation in the LTE technology (see also section 3.1.5) and in the range of 3500 MHz for the purpose of operating a network with 5G technology. During 2017, Pelephone returned to the National Frequency Database 2 frequency bands

[58] Pelephone has the option of requesting a 5-mega allocation in the 800 MHz range following the 850 MHz frequency evacuation project.

with a width of 1 Mega each in the range of 850 MHz, and towards the end of April 2017, it received a temporary allocation of a band in the range of 1800 MHz with a width of 5 Mega. This allocation is limited in use and is for a fixed period.

The Ministry of Communications has temporarily reassigned this band to Pelephone until December 31, 2024, under conditions and limitations, in order to allow Pelephone to prepare for the expected change in changing frequencies in the first Ghz range (see Section 3.8.2.3).

Pelephone intends to deploy the frequencies in the 800 MHz range that were allocated to Pelephone instead of the 850 MHz frequencies (see Section 3.8.2.3). Pelephone intends to use for the purpose of deepening the deployment of the LTE technology network towards the end of 2023, and to activate these frequencies during the year 2024.

3.8.2.3 Switching freqencies in the first Giga range

In July 2018, the Ministry of Communications informed Pelephone that it intends to adjust cellular frequencies in Israel to European standards and the area in which the State of Israel is located, so that Pelephone and another cellular operator will be required to replace the 850 MHz frequencies with other frequencies in the first GHz. In 2020, the Ministry of Communications announced to Pelephone that it intended to implement an outline for the replacement of 850 MHz frequencies in the use of Pelephone, against the background of electromagnetic interference caused to neighboring countries due to non-compliance of cellular frequencies in Israel with European standards and the stadards of the region. According to the outline, Pelephone will receive frequencies in the range of 800 MHz instead of 850 MHz, when in the first stage and for the purpose of treating such interruptions, the amount of 850 MHz frequencies used by Pelephone will be reduced to 5 MHz (instead of 10 MHz today) and this as of May 31, 2020. Pelephone forwarded to the Ministry of Communications, following his request, its reference to a number of issues and on March 17.

On June 1, 2020, Pelephone returned to the Ministry of Communications frequencies in the range of 850 MHz, with a width of 5 MHz, so that the amount of 850 MHz frequencies owned by Pelephone decreased from 10 MHz to 5 MHz. On November 26, 2020, the Ministry of Communications allowed Pelephone to reuse full 2X10 MHZs in the 850 range until March 31, 2021. On December 31, 2021, Pelephone stopped using one of the two 5 MHz-wide 850 channels and continued using a single 5 MHz channel On June 27, 2021, a decision was made by the Ministry of Communications regarding an extension of the allocation of frequencies in 850 MHz and 2100 MHz ranges that Pelephone holds, until December 31, 2030 (it is clarified that the extension of the 850 MHz frequency is subject to description above, regarding the exchange of frequencies in the first giga field).

3.8.2.4 Tender for advanced broadband services ("**the Tender**")

On August 12, 2020 Pelephone won the allocation of frequencies as a result of its participation in the tender for mobile radio telephone services in advanced 5G bandwidths. The following are the main points of the tender:

The Tender includes provisions regarding the coverage and quality requirements of the network that will be anchored as part of the amendment of the mobile radio telephone licenses of the existing operators (see amendment to Pelephone's license below).

The Tender including the possibility of receiveing the following incentives:

a. Discounts in the frequency fees for the first four years, subject to the approval of the Ministry of Communications and the Ministry of Finance.
b. Receipt of a conditional grant for the deployment of 5G sites according to the conditions specified in the Tender (such as meeting the scope of deployment, schedules, deployment period and timing of deployment

in relation to others and additional conditions set in the Tender). This grant was received in 2022.

For details, see also Section 3.19.2.1. For details regarding exposure to interference in the frequency ranges of Pelephone, see section 3.19.3.10.

The following are the conditions under which Pelephone won the allocation of such frequencies:

a. Winning at 10 Mega in the 700 MHz range (for a period of 15 years); at 20 Mega in the 2600 MHz range (for a period of 10 years); And at 100 Mega in the field of 3500 MHz (for a period of 10 years). The license period does not change as a result of the Tender and can be renewed in accordance with the license provisions (hereinafter: "**Frequency Allocation**"). It should be noted that the frequencies won by Pelephone are used exclusively by Pelephone network, which gives it a competitive advantage. It should also be noted that companies that do not own existing networks did not win the Tender.

b. Pelephone winning the frequency allocation involved a total payment of approximately NIS 88 million, which was made by Pelephone in September 2022. In this context, it should be noted that the Tender further stipulates that incentives may be obtained, as specified in above, including receiving a conditional grant for the deployment of 5G sites according to the conditions specified in the Tender, the amount of which, for all the winners, can reach a total amount of NIS 200 million. On October 27, 2021, a notice was received from the Ministry of Communications that Pelephone is entitled to this grant in the amount of NIS 74 million, and the grant was actually received in 2022. As part of the update of the regulations under which the frequency fees are paid, a reduction in the amounts of the fees for 2600 and 3500 MHz frequencies was determined, as well as a conditional annual discount from the total amount of the frequency fees to be paid by Pelephone in the next four years (the discount depends on the Company's compliance with graded annual engineering targets, which will be examined by the Ministry of Communications every year).

   On October 1, 2020, Pelephone's license was amended in accordance with the winning results (shortly before, Pelephone was allocated the frequencies at which it won as stated). With the amendment of the license, Pelephone began operating the frequencies which it won in the Tender at the broadcast sites upgraded by it.

   Said Frequency Allocation enables supporting the increase in the volume of browsing in the 4G and in the future offer services in the 5G at significantly higher browsing rates than those existing today, and will allow, among other things, expanding a variety of advanced cellular uses, such as smart cities, IoT services, mission critical services with low latency, private networks and more and all in order to provide a competitive solution in the market. It will involve ongoing investments.

   In this regard, see also Note 11 to the 2022 statements.

   Further to the non-binding document of principles published by the Ministry of Communications on August 14, 2022 regarding the continuation of the tender for 5G mobile radio-telephone services for the purpose of improving and consolidating the 5G capabilities and solutions that exist in the cellular networks today, on December 7, 2022 the Ministry published the 5G tender documents in the area of the 26th frequencies GHz, in which 25 bandwidths of 100 MHz are offered each (a total of 2,500 MHz), for congestion between the existing cellular operators (existing cellular networks), where each network is entitled to win up to 1,200 MHz (out of the 2,500). The tender consists of a stage of meeting the threshold conditions and a dynamic competition stage (the date of which has not yet been determined). The minimum price per band will also be determined later. Pelephone is studying the tender documents and its conditions and it and/or Bezeq is not in a position to assess, at this stage, its consequences.

3.8.3. Trademarks

Pelephone has a number of registered trademarks. The main one is the "Pelephone" brand.

3.8.4. Computer software, systems and databases

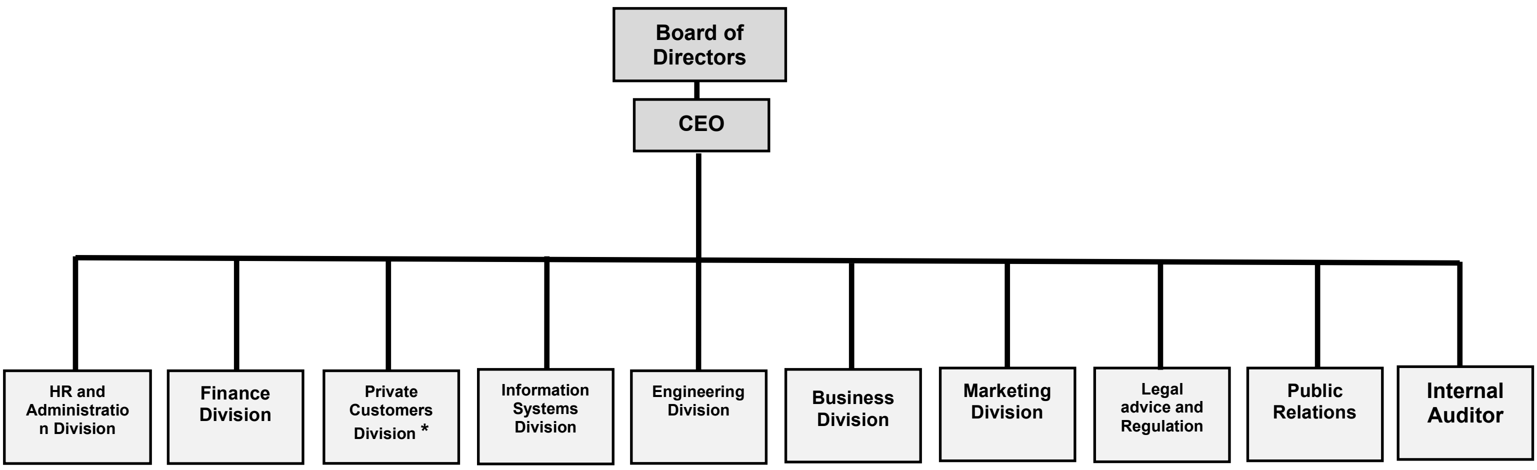
Pelephone uses software and computer systems, some based on licenses it has acquired and some developed by Pelephone's information systems division. Many of these licenses are limited in time and are renewed from time to time. The main systems used by Pelephone are an ERP system by Oracle Applications and a customer billing and management system by Amdocs.

Pelephone is also working to upgrade the CRM (customer management) to an advanced Salesforce cloud platform together with Bezeq International and DBS. Pelephone is dependent on the Salesforce system and services, due to their importance for the purpose of managing relationships with its customers. System failures or the cessation of services by this provider are likely to cause operational difficulty until the fault is rectified or the system / provider is replaced, which may take a long time

3.9. Human capital

3.9.2. Organizational structure

The following is a diagram of Pelephone's organizational structure, as of the date of the report:



As part of the implementation of the synergy processes with the Group's subsidiaries, Pelephone's CEO, Mr. Ilan Siegel, also serves as CEO of DBS. In addition, some of the VPs who serve on Pelephone also serve as VPs at DBS.

3.9.3. Employee base and number of jobs

The following is a breakdown of the number of employees in Pelephone according to its organizational structure:

Division	Number of employees	
	31.12.2022	31.12.2021
Management and administration divisions	194	192
Private and business customer divisions	1,128	1,190
Engineering and Information Systems Divisions	382	386
Total	**1,704**	**1,768**

The number of employees included in the table above includes employees employed part-time. The total number of jobs[59] at Pelephone as of December 31, 2021, was 1,529.

3.9.4. Terms of employment

Most Pelephone employees are employed under a monthly agreement or an hourly agreement, according to the professions and positions in which they are engaged. Most of the service and sales staff are part-time shift workers and are employed on an hourly basis. The other Pelephone employees are employed on a global basis. The main difference between the monthly and hourly agreements and the global agreements lies in the salary structure.

3.9.5. Collective agreement

The labor relations at Pelephone are regulated in a collective agreement signed between Pelephone and the new Histadrut - the Cellular, Internet and High-Tech Workers' Union ("**the Histadrut**") and the Pelephone Employees' Committee. The agreement applies to all Pelephone employees, with the exception of senior executives and certain employees in pre-defined positions who are employed by personal agreements.

On November 13, 2019, a renewal of the existing collective agreement was signed between the parties, which includes streamlining and synergy procedures, for a period of up to June 30, 2022 ("the **Agreement**").

Under the Agreement, Pelephone may, among other things, terminate the employment of 210 permanent employees during the term of the Agreement, some of them as part of a voluntary retirement. Moreover, the Agreement allowed Pelephone to terminate the employment of 190 additional non-permanent employees, in addition to not recruiting employees instead of employees the employment oh whom will be terminated. The Agreement also includes providing 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 between itself and the General Workers' Histadrut and its employee representative for the period from December 6, 2022 to December 31, 2025 ("**the Agreement**" and "**the Agreement Period**", respectively) under new conditions. According to the Agreement, salary increases and bonuses will be given, ancillary conditions will be improved and the labor disputes announced by the General Workers' Histadrut and the employees' representatives will be settled (with the exception of one issue detailed in Section 3.9.5) while maintaining industrial peace during the validity period of the agreement in the matters regulated therein. The total estimated cost of the Pelephone agreement, including the voluntary retirement of employees whose retirement has been approved, is about NIS 71 million.

Pelephone's estimates regarding the cost of the Agreement are forward-looking information, as defined in the Securities Law, based, among other things, on its assumptions regarding the manner and scope of the retirement plan implementation and additional conditions stipulated in the agreement. These estimates may not materialize, or materialize in a different way than expected, depending, among other things, on the manner and scope of the actual implementation of the agreement and the retirement plan, taking into account Pelephone's needs and its ability to implement its plans and the fulfillment of additional conditions stipulated in the Agreement.

For this matter see also Note 16 to the 2022 statements.

3.9.6. Labor disputes

On January 31, 2018, Pelephone was notified by the Histadrut ("**the Histadrut Notice**") of the declaration of a labor dispute in accordance with the Labor Disputes Settlement Law, 5717-1957. According to the Histadrut Notice, the issues in the dispute are the employees' requirements for consultation and negotiations regarding the sale of Bezeq's controlling shares to the new owners and the regulation of their rights as a result.

[59] The calculation of the number of "jobs" in Pelephone is: the total monthly working hours divided by the monthly working hours quota.

On December 6, 2022, a collective agreement was signed that includes renewal of the agreement period from the date of signing until December 31, 2025. As part of the agreement, all open labor disputes were removed, with the exception of the issue of appointing a representative to Pelephone’s Board of Directors on behalf of the employees, which was stipulated in the agreement to be discussed later.

3.10. Suppliers

3.10.2. End equipment suppliers

Pelephone purchases some of the end equipment and accessories from different providers in Israel, and imports some independently. In addition, Pelephone purchases end equipment and accessories by way of purchase consignation with the right to return to the end equipment suppliers. Contracts with some suppliers are based on framework agreements that regulate, *inter alia*, the supplier's technical support for the end equipment provided thereby, the availability of spare parts and repairs and the supplier's warranty for the products. In most cases, these agreements do not include an obligation on Pelephone's part to make purchases, and they are executed on an ongoing basis through a purchase order according to Pelephone's needs.

In the event of a termination of contract with a particular end equipment supplier, Pelephone may increase the quantity purchased from other end equipment suppliers, or purchase end equipment from a new end equipment supplier.

Pelephone’s essential suppliers are Apple, with whom there is an agreement that requires defined procurement targets and is valid until March 2024, and Samsung, with which Pelephone does not have an agreement that requires the purchase of a minimum annual quantity and the purchases are made on the basis of orders made by Pelephone from time to time.

Pelephone purchases rate from each of the suppliers Apple and Samsung in 2022 was approx.13.3% and approx. 11.6% (respectively) of Pelephone’s total purchases from all of Pelephone’s suppliers[60]. The distribution of peripheral equipment purchases among suppliers is such that it does not create a material dependence on the supplier or model of equipment.

It should be noted that a global chip shortage caused, among other things, a shortage and difficulties in the supply of end equipment from Bezeq's main suppliers.

3.10.3. Infrastructure providers

Cellular infrastructure equipment in the UMTS, LTE and the 5G networks are provided by LM Ericcson Israel Ltd. ("**Ericcson**"). Ericcson is also a significant supplier of Pelephone in the field of microwave transmission. Pelephone has multi-year agreements for maintenance, support and software upgrades for the UMTS network, as well as an agreement for the purchase of 4G (LTE) and 5G equipment with Ericsson, and in its opinion it may be dependent on it in connection with network support and expansion. In addition, the cellular network uses transmission, and Bezeq is a significant supplier of Pelephone in this field.

Pelephone has a multi-year transmission agreement with Bezeq that includes use and maintenance.

3.11. Working equity

<u>Credit policy</u>

Credit in device sales transactions - Pelephone gives most of its customers who purchase mobile phones the option to spread the payments up to 36 equal payments. In order to reduce exposure that may arise as a result of providing credit to its customers, Pelephone operates in accordance with a credit policy that is reviewed from time to time. Pelephone also checks the financial strength of its customers (in accordance with the parameters set by it).

60 All suppliers - All of Pelephone’s suppliers, including suppliers who are not suppliers of end equipment and electronic devices. The rate of purchases from suppliers Apple and Samsung out of the total purchases of the Bezeq Group from all its suppliers is approximately 7.2% and 5.8% (respectively).

Monthly billing credit for cellular services - Pelephone customers are charged once a month with billing cycles, performed on different dates throughout the month, for the consumption of last month's cellular services.

Pelephone receives credit from most of its providers for a period ranging from 30 days to end of month + 92 days.

The following are data regarding average suppliers' and customers' credit in 2022:

	Credit volume in NIS millions	Average credit days
Customers for the sale of end equipment (*)	505	259
Customers for services (*)	200	35
Suppliers	245	44

(*) Net of loan-loss

3.12. Taxation

See Note 7 to the 2022 statements.

3.13. Environmental risks and ways of managing them

3.13.2. The provisions of the law concerning the environment and apply to the activities of Pelephone

The broadcast sites used by Pelephone are "radiation sources" in accordance with the Non-Ionizing Radiation Law. The establishment and operation of these sites, with the exception of sites listed in the appendix to the law, requires the receipt of a radiation permit.

The law establishes a two-stage licensing mechanism for obtaining a permit to operate a radiation source, according to which the applicant for a permit must first obtain a permit to establish the radiation source ("**Establishment Permit**"), valid for a period not exceeding three months, which can be extended by the Commissioner by up to 9 months, followed by a permit to operate a source of radiation ("**Operating Permit**"), which is valid for a period of five years or as otherwise determined by the Minister of Environmental Protection.

With regard to the Establishment Permit, the law stipulates the granting of the permit by performing an assessment of the maximum levels of exposure of people and the environment to the radiation expected from the radiation source when it is activated, including in the event of a malfunction; And taking the necessary measures to limit the levels of exposure of humans and the environment to the radiation expected from the radiation source when it is activated, including the use of technological means in use ("**Limitation Means**").

With regard to the Operating Permit, the law stipulates the granting of the permit by the taking of measures to limit and make measurements of the levels of exposure of humans and the environment to the radiation generated during the activation of the radiation source. The law also conditions the granting of an Operating Permit by presenting a license in accordance with the Communications Law, and in some cases, also by presenting a permit under the Planning and Construction Law.

The law includes a penalty chapter which stipulates, *inter alia*, that the construction or operation of a radiation source in violation of the terms of the permit and the construction or operation of a radiation source without a permit after receiving written notice from the Commissioner, are a criminal offense.

It will be noted that regulating the maximum permissible levels of exposure of human beings to radiation from a radiation source and the safety ranges from transmission facilities to communications, including the restriction on placing a radiation source on roof terraces, is still in the process of legislation with the Knesset's Interior Committee on the Environment, as part of an amendment proposed to the regulations under the Non-Ionizing Radiation Law, which was accompanied with disagreements between government ministries.

In January 2009, the Commissioner for Radiation at the Ministry of Environmental Protection issued guidelines regarding safety ranges and maximum permitted levels of exposure regarding radiation from radio frequencies, including cellular antennas.

It should also be noted that the Ministry of Environmental Protection operates a system of continuous supervision and monitoring of the broadcasting centers to check their compliance with the requirements of the law.

Cellular services are provided through a mobile phone that emits non-ionizing radiation (also known as electromagnetic radiation). The Consumer Protection Regulations (Information on Non-Ionizing Radiation from a Mobile Phone) 5762-2002 stipulate the maximum permissible level of radiation of a cellphone measured by units SAR (Specific Absorption Rate) and informing Pelephone's customers in this context. To the best of Pelephone's knowledge, all the cellular devices it markets meet the required SAR standards. See also section 3.19.2.5.

3.13.3. Pelephone policy in environmental risk management

Pelephone conducts periodic radiation tests to ensure compliance with permitted operating standards and international standards. These tests are outsourced to companies licensed by the Ministry of Environmental Protection. Pelephone has an internal enforcement procedure for supervising the implementation of the provisions of the Non-Ionizing Radiation Law, according to which a senior administrative body has been appointed as responsible for its implementation. The purpose of the procedure is to implement the provisions of the law and to reduce the possibility of violating it.

3.13.4. Transparency to consumers

Pelephone is subject to relevant laws that stipulate advertising obligations and information about the sources of radiation that it operates and about the radiation emanating from the devices it provides. Pelephone publishes information on its website regarding the level of SAR emitted from cell phones and the Ministry of Health's recommendations for precautionary measures in the use of cell phones.

3.14. Restrictions and supervision of Pelephone’s operations

3.14.1. Legislative restrictions

3.14.1.1 Communications Law

The provision of cellular services by Pelephone is subject to the provisions of the Communications Law and its regulations. For details regarding the mobile radio telephone license 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 due to various violations of the provisions of the law and of orders and provisions issued under it, as well as due to violation of conditions in the license.

3.14.1.2 Wireless Telegraph Order

The Telegraph Order regulates the use of the electromagnetic spectrum, and applies, among other things, to the use of radio frequencies made by cell phones, as part of its infrastructure. Establishment of a system that uses and operates radio frequencies is subject, under the Telegraph Order, to licensing, and the use of radio frequencies is subject to the designation and allocation of an appropriate frequency. According to the Telegraph Order, license fees and fees are imposed for the designation of frequencies and their allocation. The Order authorizes the Ministry of Communications to impose financial sanctions due to various violations of its provisions.

For radio frequencies assigned to cell phones, see section 3.8.2.

3.14.1.3 The Non-Ionizing Radiation Law

With respect to facilities that emit electromagnetic radiation see section 3.13.

3.14.1.4 Consumer legislation and privacy protection and information security laws

As part of its activities, Pelephone is subject to the Consumer Protection Law, which regulates a dealer's obligations to consumers, as well as the laws of privacy protection and information security (see Section 1.7.7.4).

3.14.1.5 Change in interconnectivity fee rates (Call Completion Fee)

Interconnectivity rates are set by the regulator. For details see Section 1.7.7.1.

3.14.2. Pelephone's mobile radio telephone license

3.14.2.1 General

Pelephone's mobile radio telephone license as well as the general license to provide cellular services in the Judea and Samaria area are valid until September 9, 2022[61].

The following are the main instructions from Pelephone's mobile radio telephone license:

a. In certain circumstances, the Minister may change the terms of the license, restrict it or suspend it and, and in some cases even cancel it.

b. The license is not transferable and includes restrictions on the purchase or transfer (including by way of lien) directly or indirectly of control or of 10% or more of any means of control in Pelephone, including the lien of such means of control, unless the Minister's prior consent is given.

c. Pelephone is obligated to provide an interconnectivity service on equal terms to any other operator and must avoid any discrimination in interconnectivity.

d. Pelephone must refrain from preference of providing infrastructure services to a licensee who is an affiliated company (as defined in the license) over another licensee.

e. The license specifies the mobile radio telephone services that Pelephone may provide and states that it is not allowed to provide additional mobile radio telephone services that are not specified in the license.

f. Pelephone may not sell, rent, or mortgage property from the properties used to carry out the license without the consent of the Minister of Communications, except for certain exceptions set forth in the license.

g. In times of emergency, the person authorized by law has the authority to give Pelephone various instructions regarding the manner of its operation and / or the manner of providing the services (see section 3.19.2.9).

h. The license specifies the types of payments that Pelephone may charge its subscribers for cellular services, and the reports it must give to the Ministry of Communications. The license also stipulates the authority of the Minister to intervene in rates, in some cases.

[61] The wording of Pelephone’s mobile radio telephone license is published on the website of the Ministry of Communications at www.moc.gov.il. The provisions of the mobile radio telephone license applies on the license in the Judea and Samaria area (with certain changes)).

i. The license requires Pelephone to a minimum standard of service.

j. In order to secure Pelephone's obligations and in order to compensate and compensate the State of Israel in the event that Pelephone's action causes it damage, Pelephone provided a bank guarantees to the Ministry of Communications, in the amount of NIS 69 million.

3.14.2.2 Ministry of Communications guidelines regarding license changes

The Ministry periodically updates Bezeq’s license on various issues, as part of hearings held by it.

3.14.3. Site construction licensing

Pelephone's cellular services are provided, among other things, through cellular sites that are deployed throughout Israel in accordance with engineering needs. The constant need to upgrade and improve the quality of cellular services requires the establishment of cellular sites, configuration changes, and changes to existing antenna arrays.

Pelephone uses transmission sites of two main types and in two tracks: macro sites that require a building permit from the Planning and Construction Committees (see reference to National Outline Plan 36A below) and facilities exempt from a building permit under the Communications Law and the planning and Construction Law ("**Exemption Provision**"): Wireless access facilities ("**Access Facilities**") for which regulations were published in 2018 regulating the self-licensing route based on compliance with the provisions of National Outline Plan 36 and allowing self-licensing for the establishment of certain transmission facilities. On January 1, 2022, a series of legislative amendments entered into force within the Arrangements Law, which Define the cellular infrastructure as a national infrastructure and create a self-licensing route for certain cellular antennas and for making adjustments to the various transmission facilities, instead of establishing new access facilities, as detailed below.

Pelephone's ability to maintain and preserve the quality of its cellular services, as well as its coverage, is based in part on its ability to establish cellular sites and install infrastructure equipment, including broadcasting sites. The difficulties encountered by Pelephone in obtaining the necessary permits and approvals can adversely affect the existing infrastructure, the network's performance as well as the establishment of additional cellular sites required by the network. Difficulties in deployment also exist in the Judea and Samaria area, for which a special legal system applies.

The inability to resolve these issues in a timely manner may even prevent the achievement of service quality targets set forth in the mobile radio telephone license.

Pelephone, like the other cellular operators in Israel, established some of the cellular sites throughout Israel on properties managed by the Israel Land Authority. This is, among other things, in accordance with the roof contract from June 2013 that ended on December 31, 2019. After lengthy negotiations on November 23, 2022 a new roof contract was signed which will be valid until 31.12.2024 with various changes compared to the roof agreement.

a. Building permits for the construction of a transmission facility for cellular communications by virtue of National Outline Plan 36A:

Licensing of the construction of cellular transmission sites subject to building permits, regulated by National Outline Plan 36A, which came into force in 2002.

The licensing procedure according to NPA 36A requires, *inter alia*, the receipt of approvals as follows: A. Approval of establishment and operation by the Ministry of Environmental Protection, as specified in section 3.13.1; B. Approval of the Civil Aviation Administration, in some cases; C. IDF approval.

In addition, according to the law, a condition for granting a permit for the establishment of a transmission facility for cellular communications is the submission of a letter of indemnity to the local committee in respect of claims for compensation for impairment. As of the date of this report, Pelephone has deposited approximately 650 indemnity letters with various local committees.

Despite NPA 36A in its existing format, Pelephone (and to the best of its knowledge, also from its competitors) encounters difficulties in obtaining some of the necessary approvals, especially the approvals of the planning and construction authorities.

b. Facilities exempt from building permits:

The second route in which Pelephone has deployed broadcast sites so far is the Access Facilities route. The Access Facilities were subject to the receipt of individual radiation permits but are exempt from obtaining a building permit provided that they are established under the conditions set forth in the exemption directive (Article 266C (a) of the Planning and Construction Law (installation of a wireless access facility for cellular method), 5778-2018 and the regulations. However, in view of the amendment to the Planning and Construction Law set forth in the Arrangements Law and the new self-licensing route according to it (see below), the route of the Access Facilities became redundant.

As of the date of the report, Pelephone operates about 451 wireless access sites**.**

It should be noted that in spot enforcement proceedings, which are taken from time to time, additional allegations arise regarding the manner in which the exemption is used, including compliance with regulations. To the extent that there are Pelephone facilities that do not meet the conditions set forth in the regulations, there is exposure in respect thereof if the dismantling or adjusting of those facilities becomes necessary.

As part of the Arrangements Law, which entered into force on January 1, 2022, an amendment was received to the Planning and Construction Law, which includes the removal of regulatory barriers regarding the establishment of sites. The main amendment is the granting of an exemption from licensing procedures for placing and using facilities up to 6m on the roof of a building, an exemption for replacing a transmission facility, an exemption for adding an antenna to a transmission facility established under the Planning and Building Law and an exemption for replacing masts up to 18m high. The amendment to the Planning and Construction Law also includes a new classification of "transmission facilities for communications using the Thai method", as defined in Article 202B of the Planning and Construction Law, as "national infrastructure", and a new classification of NAP 36A as "a detailed national master plan for national infrastructure". The amendment to the Planning and Building Law facilitates the replacement of antennas, the addition of an antenna to existing sites, and the strengthening of masts. All, under the technical and practical conditions set out in the amendment. These facilities will continue to meet all the conditions of NAP 36 and spatial guidelines of the local committees, with the actual meaning of the amendment being the possibility of a "self-licensing" route - that is, performing a self-licensing and control procedure in the above cases, and submitting documents to the Planning and Construction Committee retrospectively (after the completion of the construction of the sites). Simultaneously with this amendment, an amendment was also established to the definition of "wireless access facility" in Article 27A of the Communications Law. As part of the aforesaid amendment, a "transmission facility for communication in the cellular method as defined in Article 266C2 of the Planning and Building Law" was removed from the definition of a "wireless access facility". This means that the wireless access facilities that were set up with an exemption from a permit continue to exist, but it is no longer possible to set up new mobile sites in the "access facilities" route, which is listed above).

As part of the report of the inter-ministerial committee that served as the infrastructure for amendments to the Arrangements Law, it was also recommended to update NPA 36A, which came into force about twenty years ago.

At this stage it is not possible to estimate the future consequences as a result of the amendments.

On November 14, 2021, Pelephone signed a framework agreement to expand the local collaboration in the establishment of passive infrastructure on joint mobile sites together with Cellcom and PHI Networks (2015) Limited Partnership. In August 2022, the Ministry of Communications approved the agreement. This agreement may help establish joint mobile sites.

In conclusion: A few sites that were established years ago still lack the approvals of the Civil Aviation Administration and the IDF, although the applications for approvals have already been submitted. Also, some planning and construction committees have administrative or other delays in issuing building permits to sites. Therefore, Pelephone operates a number of broadcasting sites that have not yet been issued building permits.

The establishment of a broadcasting site without obtaining a building permit is a violation of the law and in some cases this has led to the issuance of demolition orders or the filing of indictments or the filing of civil proceedings against Pelephone and some of its officers.

As of the date of the report, Pelephone has in most cases been able to avoid demolition or delay the execution of demolition orders within the framework of arrangements reached with the planning and construction authorities, in order to try to settle the missing license. These arrangements did not require a confession of guilt and / or a conviction on the part of Pelephone officials. However, there is no certainty that this situation will continue in the future, or that there will be no further cases in which demolition orders will be issued and indictments will be filed for building permits, including against officers.

Pelephone, like the other cellular operators in Israel, may be required to dismantle transmission sites for which the necessary approvals and permits have not yet been obtained in accordance with the deadlines set by law. Pelephone uses the license-exempt facilities to provide coverage and capacity in crowded areas. If a legal constraint is created for the simultaneous dismantling of the sites in a given geographical area, there may be a deterioration in the service in that area, until the establishment of alternative broadcasting sites.

3.14.4. Economic Competition Law

In the terms of the merger of Pelephone and the Company, various restrictions are anchored regarding cooperation between the companies (see Section 2.16.9.4).

3.15. Material agreements

3.15.1. For agreements with Ericsson, see section 3.10.2.

3.15.2. In July 2016, an agreement was signed between Pelephone and the Accountant General of the Ministry of Finance, according to which Pelephone will provide cellular services to state employees in an estimated 100,000 subscribers over three years. Under the agreement, Pelephone provides devices to some Accountant General subscribers.

The State chose to exercise the extension options granted to it in the agreement, and the agreement was extended until May 2, 2023.

3.15.3. Regarding an agreement with ILA (which expired and has not yet been renewed) see section 3.7.2.2.

3.15.4. Regarding a collective agreement between Pelephone and the Histadrut and Pelephone's Employees' Committee, see section 3.9.4.

3.16. Legal Proceedings[62]

During the day-to-day business, lawsuits were filed against Pelephone, including motions for approval of class actions.

3.16.2. Pending legal proceedings

The following is a list of the claims in which the amount claimed is material and claims that may have material consequences for Pelephone's operations:

[62] For reporting policy and materiality thresholds, see section 2.18.

	Date	Parties	Instance	Proceeding type	Details	Amount of the claim (NIS millions)
a.	May 2012	Customer vs. Pelephone	District (Tel Aviv)	Class action lawsuit	It is claimed that Pelephone does not inform customers who wish to join its services with a device that was not purchased from Pelephone, that as long as the device does not support the 850 MHz frequency, they will enjoy partial reception of one frequency and not two. In March 2014, the Court approved the lawsuit as a class action, following Pelephone's announcement regarding its consent (for reasons of efficiency) to the management of the lawsuit as a class action, while maintaining its claims. The procedure is split into two stages (the stage of clarifying liability and the stage of quantifying damages, as necessary in stage two). On January 20, 2019, a decision was given in the sale case under Pelephone's responsibility for the claim in the lawsuit, on the grounds of deception under the Consumer Protection Law and on the grounds of lack of good faith in negotiations, in relation to the period up to the date of the decision to approve the claim as a class action (March 2014). Depending on the decision and previous decision in the case the next step in the hearing of the case will be on the question of the alleged damage.	About 124
b.	July 2014	Customer vs. Pelephone, three other cellular companies and additional respondents	District (Tel Aviv)	Monetary claim and a motion to recognize it as a class action	It was alleged that Pelephone, along with three other cellular companies, signed up subscribers to content services without their consent and illegally, thereby creating a "platform" that led the Accutech Group to charge tens of thousands of people for illegal content services.	About 100 in relation to the cellular companies and about 300 against all the defendants
c.	April 2017	Customer vs. Pelephone	District (Tel Aviv)	Monetary claim and a motion to be recognized as a class action	It is alleged that the defendant unilaterally and without consent changed the terms of the agreement between itself and the applicant, and others like it, by allowing browsing to continue after exhausting the browsing volume included in the package instead of stopping it, contrary to Pelephone’s notice on the issue	About 80
d.	October 2017	Customer vs. Pelephone and Partner	Central District	Monetary claim and a motion to be recognized as a class action	It is alleged that the defendants are illegally using the location data of their clients and thus violating the contract agreements with them, the operating licenses and various laws, including the Privacy Protection Law, 5741-1981.	About 850
e.	April 2019	Customer vs. Pelephone, Bezeq International and 6 other companies	Central District	Monetary claim and a motion to be recognized as a class action	It is claimed that the respondents do not inform their customers as required about the possible dangers of using the Internet and about the possibility of joining a free content filtering service, contrary to the provisions of the Communications Law. In addition, the respondents provide a website and offensive content filtering service that they claim is not effective enough. According to the petitioners, the aforesaid constitutes, *inter alia*, a violation of the provisions of the Consumer Protection Law, a violation of debts under the Torts Order, a breach of contract and unjust enrichment.	The amount of the lawsuit is not specified, but in the motion it is estimated at tens of millions of NIS
f.	January 2023		Haifa District Court	Monetary claim and a motion to be recognized as a class action	It is alleged that there is no price marking on products sold by Pelephone, contrary to the provisions of the Consumer Protection Law and the provisions of the Consumer Protection Regulations (various rules for publishing prices of properties and services), 5751-1991.	Over NIS 2.5 million. Impossible to accurately estimate.

3.16.3. Legal proceedings concluded during the reporting period

	Claim filed	Parties	Instance	Proceeding type	Details	Original claim amount (NIS millions)
a.	November 2013	Customer vs. Pelephone	Tel Aviv District Court	A monetary claim with a motion for approval as a class action	It is claimed that Pelephone does not grant benefits in the same way to all of its customers and thus discriminates between customers that Pelephone "prefers" according to the plaintiff, and other customers, and this, according to him, is contrary to Pelephone's license and the law. In December 2019, a judgment was issued dismissing the motion without an order for expenses. An appeal filed against the judgment (consolidated together with the motion in Paragraph B) was dismissed on July 7, 2022.	Approx. 300
b.	May 2015	Customer vs. Pelephone	Tel Aviv District Court	A monetary claim with a motion for approval as a class action	It is claimed that Pelephone does not offer the "Walla Mobile" plans to all of its existing and new customers who apply to switch to another route, and this in a way that violates the license provisions requiring equal treatment, thus misleading its customers. The proceedings in the case were consolidated with another case in view of the similarity between the proceedings. In December 2019, a judgment was issued dismissin the motion without an order for expenses. An appeal filed against the judgment was dismissed on July 7, 2022.	The amount of the claim is not specified, but in the application it is estimated in millions of NIS.
c.	October 2016	Customer vs. Pelephone and Cellcom	Lod District Court	A monetary claim with a motion for approval as a class action	It is claimed that the defendants do not allow their customers to use the full package abroad, through a restrictive condition according to which the package can be redeemed for a very short period (week to a month only) when at the end of that period, the balance of the unused package expires and no refund is given for it. On April 5, 2020. A judgment was issued dismissing the motion. The applicants' appeal against the dismissal of the motion for approval was dismissed on April 26, 2022.	* Claim in unknown amount
d.	April 2018	Customer vs. Pelephone	Tel Aviv District Court	A monetary claim with a motion for approval as a class action	It is claimed that Pelephone markets and sells to its customers a repair service with a commitment for unreasonable periods of time, without the possibility in the agreement to cancel the transaction during the commitment period and/or transfer the service to another mobile device. On July 21, 2020, a judgment was issued confirming the settlement arrangement, the main of which are certain changes in the repair service under the obligation and the provision of benefits to its relevant customers in a total amount of approximately NIS 640k.	The amount of the claim is not specified.
e.	January 2020	Customer vs. Pelephone	Tel Aviv District Court	A monetary claim with a motion for approval as a class action	It is claimed that Pelephone forces every customer who purchases from it, through the website or in the application on the cell phone, a communication package abroad - which includes calls and/or surfing the Internet, to give their consent to receive advertisement messages from it. On November 27, 2022 a decision was issued striking out the motion.	The amount of the claim is not specified.

3.17. Targets and business strategy

Pelephone's strategic targets are continued growth in its customer base while promoting a variety of packages and solutions to customers and promoting services based on the 5G network, continuing to develop innovation and network technologies and providing excellent service and improvement in the cost structure.

3.18. Expected development in the coming year

In 2023, a number of factors are expected to affect Pelephone's activity, the main ones being:

3.18.2. Continuing competition and increasing the value to the customer

Pelephone expects that in 2023, the competition will focus on increasing the value and volume of browsing to the customer.

3.18.3. Cellular network innovation and products

In 2023, Pelephone is expected to continue to promote services and products that will enable increased revenue and image advantage over competitors: private networks, cyber and IoT services and continued focus on large device launches, at the same time as the implementation of the deployment plan of the 5G network.

3.18.4. Increasing service consumption by Pelephone subscribers

Pelephone expects that as a result of an increase in the volume of browsing offered to the customer, and increasing the marketing of service packages based on the 5G network, the trend of increasing the consumption of data communication volume on the network will continue.

3.18.5. Digital transformation

In 2023, Pelephone is expected to continue to develop and expand its digital service and sales channels.

3.18.6. 5G network

In 2023, Pelephone is expected to continue the deployment of the 5G network, the construction of an independent network core, and the marketing and sale of services based on this technology.

Pelephone's assessments and expectations regarding developments in the coming year presented in this section above are forward-looking information within its meaning in the Securities Law. These assessments and expectations are based, among other things, on the state of competition in the cellular field, the existing regulatory situation and the manner in which the new regulatory changes are implemented. These assessments may not materialize, or materialize in a materially different way than described above, depending, *inter alia*, on the structure of competition in the market, changes in the consumption habits of cellular customers, technological developments and regulation begun in the field.

3.19. Discussion of risk factors

The following are risk factors arising from the macroeconomic environment, the unique characteristics of the industry in which Pelephone operates, and risk factors unique to Pelephone.

3.19.1. Macroeconomic risk factors

3.19.1.1 Exposure to changes in exchange rates and inflation - Pelephone is exposed to risks due to changes in exchange rates as most purchases of end equipment, accessories, spare parts and infrastructure are made in US dollars, while Pelephone's income is in shekels. Erosion of the shekel against the dollar could hurt Pelephone's profitability if it is not possible to adjust selling prices (mainly of end equipment) in the short term. Also, changes in price indices may affect site rental costs.

3.19.1.2 Epidemic and supply chain - outbreaks of diseases and epidemic events in general (such as the outbreak of COVID-19 in 2020) may have consequences for Pelephone's business activities depending on the extent of the spread and its severity, as well as the national and global measures that will be taken as a result. These consequences may be reflected, among other things, in damage to Pelephone's operations and its customer service system, as well as in damage to the supply chain. Events of this type are changing events that are not under Pelephone's control, and their consequences are subject, among other things, to the decisions of states and authorities in Israel and around the world that may affect the Company accordingly.

3.19.1.3 Damage caused by nature, war, disaster - damage to the switching farms and / or servers (including damage to a large number of sites, for example from an earthquake) on which Pelephone concentrates its core activity, may adversely affect Pelephone's business and its results.

3.19.2. Industry risk factors

3.19.2.1 Infrastructure investments and technological changes - the cellular market in Israel and around the world is characterized by significant capital investments in the deployment of infrastructure. Frequent technological changes in the field of infrastructure and end equipment, as well as the difficult struggle over various market segments, impose high costs on the companies operating in the market, which are forced to update their infrastructure technologies from time to time.

3.19.2.2 Competition - the cellular market in Israel is characterized by saturation in the penetration rate, fierce competition and a high number of operators, and is also exposed to effects as a result of technological and regulatory developments. The costs of setting up, maintaining and operating the cellular network in relation to the number of subscribers are expected to be higher in Pelephone in light of the fact that it does not operate in the network sharing model. The end equipment market is also characterized by fierce competition between cellular operators and in front of stores that sell end equipment in parallel imports.

3.19.2.3 Customer credit – a significant portion of the sales of end equipment is done by granting credit. The vast majority of this credit that is not covered by collateral is at risk. It should be noted, however, that the credit is spread among a large number of customers and Pelephone has efficient and experienced collection mechanisms.

3.19.2.4 Regulatory developments - in the field of Pelephone's activities, there is a trend of legislation and standards in connection with issues such as increasing competition, setting rates, the environment, product warranty and ways of repair thereof, regulating interconnectivity rates and more. The regulatory intervention in the field of activity may materially affect the structure of competition and the operating costs of Pelephone.

3.19.2.5 Electromagnetic radiation - Pelephone operates thousands of transmission facilities and sells end equipment that emits electromagnetic radiation (see section 3.13). Pelephone works to ensure that the levels of radiation emitted from the transmission facilities and end equipment sold by it do not exceed the permissible radiation levels according to the guidelines of the Ministry of Environmental Protection (determined in accordance with international standards). Although Pelephone operates in accordance with the guidelines of the Ministry of Environmental Protection, if it turns out that there are health risks or if there are deviations from the radiation facilities at the transmission sites or end equipment, which has a health risk, this may have an adverse effect due to reduced use of Pelephone services, difficulty in renting sites, claims for compensation for bodily and property damages to a considerable extent and attempts to implement indemnity deeds deposited by planning institutions in connection with Article 197 of the Planning and Construction Law. Pelephone's third party insurance policies do not currently cover insurance for electromagnetic radiation.

3.19.2.6 Website licensing - construction and operation of cellular antennas, requires building permits from the various planning and construction committees, a procedure that requires, among other things, obtaining approvals from government bodies and series bodies. For a list of the difficulties encountered by Pelephone in setting up and licensing websites, see Section 3.14.3. These difficulties can impair the quality of the existing network and even more so the deployment of a new network.

3.19.2.7 Serious faults in the information systems and engineering systems - Pelephone provides its services through various infrastructure systems, including, among others, switches, data transmission and access transmission networks, cables, computer systems, physical infrastructure and more (“the systems"). Pelephone businesses have a high dependence on these systems. Some Pelephone systems have backup, but at the same time, in the event of damage to some or all of the above systems, either due to a large-scale technical malfunction, due to a natural disaster (such as an earthquake, fire, etc.), or due to damage to physical infrastructure and due to malicious damage (such as the introduction of viruses and cyber attacks as detailed below), there may be significant difficulties in providing services, including in the event that Pelephone is unable to return the systems to service quickly.

3.19.2.8 Information security, customer data protection and cyber risks - as a leading cellular company that provides service to millions of customers, Pelephone is a target for cyber attacks, which aim to harm the use of information systems or the information itself (“**Cyber Attacks**”). This type of assault activity or intrusion event may cause business disruption, information / money theft, damage to databases and subscribers' privacy, damage to reputation, damage to systems and information leakage which may also be caused by an internal party, maliciously or inadvertently

Pelephone is a body guided by the State Information Security Authority of the Prime Minister's Office as well as by the Ministry of Communications, and it is committed to complying with strict information security standards. In this framework, Pelephone implements a protection policy that includes the most advanced security systems in the world, which are installed using the method of layers of protection and are operated in a configuration that combines effective security with Pelephone's operational needs and security circuits to protect Pelephone's infrastructure and systems, which are designed to prevent and reduce the possibility of exploiting Pelephone’s data by an external party or maliciously or inadvertently by an internal entity, as well as the possibility of an external party taking over and managing network components or abusing information about Pelephone's infrastructure and networks in some way. In this framework, various actions are performed, including checking alerts and logs in the systems, implementing various information security products according to the threat outline, periodic risk surveys and practice according to an annual plan.

Pelephone complies with the standard of the Prime Minister's Office which defines a level of protection against an attack by a hostile country related to information security (standards that define a level of protection of the Company's systems against information security threats) and within the framework of implementing the requirements of the standards, Pelephone ensures the availability, integrity, reliability and confidentiality of the databases under its responsibility.

Pelephone supervises the implementation of its protection policy, which includes testing its level of effectiveness and the Company's readiness. In this framework, the company carries out tests and attack exercises with different frequency for different scenarios (including through external companies specializing in the field). Also, Pelephone's Board of Directors is involved in and supervises the management of cyber risk at Pelephone, and this is within the framework of dealing with Pelephone's overall risk management policy. In the Company's estimation, its risk management policy in dealing with and reducing the cyber risk is effective.

The cyber risk management policy and its implementation is the responsibility of the Information Systems Division, Infrastructure Division.

Despite Pelephone's investments in measures to reduce the aforementioned risks, it cannot guarantee that these measures will succeed in preventing damage and/or interference that may also be significant in the systems and information related to them.

3.19.2.9 Economic emergency - in times of emergency, certain provisions of the legislation and provisions of the mobile radio telephone license allow persons authorized under the law to take steps required to ensure state security and / or public safety, including: charging Pelephone (as a mobile radio telephone license holder) to give service to the security forces, comandeering of engineering equipment and facilities of Pelephone, and even taking control of Pelephone’s system.

3.19.2.10 Lack of frequencies - for details on the lack of frequencies, see section 3.8.2.1. In many cases, frequency allocation is carried out through tender procedures, in a manner that may increase the costs of purchasing the frequencies and place the cellular companies that do not receive the allocation as part of the tender at risk of competitive inferiority.

3.19.3. Risk factors unique to Pelephone

3.19.3.1 Property risks and liabilities - Pelephone is exposed to various property risks and liabilities. Pelephone is assisted by an external insurance consultant who is an expert in the field. Pelephone has insurance policies that cover the risks that are acceptable to them, Pelephone is subject to the limitations of the terms of the policies, such as: various property insurance, various liability insurance, loss of profits, third-party liability insurance and officers' insurance. However, Pelephone's insurance policies do not cover certain types of risks, including certain malfunctions caused by negligence or human error, radiation risks, terrorism and more.

3.19.3.2 Serious faults in the cellular network - Pelephone's cellular network is spread throughout Israel through the network's core sites, antenna sites and other systems. Pelephone’s sytems are completely dependent on these systems, which are sometimes, temporarily, in a state of partial survival. Malicious damage or malfunction on a large scale can adversely affect Pelephone’s business and its results.

3.19.3.3 Epidemic malfunctions in devices - various exposures resulting from Pelephone's liability as an importer due to manufacturer malfunctions in devices that will not be supported by the manufacturers.

3.19.3.4 Legal proceedings - Pelephone is a party to legal proceedings, including class actions, which may result in a charge of substantial amounts, which cannot be estimated, and no provision has been made for some of them in Pelephone’s financial statements. These class actions can reach large sums, as a substantial portion of the state's residents are consumers of Pelephone, and a claim relating to a small damage to a single consumer may become a material claim to Pelephone if it is recognized as a class action applicable to all or a significant portion of consumers.

3.19.3.5 Significant suppliers and customers - for agreements with significant suppliers and customers, see sections 3.10 and 3.15. Some of Pelephone's agreements, including with its key customers, are timed. There is no certainty that these agreements will be renewed at the end of their term or that options granted to customers to extend them will be exercised.

3.19.3.6 Labor relations - Pelephone has a collective agreement with the Histadrut and the Employees’ committee, which effects most of its workers. The collective agreement may reduce administrative flexibility and impose additional costs on Pelephone (see section 3.9.4). In addition, the implementation of personnel-related plans may cause unrest in labor relations and harm to Pelephone's ongoing operations. Regarding labor disputes at Pelephone, see Section 3.9.5.

3.19.3.7 Loss of knowledge and information - the changes that are taking place in the labor market in Israel and around the world, along with organizational changes, entail a risk of losing key employees, loss of knowledge as a result of employee turnover, difficulty in recruiting employees, etc.

3.19.3.8 Impairment of Pelephone properties- in accordance with accounting standards, Pelephone conducts a periodic examination of the impairment of assets in respect of which indications of impairment have been identified. For details on the risk factor relating to the recognition of impairment losses, see Section 2.20.12.

3.19.3.9 Frequency ranges – Pelephone operates fequencies in the 700, 850, 1800, 2100, 2600 and 3500 MHz ranges. The frequencies are exposed to interruptions that may affect the quality of service of the networks operated by Pelephone. Among the other reasons that may cause interruptions, it should be noted that the 850 range is also used for terrestrial television broadcasts, so that television stations broadcasting in the Middle East in the same range of frequencies cause interference on Pelephon's UMTS / HSPA network on 850 MHz. In addition, the Jordanian networks also use the same frequency range of 2100 MHz that Pelephone uses and in light of the limited cooperation between the operators in Jordan and Pelephone, this may have a negative effect on Pelphone. In addition, Pelephone must avoid interfering with satellite broadcasts made at several points in Israel at 3500MHz frequencies, which limits the operation of 5G services around these points.

For details on the implications of switching frequencies in the first giga field, see Section 3.8.2.3.

3.19.3.10 Maintaining a sufficient cash flow - Pelephone must maintain a sufficient cash flow in order to meet its long-term business plan. The lack of sufficient cash flow may adversely affect Pelephone's business and its ability to make large-scale online investments, and may make it difficult for it to cope with competitive threats in the field.

Below is a ranking of the impact of the risk factors described above on Pelephone's activities as estimated by Pelephone's Management. It should be noted that Pelephone's assessments below regarding the degree of influence of the risk factor reflect the degree of influence of the risk factor in assuming the materialization of the risk factor, and the aforesaid does not express an assessment or give weight to such chances of materialization. The order in which the risk factors appear above and below is not necessarily according to the degree of risk.

<u>**Risk factors summary table - cellular telephony**</u>

	The extent of the impact of the risk factor on Pelephone's operations as a whole		
	High effect	**Medium effect**	**Small effect**
Macro risks			
Exposure to changes in exchange rates		X	
Epidemic and supply chain	X		
Damage due to *force majeure*, war, disaster	X		
Industry risks			
Infrastructure investments and technological changes	X		
Competition	X		
Customer credit		X	
Regulatory developments	X		
Electromagnetic radiation			X
Website licensing		X	
Serious malfunctions in information systems and engineering systems	X		
Information security, customer data protection and cyber risks	X		
Economic emergency	X		
Lack of frequencies		X	
Risk factors of Pelephone			
Property risks and liabilities			X
Serious malfunctions in the cellular network	X		
Epidemic malfunctions in devices			X
Legal proceedings		X	
Substantial suppliers and customers		X	
Labor relations		X	
Loss of knowledge and information		X	
Impairment of Pelephone's assets			X
Frequency ranges	X		
Maintaining sufficient cash flow			X

The information contained in section 3.19 and Pelephone's assessments regarding the effect of the risk factors on Pelephone's activities and business, are forward-looking information as defined in the Securities Law. The information and assessments are based on data published by the Ministry of Communications, Pelephone's assessments of the market situation and the structure of competition in it and regarding possible developments in the Israeli market and economy. The actual results may differ materially from the estimates given above if there is a change in one of the factors taken into account in these estimates.

4. Bezeq International - Internet, international communications and ICT solutions

4.1. General

4.1.1. The structure of the field of activity and changes that apply to it

Bezeq International operates in several key areas: Internet access services, international data communication, international telephony; Communication and computing services for businesses that include hosting in server farms and cloud services; and supply of equipment, licensing and service contracts for businesses.

Regarding regulatory changes in the Internet services market for private customers, which are expected to materially affect Bezeq International's activity in this market, see Section 4.11.5.3.

4.1.2. Legislative and regulatory restrictions that apply to Bezeq International

A significant part of Bezeq International's areas of activity are regulated mainly by the Communications Law and regulations thereunder, and the terms of the license granted to Bezeq International (see Section 4.11).

Regarding major developments in the regulation applicable to Bezeq International, see section 4.11.5.

4.1.3. Changes in the scope of activity in the field and its profitability

For data on changes in the scope of Bezeq International's operations and its profitability, see Sections 1.5.4.3 and-4.3.

4.1.4. Developments in the market and in customer characteristics

In the field of Internet services, the market is characterized by the transition of customers from the retail market services (where the customer purchases the access service and the infrastructure service from different providers) to unified packages (where the access service and the infrastructure service are purchased from one provider) following regulatory changes (see Section 4.11.5.3). In the international data communication market, there has been an increase in demand for data communication services in Israel and around the world. The increased use of information technologies requires an increase in capacity. The positioning of the State of Israel as a communication and technology hub increases the demand from global companies for data communication services to Israel. Following the establishment of diplomatic relations with other countries in the Middle East, a further increase in demand for communication services between the Middle East and Europe is expected, some of which will go through Israel.

In the field of communication and computing services for businesses, in 2022 there was an increase in demand for hosting services in server farms and public cloud services, as a result of the trend of organizations to transfer their computing rooms and infrastructure to server farms where there are 24/7 maintenance monitoring services and the high power supplies required for the computing equipment, as well as as a result of the transition to managed services (as a Service). The reasons for the increase in demand for cloud services are, among others, the digital transformation, the entry of cloud companies such as Microsoft, Google, Oracle, AWS into the Israeli market, as well as the transition of government services to the cloud as part of the "Nimbus" project.

The field of equipment, licensing and service contracts for businesses is affected by the economic situation in Israel and the world, as well as technological changes. In the market, there is a trend of moving from the purchase of equipment to software products and cloud-based services (such as SaaS, IaaS, PaaS, as well as reliance on public cloud resources such as AWS, Azure, GCP), but it is expected that customers will adopt a model that combines the purchase of equipment and cloud services ("Hybrid” model).

4.1.5. Main entry and exit barriers

4.1.5.1 The main entry barriers to the markets in which Bezeq International operates are making investments, among other things, in infrastructure, in establishing service and support systems, etc. (also, some of the activities require a license according to the Communications Law.

4.1.5.2 The main exit barriers from these markets arise from long-term and binding agreements with infrastructure providers and investments that require a long time to return. In addition, some require providing service to customers during the contract period, which is not short.

4.1.6. Substitutes for Bezeq International products and the changes that apply thereto

In the international call market - The main alternative product is the use of VoIP technology, which enables the transfer of international calls over the Internet to other users of this technology, as well as to the users of the TDM networks, through the use of software products (such as Skype, WhatsApp or Zoom) and in the services of telecommunications providers abroad. These services have attractive rates of use (including the absence of usage fees) and together with their availability, lead to a continuous increase in the number of users, and as a result - to harm to Bezeq International's revenues. At the same time, there are currently more than ten international operators in Israel licensed by the Ministry of Communications to provide international Bezeq services.

4.1.7. The structure of competition in the Internet market and the changes that apply to it

In the field of Internet access services (ISP), diverse licenses have been provided so far to provide access services to many companies. Following regulatory changes, the market is moving to the provision of services in a unified format (packages that include access and infrastructure services from one provider). This resulted in a significant reduction in the number of Internet customers of Bezeq International and the structural change described in Section 1.1.4, so that Bezeq International does not currently market Internet services to customers in a private service..

For more details regarding competition in the field of activity, see Section 4.6.1.

4.1.8. Critical success factors

4.1.8.1 Recruitment and employment of skilled personnel;

4.1.8.2 Streamlining and savings in expenses and personnel;

4.1.8.3 Ability to maintain a high level of service and customer satisfaction;

4.1.8.4 Technological innovation, identifying needs and trends in the market and launching solutions to meet these needs;

4.1.8.5 Investments in the infrastructures required for the provision of services;

4.1.8.6 Maintaining normal working relationships with leading manufacturers and suppliers.

4.2. Products and services

The following is a 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 field of Internet services, Bezeq International provides: **Internet access services** (ISP) for private and business customers, including the provision of required end equipment and support based on DSL, transmissions or cables infrastructure, Internet access services are provided by Bezeq International in the following configurations: (a) "Retail market" services: Internet access service, without infrastructure services; (B) "Wholesale Market" services: an integrated package that includes an Internet access service together with the Internet infrastructure service of the infrastructure companies included in the wholesale market reform; (C) "Bundle" or "Reverse Bundle" packages: a combined package that includes an Internet access service together with Bezeq's Internet infrastructure service, provided by Bezeq International (in the case of a bundle) or by Bezeq (in the case of a reverse bundle); And (d) packages that include Bezeq International's Internet access services, Bezeq's infrastructure services and DBS's STING TV brand - a television services platform based on the Internet (along with Internet access services; (e) symmetrical internet lines, intended for the business segment; (f) Interior telephony services on broadband

(Voice over Boardband).

Bezeq International provides the above-mentioned Internet services mainly through a fully and exclusively owned underwater cable between Israel and Italy (JONAH) launched in December 2011, and through underwater cables owned by other companies, from which Bezeq International acquires capacities (see details in Section 4.9). Among the largest ISP providers operating in Israel, Bezeq International is the only one that owns an underwater cable. The ownership of the underwater cable frees Bezeq International from its dependence on infrastructure providers, and also enables it to offer its customers better quality browsing performance.

It should be noted that due to the fact that Bezeq International is gradually decreasing its activity in the private customer market (see Section 4.13) its revenue from Internet services is expected to be substantially affected. Also, some of the above services are not marketed to private customers (but are provided to existing private customers).

4.2.1.2 International data communication services

Providing international data communication solutions for business customers, including global deployment, according to customer needs.

The services are provided through Bezeq International's underwater cable and underwater cables of other companies, in which Bezeq International has long-term use rights, as well as through business partnerships with telecommunications providers which provide its customers with global network services.

In addition to the abovementioned services, Bezeq International offers holders of licenses to provide international Bezeq services and Internet access licenses, international capacity (in the form of rent, or purchase of indefeasible use rights), based on Bezeq International's underwater cable and rights-of-use in continental Europe and other international networks.

4.2.2. International telephony services

In the field of international telephony services, Bezeq International provides international direct dialing services (IDD) for business and private customers, free dialing service abroad for business customers, routing and terminal services for international calls (hubbing) - transfer of international calls between foreign communication providers (world- Olam and dialing card service that allows dialing from Israel to abroad and from abroad to Israel.

4.2.3. Communication and computing services for businesses

4.2.3.1 Hosting services

Bezeq International operates several server farm facilities, where server and equipment hosting services (colocation) are offered, as well as ancillary services such as backup and disaster recovery services, virtual servers, protection services against DDoS attacks, and more.

4.2.3.2 Public cloud services

Bezeq International serves as a distributor of Microsoft, and by virtue of this, it distributes the cloud products of this company, such as Office 365 products and Azure public cloud services. This activity includes both direct sales to end customers (direct) and sales to sub-distributors (indirect). Part of the activity is carried out through the subsidiary CloudEdge Ltd., which offers implementation solutions and professional services in this field.

4.2.4. Equipment, licensing and service contracts for businesses

Bezeq International serves as a non-exclusive marketer of global manufacturers, and by virtue of this it provides integration services that include the sale, installation, implementation and maintenance of hardware and software in the field of communication and telephony (such as physical telephone switchboards or cloud exchanges, wireless Internet networks, communication networks for server rooms and user environments, and systems networking), computing infrastructures (such as servers, licensing of various types of software, and more, among others in the areas of system, storage, and more), and information security (such as firewalls, endpoint protection solutions, application protection (WAF), file laundering, identification and monitoring online events and more). In general, Bezeq International provides project management services in the field of integration.

4.3. Products and services evenue segmentation

The following are data regarding Bezeq International's revenues (in NIS million):

	2022	2021	2020
Internet services	637	683	710
Rate of total Bezeq International revenues	51%	55%	57%
International communication	183	177	181
Rate of total Bezeq International revenues	15%	14%	14%
VOICE and Business Communication services (PBX, ICT, DATA)	185	142	131
Rate of total Bezeq International revenues	15%	11%	10%
Equipment, licensing and service contracts for businesses	234	235	249
Rate of total Bezeq International revenues	19%	19%	20%
Total revenue	**1,239**	**1,237**	**1,271**

4.4. Customers

Bezeq International has no dependence on a single customer, and has no customer whose revenues constitute 10% or more of its total revenues.

Below are data about the distributioin of revenue from private and business customers (NIS millions)[63]:

	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 characteristics, the diverse consumption characteristics for purchasing Internet packages among the public have led to a certain percentage of customers purchasing as redundant ISP service from more than one ISP when in practice they use the services of only one ISP. On September 10, 2020, the Ministry of Communications wrote a letter to the carriers in which it raised concerns that some subscribers to Internet services or other services such as email box, do not use them and are not even aware of it. The Ministry recommended in its application to act to notify and stop charging subscribers who do not use these services, and also requested periodic reports on the matter, over the next 6 months. It was also written that the Ministry will consider in the future whether to set binding provisions in the matter, should and initiated actions will not lead to a significant reduction in this matter. On November 8, 2020, another letter was received from the Ministry of Communications, according to which the Ministry expects that the next reporting point (set for December 17, 2020), the reported data will reflect the reduction of the phenomenon in a significant manner, that a date should be provided at this time on how the licensee acts to prevent the recurrence of the phenomenon, and, like its previous letter, that as long as the phenomenon is not significantly reduced, the Ministry will take various actions, including establishing binding provisions in this regard. In Bezeq International's assessment, the abolition of the separation of infrastructure provider will lead to a significant reduction in the scope of the phenomenon. Bezeq International makes proactive inquiries to customers who are found not to be using the ISP service, in order to get their approval to disconnect or keep the subscription.

[63] The data are after changing the classification of small customers (SOHO) from private customers to business customers carried out in 2019.

On motions for approval of class actions in this matter that were filed against Bezeq International, see Section 4.12.

4.5. Marketing, distribution and service

Bezeq International operates sales channels for the business market that include a sales center and business customer managers. Service centers and technical support are available to customers. Bezeq International operates service and technical support centers for the private market. Bezeq International maintains an array of field technicians for the purpose of responding to malfunctions at customer sites that cannot be solved remotely.

4.6. Competition

4.6.1. ISP Services

4.6.1.1 The market is saturated with competitors, the main ones being Cellcom, Partner, and Hot Net.

Bezeq International estimates its market share in the field of Internet services as of December 31, 2022 at about 22%[64].

4.6.1.2 The competition in 2022 is characterized by the transition of customers from the retail market services (in which the access services and the infrastructure services are purchased separately) to unified packages (in which the access services and the infrastructure services are provided by one provider).

4.6.1.3 The following are developments in 2022:

a. Continued trend of selling service baskets, especially against the backgroundThe activity of a wholesale sales model (supplier + infrastructure) in 2021.

b. Competitors' focus on promoting browsing services at high browsing rates. Some of the competitors have launched browsing packages at a particularly high browsing rate, among other things through fiber-optic infrastructure deployed thereby.

c. a decrease in customers joining the retail market services was recorded, and on the other hand there was an increase in joining "reverse bundle" packages.

d. The trend of selling "Triple" packages by competitors, which include, in addition to the television services, a provider and Internet infrastructure in a non-detachable basket of services continues.

4.6.2. International telephony services

4.6.2.1 As of the end of 2022, about ten companies are operating in the market (among them Bezeq International, Cellcom, Partner, Golan Telecom and Hot Mobile).

Bezeq International estimates that its market share in the field of outgoing calls from customers as of December 31, 2022 is approximately 21%[65].

4.6.2.2 General characteristics of the competition in 2022:

In 2022, the number of call minutes made through international telephony continued to decline, among other things, as a result of an increase in the use of various applications for making calls, as well as due to the service packages offered by cellular companies, which include international call minutes. Business work habits that began following the COVID crisis are still evident, including an increase in the use of services that allow calls and

[64] Bezeq International's assessment of its market share in the field of Internet access services is based on an external telephone survey conducted for Bezeq, and is not based on significant data held by Bezeq to date.

[65] Based on publications from the Ministry of Communications regarding the number of minutes spent in the second quarter of 2021.

meetings to be carried out online, while reducing the use of international telephony services..

4.6.3. International data communication services

In the field of international data communication services, the various communication providers compete, such as Partner, Cellcom, Hot, as well as underwater cable owners such as Tamares Telecom. Bezeq International, which owns the underwater cable, has a competitive advantage over telecommunications providers that do not own an international infrastructure. In the absence of public data on the market shares of the competitors in this market, it is not possible to estimate the market share of Bezeq International in this area.

4.6.4. Communication and computing services for businesses

4.6.4.1 Hosting services

The field of hosting services is characterized by many competitors, including Bynet, Partner, Med-1, GDC, and more. In 2022, there will be an increase in the demand for hosting services in server farms, among other things as a result of the trend in the business market to move to managed services (as a service) and services in cloud environments, as well as in view of the intention of huge companies operating in the field of public cloud services to establish Points of Presence in Israel. In the absence of public data on the market shares of competitors in this market, Bezeq International's market share in this area cannot be estimated.

4.6.4.2 Public cloud services

In the field of cloud services, many companies compete in marketing and implementing the services of different cloud companies. In recent years, the demand for public cloud services offered by cloud companies such as Amazon, Microsoft, Google and Oracle has been increasing. Bezeq International acts both as a marketer (sold directly to customers) and as a distributor (sold through sub-marketers) of licensing Microsoft's cloud services to customers in Israel, and implementing these service solutions for customers. Following the purchase of Cloudedge Ltd. by Bezeq International, Bezeq International acquired additional capabilities in this field, including knowledge in providing professional services and implementing cloud solutions in large business customers, which gives it a competitive advantage in this field. In the absence of public data on the market shares of competitors in this market, Bezeq International's market share in this area cannot be estimated.

4.6.5. Equipment, licensing and service contracts for businesses

The field of providing hardware and software solutions for businesses is characterized by multiple competitors and fierce competition. Bezeq International faces many competitors such as Bynet, One-Taldor Group, Malam Group, Cellcom, Partner, Matrix and more. Most manufacturers are not marketed by Bezeq International exclusively. The fierce competition in the field leads to price erosion. In the absence of public data on the market shares of competitors in this market, Bezeq International's market share in this area cannot be estimated.

4.6.6. Unique characteristics

4.6.6.1 Positive factors affecting Bezeq International's competitive position:

A. A well-known and strong brand.

B. Technological innovation.

C. Professional, experienced and skilled personnel.

D. Presence in many businesses.

E. Ownership of an underwater cable that enables Bezeq International to provide high-quality international Internet and data communication services.

F. Engaging in various fields that enable the provision of a service envelope to business customers, such as communication services, hosting and cloud services, and the supply of equipment and licensing in the field of computing and communication.

4.6.6.2 Negative factors affecting Bezeq International's competitive position

The fact that Bezeq International does not own interior access infrastructures is a competitive disadvantage in the market of internet services and data communication for businesses compared to competitors that control such infrastructures.

4.7. Property, plant and equipment, real estate and facilities

Bezeq International's property, plant and equipment include switching and Internet equipment, underwater cable, central equipment and routers for rent, office equipment, computers, software licensing, and leased improvements.

Bezeq International has SoftSwitch switches from the Dialogic company. These switches are used to route Bezeq International's VOICE movement. Value-added services, including calling cards, are based on a smart (IN) system.

The CRM system (customer management) is based on Peoplesoft software. The software is not supported by the manufacturer, but is maintained by Bezeq International. Bezeq International is considering an upgrade to new CRM and ERP systems.

Bezeq International's technological infrastructures that support the voice, data and the Internet is deployed on a number of sites, in Israel and abroad, among others, to ensure, when necessary, high survivability for the provision of services.

Bezeq International has long-term lease agreements for the two main buildings where its offices are located. Regarding one of the buildings, the lease period is until March 2029, with an option to extend the lease period by five years. The lease period in the other building is until December 2023 (with two equal options for extension until 2027).

Bezeq International has a lease agreement for a building with a server farm. The lease period is until August 2026, followed by two additional options for extension until 2036.

Bezeq International has additional lease agreements in connection with warehouses (including the logistics center), and buildings in which call centers are used for its operations.

4.8. Human capital

The following are details about the number of Bezeq employees International in years 2020 and 2021:

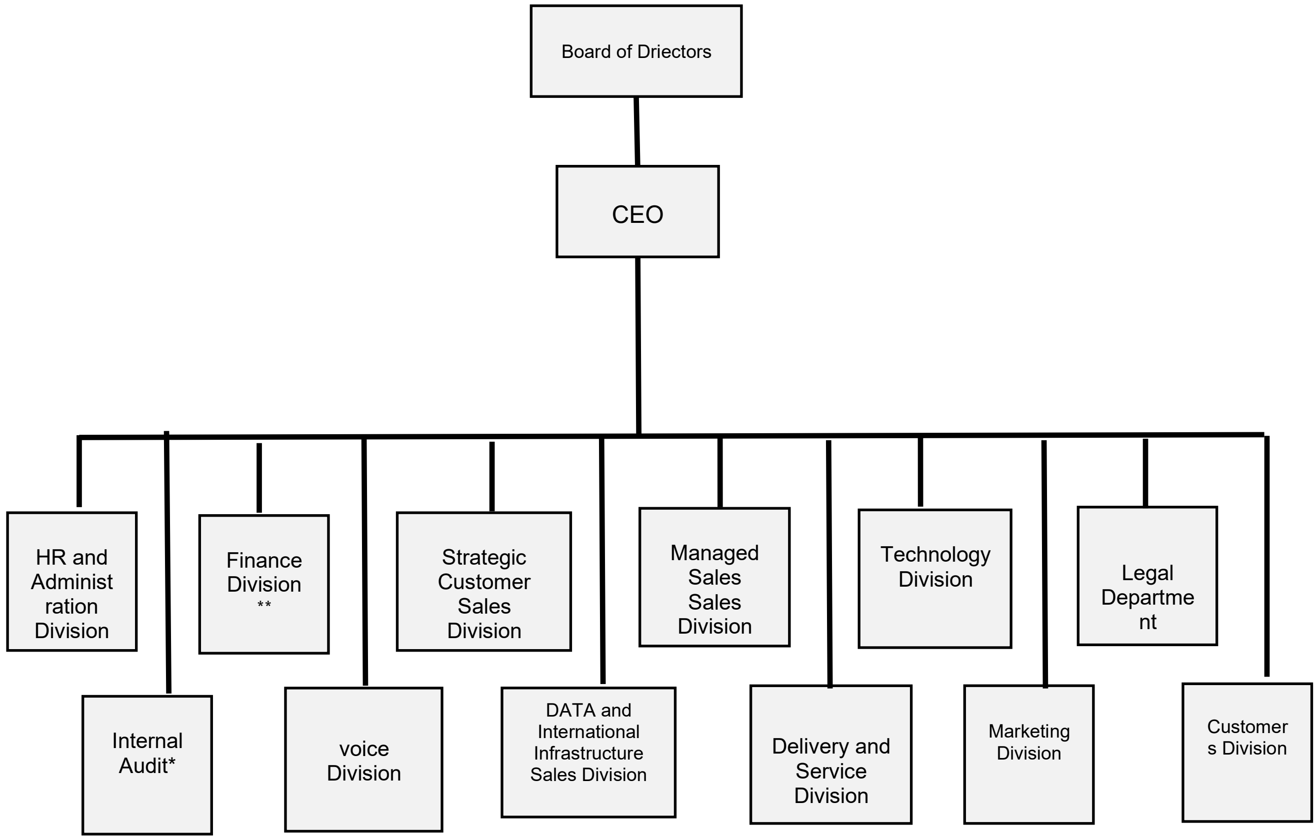
	31.12.2022	31.12.2021
Administrative employees	676	758
Service and sales representatives	273	363
Total	**949**	**1,121**

The number of employees included in the table includes employees employed part-time. Total jobs[66] Bezeq International as of December 31, 2022 was 927 compared to 1,047 as of December 31, 2021.

[66] Total monthly working hours divided by the monthly working hours quota.

Organizational structure

The following is a diagram of Bezeq International's organizational structure as of the date of the report:



(*) Internal Auditor is a Pelephone employee.

(**) CFO is a Pelephone employee.

As part of the implementation of the synergy processes with the subsidiary companies in the Group, the CEO of Bezeq International will also serve as CEO of Pelephone and DBS until the end of 2022. Also, most of the VPs serving at Pelephone also served as VPs at DBS and Bezeq International. On January 1, 2023, Mr. Ron Galab began serving as CEO of Bezeq International.

Regarding streamlining processes 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 the implementation of agreements reached with the new general union and the employee representation of Bezeq International (as part of conducting negotiations to regulate employee rights) regarding a plan for the voluntary retirement of Bezeq International employees during the years 2022-2024 ("**Voluntary Retirement Plan**").The estimated cost of the Voluntary Retirement Plan is approximately NIS 70 million, assuming full implementation of the Voluntary Retirement Plan. The implementation of the Voluntary Retirement Plan is expected to allow Bezeq International to adjust its organizational structure, the scope of manpower and costs to the changes taking place in the market following the regulatory change in the field of Internet services (elimination of the separation between an infrastructure provider and an ISP that allows Bezeq to provide a unified Internet service) which causes the reduction of ISP activity at Bezeq International , this is in accordance with the alternative outline as specified in Section 1.1.6. Following this, starting on November 13, 2022, Bezeq International approves voluntary retirement for Bezeq International employees to the extent of the estimated cost of the program (about NIS 70 million).

On December 6, 2022, Bezeq International signed the renewal of the existing collective agreement between itself and the General Workers' Union and its workers' representation for the period from December 6, 2022 to December 31, 2025 ("**the Agreement**" and "**Agreement period**", respectively). According to the Agreement, salary increases and bonuses will be given, ancillary conditions will be improved, and the labor disputes announced by the General Workers' Histadrut and the employees' representatives will be settled, while maintaining industrial peace during the validity period of the agreements on the issues regulated therein, with the exception of the labor dispute regarding the sale of control of the Company, for which the employees' representation's requirement remains to appoint a director on its behalf, which will be discussed between the parties. The total estimated additional cost of the agreement over the period of the Agreement, beyond the estimated voluntary retirement cost of approximately NIS 70 million (as mentioned above), is approximately NIS 28 million.

Bezeq International's estimates in relation to the estimate of the cost of the Agreement are forward-looking information, as defined in the Securities Law, based, among other things, on its assumptions regarding the manner and scope of the retirement plan implementation and additional conditions stipulated in the Agreement. These estimates may not materialize, or may materialize in a different way than expected, depending, among other things, on the manner and scope of the actual implementation of the agreement and the retirement plan, taking into account the needs of Bezeq International and its ability to realize its plans and the fulfillment of additional conditions stipulated in the Agreement.

For this matter see also Note 16 to the 2022 statements.

4.9. Suppliers

4.9.1. Foreign operators

Bezeq International has collaborations with about 200 foreign operators, as part of which Bezeq International forwards and receives international telephone calls from these operators (including calls leaving Israel, entering Israel, and calls between various destinations outside Israel) to about 240 destinations worldwide.

4.9.2. Capacity providers

Most of the interior capacity used by it for the purpose of providing its services is purchased by Bezeq International from Bezeq.

Most of the international capacity that Bezeq International uses is transmitted through the underwater cable it owns. As a backup, Bezeq International uses the capacity purchased from Med Nautilus and Cyprus Telecommunications Authority (CYTA).

As part of its engagement with Med Nautilus, Bezeq International acquired the indefeasible right of use, in an indefinite and non-specific attribution, in the communication capacity transmitted through the underwater cable system operated by Med Nautilus between Israel and Europe, and continued capacity over the Company's ground infrastructure to a number of communication nodes in Europe. The use periods were extended until July 2030. For the said use rights, Bezeq International paid one-time payments, close to the date of commencement of the use of the capacity.

As part of its engagement with CYTA, Bezeq International has acquired indefeasible right-of-use, in an undefined part and with a non-specific attribution, in the communication capacity transmitted through the underwater cable system operated by CYTA between Cyprus and Europe. The period of use is at least until May 2022, with an option of extending the period.

In addition, Bezeq International acquired indefeasible right-of-use of the non-residential parts in an unspecified part and no specific attribution can be attributed to the communication capacity transmitted through terrestrial infrastructure in Europe from EXA Infrastructure (GTT Communications Inc.), for the purpose of bridging Bezeq International's submarine cable to communications nodes in Europe. The period of use of these infrastructures is at least until 2026, with the possibility of extending the period.

4.9.3. Hosting service providers

Bezeq International acquires hosting services in long-term agreements with a number of server farm facility operators, mainly for the purpose of providing hosting services to business customers:

As part of an agreement signed in 2011, Bezeq International purchases Bezeq's hosting services at Bezeq's server farm facility. These services are mostly used to provide hosting services to business clients. The agreement is valid until 2024 for certain parts of the facility, and for other parts until 2033.

As part of an agreement signed in 2019 with Edgar Investments and Development Ltd., Bezeq International acquires hosting services at this Bezeq server farm facility. The agreement is valid until 2041, with an option to terminate early in 2034. These services are used to provide hosting services to business customers.

As part of an agreement signed in 2021 with ServerPharm Israel Infrastructure Fund Bnei Zion Limited Partnership, Bezeq International will purchase hosting services at a server farm facility under construction by this partnership starting from 2023. The agreement is valid until 2039, with options for extension until 2047. These services are expected to be used to provide hosting services. For business customers.

4.9.4. Microsoft

Bezeq International has an agreement with Microsoft by virtue of which it is entitled to sell Microsoft's cloud products both to end customers and to indirect resellers. The agreement is automatically extended, and each party may terminate it. Bezeq International's activity in the field of the public cloud relies exclusively on Microsoft products, therefore the termination of the agreement with Microsoft may significantly harm this activity and even lead to its termination.

4.10. Taxation

See Note 7 to the 2022 statements.

4.11. Restrictions and supervision of Bezeq International's activities

4.11.1. Restrictions by virtue of laws

According to the Communications Law, performing Bezeq operations and providing Bezeq services, including international Bezeq services and Internet access services, require a license from the Minister of Communications. The Minister is authorized to change license terms, add to them or derogate from them, while considering, among other things, government policy in the field of Bezeq, considerations in the public interest, adjusting the licensee to provide services, the license contribution to competition in the field of Bezeq and its level of service.

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 and of orders and provisions issued under it, as well as due to violation of conditions in the license.

4.11.2. Licenses

Bezeq International has a unified general license for the provision of Bezeq services (the "**Unified License**"), which is valid until February 4, 2036.

The following are the main instructions from the unified license:

a. In certain circumstances, the Minister may change the terms of the license, add to them or detract from them, and in some cases even revoke it.

b. The license is not transferable and includes restrictions on the purchase or transfer (including by way of lien) directly or indirectly of control of 10% or more of any means of control in Bezeq International, including the lien of such means of control, unless prior consent of the Minister.

c. Bezeq International must provide an interconnectivity service on equal terms to any other operator and must avoid any discrimination in performing interconnectivity.

d. Bezeq International must refrain from preferring the provision of infrastructure services to a licensee who is an affiliated company (as defined in the license) over another licensee.

e. Bezeq International may not sell, rent, or mortgage property from the properties used to carry out the license without the consent of the Minister of Communications, except for certain exceptions set forth in the license.

f. In times of emergency, a person authorized to do so by law has the authority to give Bezeq International various instructions regarding the manner in which it operates and / or the manner in which the services are provided.

g. The license specifies the types of payments that Bezeq International may charge its subscribers for Bezeq services, and the reports it must provide to the Ministry of Communications. The license also stipulates the authority of the Minister to intervene in rates, in some cases.

h. The license requires Bezeq International to have a minimum level of service.

In accordance with the requirement of the Ministry of Communications, Bezeq International provided a bank guarantee, in the amount of NIS 2 million, to fulfill the conditions of the unified license.

4.11.3. Real estate authority - On July 9, 2014, the Minister of Communications granted Bezeq International the powers related to real estate, which are listed in Chapter F of the Communications Law, including entering the land for the purpose of laying a network and maintaining it (see Section 2.16.5).

4.11.4. Payments for interconnectivity

In the matter of interconnectivity fees paid to the NIO and the cellular operator, see Section 1.7.4.1.

4.11.5. Major regulatory developments

4.11.5.1 For possible changes in the communications market that also affect Bezeq International following the Competition Expansion Policy document, see Section 2.16.4.2.

4.11.5.2 For decisions made in connection with the "wholesale market" which also have implications for the field of activity, see Section 2.16.4.

4.11.5.3 Regarding the decision of the Ministry of Communications at the hearing dated June 20, 2021 on the cancellation of the separation between the broadband infrastructure service and the Internet access service (ISP), see Section 1.7.3.3. The changes in the telecommunications market, caused as a result of this decision, resulted in a substantial damage to its subscriber base, and to the revenues of Bezeq International in the Internet segment. The damage is expected to continue and deepen in 2023.

4.12. Legal proceedings[67]

During the day-to-day business, lawsuits were filed against Bezeq International, including motions for approval of class actions.

4.12.1. Pending and current legal proceedings

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
a.	March 2016	Client against Bezeq International and other communications companies	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged, among other things, that Bezeq International sells its customers Internet browsing speeds, even though the infrastructure at their place of residence does not allow them to reach this speed. In January 2021, the Court upheld the claim as a class action.	Unspecified
b.	April 2019	Client against Bezeq International and other communications companies	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged that Bezeq International does not inform its customers as required about the possible dangers of using the Internet and about the possibility of joining a free content filtering service, in violation of the provisions of the Communications Law. In addition, Bezeq International provides a website filtering service and offensive content that the applicants claim is not sufficiently effective.	Unspecified
c.	October 2020	Client against Bezeq International	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged, among other things, that Bezeq International charges its customers payments for services that it does not provide to them, ostensibly knowing that the customer has replaced the Internet provider and disconnected from Bezeq International. On November 5, 2020, Bezeq International received another motion for approval of a class action in the same matter.	Unspecified
e.	November 2020	Client against Bezeq International	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged, among other things, that Bezeq International charges fees for the provision of 'antivirus service' and 'backup service' without actually being provided, when according to the claim it does not disclose to customers when concluding the contract that they must initiate special operations including installation of special software at the time of the conclusion of the contract and not at the time of the actual provision of the service.	Unspecified

4.12.2. Legal proceedings completed during the reporting period

Regarding the withdrawal request for discovery and review of the documents before filing a derivative claim filed against the Company and Bezeq International regarding asset balances in Bezeq International's books - see Section 2.18.2a.

67 For reporting policy and materiality thresholds, see Section 0.

4.13. Targets, business strategy and development prospects

In light of the elimination of the separation between infrastructure provider and Internet access provider (ISP), Bezeq International intends to cease ISP activity in the private segment in a graded manner, and focus on developing integration activities and services for the business segment, in order to become a growth-focused ICT company. This is expected to allow managerial focus and dedication of resources to integration activities and cloud services, which is growing due to the trend of the business segment moving to a model of cloud services. Bezeq International will continue to acquire capabilities and knowledge, both through the training of personnel and through the acquisition of companies in complementary fields. Bezeq International will maintain collaborations with partners in Israel and abroad in order to provide a full service envelope to its customers. Bezeq International will offer its services to all business segments, including small, medium and large businesses, the public and government segments and more. Bezeq International anticipates that the main growth engines will be in the areas of hosting services, cloud services and information security services. For further details see Sections 1.1.5 and 1.8. On this side, Bezeq International will work towards streamlining and cost savings, with an emphasis on reducing manpower, by separating from labor-intensive areas of activity and moving to efficient operating methods. These processes depend in part on the cooperation of employee representatives.

The above is forward-looking information as defined in the Securities Law, based on Bezeq International's estimates and assumptions. Bezeq International cannot assess whether the above objectives may materialize or partially materialize and when. In addition, the targets may be affected by changes and developments in the relevant markets, due to regulatory changes that may impair Bezeq International's ability to meet existing or changing market requirements, as well as due to all other risk factors listed below.

4.14. Discussion of risk factors

The following is a description of the risk factors arising from the macroeconomic environment, the unique characteristics of the industry in which Bezeq International operates, and risk factors unique to Bezeq International:

4.14.1. Competition

For the effect of competition on Bezeq International's business, see Section 4.6 and Section 4.13.

4.14.2. Frequent technological changes and investments in infrastructure

Bezeq International's areas of activity are characterized by frequent technological changes. The development of technologies that constitute attractive alternatives to some of Bezeq International's products (such as Skype, WhatsApp or Zoom) may materially impair Bezeq International's operations. Also, technological developments require frequent investments in infrastructure. See Sections 4.1.5.2 and 4.1.6.

4.14.3. Exposure to changes in exchange rates

Bezeq International is exposed to risks due to changes in exchange rates, especially in the field of equipment sales and integration, as well as in international data services, since most purchases of equipment and services in these areas are made in US dollars, while Bezeq International's revenue is shekels. Erosion of the shekel against the dollar could harm Bezeq International's profitability if it is not possible to adjust selling prices in the short term..

4.14.4. Governmental supervision and regulation

Regarding the applicability of the provisions of the law and the licensing policy and their effect on Bezeq International, see Section 4.11. Certain changes in the regulations applied to Bezeq International may have an adverse effect on its results and operations.

4.14.5. Epidemic

Disease outbreaks and epidemic events in general (such as the outbreak of COVID-19 in 2020) may have consequences for Bezeq International's business activities depending on the scope and severity of the spread as well as the national and global measures that will be taken as a result. These consequences may be manifested, among other things, in damage to Bezeq International's operations and its customer service system, as well as in damage to the supply chain. Events of this type are changing events that are not under the control of Bezeq International, and their consequences are subject, among other things, to the decisions of countries and authorities in Israel and around the world that may affect Bezeq International accordingly.

4.14.6. Serious malfunctions in information systems and engineering systems

Bezeq International provides its services through various infrastructure systems, including, among others, switches, data transmission and access transmission networks, cables, computer systems, physical infrastructure and more (“**the Systems**"). Bezeq International's business has a high dependence on these Systems. Some Bezeq International Systems have backup, but at the same time, in the event of damage to some or all of the above Systems, either due to a large-scale technical malfunction, due to a natural disaster (such as an earthquake, fire, etc.), or due to physical damage to infrastructure and due to malicious damage (such as the introduction of viruses and cyber attacks as detailed below), significant difficulties may be caused in the provision of services, including in the event that Bezeq International is unable to quickly return the Systems to normal.

4.14.7. Information security, protection of customer data and cyber risks

Bezeq International is the target of cyber-attacks, the purpose of which is to harm the use of the information systems or the information itself. This type of assault activity or intrusion incident can cause business disruption, information / money theft, damage to reputation, damage to systems and information leakage. Another risk is posed by the leakage of information from within the organization by Bezeq International employees, inadvertently or maliciously.

Bezeq International's cyber protection management strategy is built on three pillars: information confidentiality, information integrity and information availability. Bezeq International employs many measures, both technological and organizational, to deal with the aforementioned risks.

Bezeq International allocates many resources to deal with cyber risks. Bezeq International has an information security department that deals with information security and cyber risk management. Bezeq International devotes significant budgets to the purchase of systems and technological means to protect information. Detailed procedures have been established that refer both to the routine handling of information and to the methods of operation and the management of information security incidents. Bezeq International employees undergo periodic information security training. Every month Bezeq International employees are sent messages, instructions and updates aimed at raising awareness of cyber risks and proper handling of information.

Bezeq International supervises the implementation of its defense policy, which includes testing its level of effectiveness and readiness. In this framework, it performs risk surveys, penetration tests and periodic controls, both by the internal audit and by external auditors hired by Bezeq International for this purpose. In addition, Bezeq International periodically performs tests and attack exercises for various scenarios (including through external companies specializing in the field). In Bezeq International's estimation, the information security protection policy is effective.

Bezeq International is a body guided by the Information Security Authority. Also, Bezeq International is obliged to implement information security requirements stipulated in the unified general license granted to it by the Ministry of Communications. In addition, Bezeq International is ISO27001 certified, which deals with information security.

The information security protection policy, protective measures, security incidents and lessons learned are discussed by Bezeq International’s Management on a monthly basis, and brought to the Bezeq International Board of Directors for review and approval. The person responsible for the implementation of the policy at Bezeq International is the director of the Information Security Department in the Technology Division.

Despite Bezeq International's investments in measures to reduce such risks, it cannot guarantee that these measures will succeed in preventing damage and / or disruption to the systems and information related to them.

4.14.8. Damage caused by nature, war, disaster

Damage to the server farms on which Bezeq International concentrates its core activity may adversely affect Bezeq International's business and its results.

4.14.9. Legal Proceedings

4.14.10. Bezeq International is a party to legal proceedings, including class actions, which may result in charges in substantial amounts, which cannot be estimated, and no provision was made for some of them in Bezeq International's financial statements. These class actions can reach large sums, since a substantial part of Israel's residents are Bezeq International's customers, and a claim relating to a small damage to an individual consumer may become a material claim for Bezeq International if it is recognized as a class action lawsuit against all consumers or a substantial part thereof. In addition, in certain contracts, mainly in the government and public sector contracts, Bezeq International sometimes enters into contracts for the provision of services subject to a partial liability limit, or no liability limit at all. Given the sensitivity of the services provided by Bezeq International to these customers, in the event that the customer is harmed in such a contract, this may lead to legal proceedings in large amounts. For legal proceedings to which Bezeq International is a party, see Section 4.12.

4.14.11. Labor relations and streamlining procedures

Bezeq International has a collective agreement with the Histadrut and the Employees' Committee in respect of most of its employees. The implementation of the collective agreement may affect Bezeq International's day-to-day operations. In addition, the implementation of manpower plans may cause unrest in labor relations and harm the day-to-day operations of Bezeq International. As described in Section 1.8, Bezeq International implements streamlining plans that involve, among other things, the sharing of management resources, organizational changes and the reduction of the workforce, in parallel with the management of significant infrastructure and other projects. Streamlining procedures, by their nature, involve the risks of loss of knowledge, turnover of employees, shifting of managerial focus, etc. Bezeq International has a number of open labor disputes. Regarding labor disputes at Bezeq International, see Section 4.8.

4.14.12. Loss of knowledge and information

The changes that are taking place in the labor market in Israel and around the world, along with organizational changes, entail a risk of losing key employees, loss of knowledge as a result of employee turnover, difficulty in recruiting employees, etc.

4.14.13. Impairment of Bezeq International's assets

Bezeq International conducts a periodic impairment test of assets in respect of which identification signs of impairment have been identified in accordance with the accounting standards. For details regarding the risk factor relating to the recording of impairment losses, see Section 2.20.12. Changes in regulations in the Internet services market (see Section 1.7.2.3) may lead to damage to Bezeq International's results and / or a decrease in the value of its assets. Regarding the effect of the treatment of Bezeq International customers who do not use ISP services on the value of Bezeq International's assets, see Section 4.4.

4.14.14. Impairment of Bezeq International's assets

Bezeq International conducts, in accordance with the accounting standards, a periodic examination of the impairment of assets in respect of which indicators of impairment have been identified. For details regarding the risk factor regarding the recognition of impairment losses, see Section 2.20.12. Changes in the regulation of the Internet services market (see section 1.7.2.4) may lead to damage to Bezeq International's results and / or a decrease in the value of its assets. Regarding the effect of the treatment of Bezeq International customers who do not use ISP services on the value of Bezeq International's assets, see Section 4.4.

4.14.15. Cash flow

Bezeq International must maintain sufficient cash flow for it to meet its long-term business plan. Cash flow may be affected in cases of planning gaps, change in the business model and difficulties in collecting payments from customers or telecommunications operators. The lack of sufficient cash flow may adversely affect Bezeq International's business, and may make it difficult for it to deal with competitive threats in the field.

The following is a rating of the impact of the risk factors described above on Bezeq International's operations, in accordance with the assessment of Bezeq International's Management. It should be noted that Bezeq International's assessments below regarding the degree of influence of the risk factor reflect the degree of influence of the risk factor in assuming the materialization of the risk factor, and the aforesaid does not express an assessment or give weight to such chances of materialization. The order in which the risk factors appear above and below is not necessarily according to the degree of risk[68]:

Risk factors summary table - international communications, Internet and network endpoint services

	The extent of the impact of the risk factor on Bezeq International's operations		
	High effect	Medium effect	Low effect
Macro risks			
Exposure to changes in exchange rates		X	
Epidemic		X[69]	
Damage caused by nature, war, disaster	X		
Industry risks			
Growing competition	X		
Investments in infrastructure and technological changes		X	
Governmental supervision and regulation	X		
Serious malfunctions in information systems and engineering systems	X		
Information security, customer data protection and cyber risks	X		
Special risks for Bezeq International			
Legal proceedings		X	
Labor relations and streamlining procedures	X		
Loss of knowledge and information	X		
Impairment of Bezeq International's assets		X	
Cash flow		X	

The information contained in this section 4.14 and Bezeq International's assessments regarding the impact of risk factors on Bezeq International's activities and business, are forward-looking information as defined in the Securities Law. The information and assessments are based on data published by the Ministry of Communications, Bezeq International's assessments of the market situation and the structure of competition in it and regarding possible developments in the Israeli market and economy. The actual results may differ materially from the estimates given above if there is a change in one of the factors taken into account in these estimates.

68 See Footnote 50.

69 The extent of the impact of this risk factor on Bezeq International's activities was classified as medium, assuming that the incident would be limited in scope and time. Otherwise, the degree of impact may be large.

5. DBS - multi-channel TV

DBS, also known by the trade name "Yes", is a subsidiary, wholly owned by Bezeq, which provides a service of multi-channel television broadcasts via satellite and on the Internet (OTT), as well as Internet access services.

5.1. General information about the field of activity

5.1.1. The structure of the field of activity and the changes that took place in it

5.1.1.1 In the field of subscriber television broadcasts, there are a number of factors in a number of main categories:

a. Holders of a license to broadcast under the Communications Law, which provides multi-channel television services - DBS, as well as Hot, which provides cable television services, which has a monopoly declared under the Economic Competition Law in the field of multi-channel television ("the field of satellite and cable broadcasting"). For details regarding the regulation applicable to the owners of such broadcasting licenses, see Section 5.14. DBS and Hot provide both linear channel broadcasts (also referred to in this chapter as "channels") and VOD services (on regulation in the field of DBS's VOD services, see Section 5.14.2).

b. Internet content providers (in format OTT) - in Israel, there are a number of local and international providers of audio-visual content via the Internet, which can be viewed using various types of end devices (including mobile devices). The main local providers operate in a format that includes linear channels and on-demand content (including DTT array content transmitted via the array or via the Internet), and the main ones are DBS (through Yes+ and Sting TV services, for details, see Sections 5.2.2.1, 5.2.2.2 and 5.2.2.1), Cellcom, Partner (Partner TV) and Hot (Next and Play service). The main international providers operating in Israel are Disney, Netflix, Apple and Amazon, which provide options for watching VOD content (as of the date of the report, most of this content is translated into Hebrew) without linear channels. To the best of DBS' knowledge, most subscribers of international providers in Israel also subscribe to the services of some of the local providers or holders of broadcasting licenses. Most of the content providers via the Internet market services at a lower scope and price level than those used in the field of satellite and cable broadcasting.

There are collaborations between some of the local licensees and suppliers and some of the international suppliers. DBS has several collaborations as mentioned which include, among others, collaborations with Disney+ and Netflix, which include, among other things, distribution of their services for a fee. For details about the contract with Disney+, see the Company's immediate report dated May 22, 2022 included in this report by way of reference.

In accordance with the Broadcasting Distribution Law, a broadcasting body, whose broadcasts are part of the "open broadcasts" (namely, TV channels distributed through the digital stations), will give each "registered content provider"[70] consent to broadcast its linear broadcasts on the Internet free of charge, but without detracting from the copyrights of the authors and performers By law and subject to certain conditions established by law, including obtaining a license from the copyright holders and performers (including through the broadcasting body). In February 2023, a transitional order that applied

[70] "Registered content provider" is defined in the Broadcasting Distribution Law as a content provider registered in the registry; "Content provider" is defined in the Broadcasting Distribution Law as one whose main activity is the transmission of a variety of content to the public in Israel, provided that the content is broadcast on its own initiative, through an interface under its control, and both 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.

to the commercial channels[71] ended, which applied special arrangements in relation to them, including granting a license for their broadcasts on the Internet to any content provider registered in the registry that requests it, at the best price and conditions given by the relevant commercial channel to another content provider according to a license that was in effect at the time the license was granted. Everything is as detailed in the transition order. As of the date of this report, DBS has agreements with the aforementioned commercial channels, which also include on-demand services.

c. Entities offering content without the permission of the copyright holders (pirated)[72].

d. The DTT array

A digital distribution system for digital television (DTT), known as "Idan+", through which certain channels are distributed to the public, free of charge[73]. The system is operated as of the date of the report by the Second Authority.

The distribution of the channels is done in exchange for the payment of a distribution fee, where the Minister of Communications and the Minister of Finance may determine that the State will subsidize the distribution fee that will apply to thematic channel broadcasters and a dedicated channel.

As of the date of this report, the DTT constitutes a replacement product, in part, for multi-channel TV broadcasts.

5.1.1.2 The multi-channel TV providers, including DBS, offer their services alongside other communication services provided by them, including as part of baskets that are “non-detachable" (such as a "bundle" package that includes Internet and television services). For additional communication services provided by communication groups, see Section 1.7.2. For the offer of baskets of communication services by DBS and the restrictions thereon, see Section 1.7.3.3.

In the year of the report, the high level of competition continued to prevail, mainly due to the entry and establishment of local and international content providers via the Internet, as mentioned, operating at a relatively low price level. The activity of these factors via the Internet, is carried out without the need to establish a dedicated infrastructure system as of the date of this report, even without regulatory supervision. For more details about the competition in the field and changes that took place in it in the year of the report, including the manner in which DBS operates - see Section 5.5. For the question of arranging broadcasts with new broadcast technologies, see Section 5.14.2.

For changes in the number of DBS subscribers, see Section 5.6.1.

5.1.2. Restrictions, legislation and special constraints in the field of activity

Activities of broadcasting license holders are subject to extensive legislation in the field of communications, and in particular to the Communications Law, the licensing regime, as well as supervision and policy decisions on behalf of the Ministry of Communications.

[71] To the best of DBS's knowledge, commercial channels as mentioned are channels 12 (owned by Keshet Broadcasting Ltd.) and 13 (owned by Reshet Media Ltd.). For this matter see also Section 5.14.1.4

[72] DBS is one of the shareholders of Zira Ltd., which works to prevent copyright infringement in video content on the Internet.

[73] As of the date of this report, the television channels of the Broadcasting Corporation (Kan 11, Kan Educational and Channel 33), the commercial television channels ("Keshet" and "Reshet"), Channel 14, and the Knesset channel (Channel 99) and a number of radio stations. The DTT operator must also distribute thematic channels (most of whose broadcasting hours are devoted to the subject of the Broadcasting through Digital Broadcasting Stations Law, 5772-2012 (“**the Broadcasting Law**"), as well as the broadcasts of a minor licensee and a designated minor licensee (as defined by the Second Authority Law) - if requested. The Minister of Communications and the Minister of Finance may appoint a private operator for its operation, for whom the Council may also grant a general license for broadcasts financed by subscription fees or commercials.

The said activity is also under the constant supervision of the council, which sets policy, establishes rules and supervises many areas of activity, including broadcast content, local production obligations, broadcast ethics, consumer protection and the approval of broadcast channels.

The provision of television services other than via satellite or cable within the meaning of the Communications Law is not subject to supervision as stated above.

Further to the report of the recommendations of the committee for the examination of the overarching regulation in the field of broadcasting, headed by former MK Roi Folkman ("**Folkman Committee**") and the decision of the Minister of Communications from September 2021 regarding the adoption in principle of the committee's recommendations subject to changes and adjustments, the Ministry of Communications published in August 2022 a hearing for public comments on the matter draft bill on the principles of regulation of the provision of audio-visual content to the public, 2022-2022 ("**Regulatory Hearing**" and "**Draft Bill**" respectively). According to the Regulatory Hearing and the explanatory notes to the Draft Bill, the Bill is intended to amend the legislation based on the recommendations of the Folkman Committee and update the set of obligations and rights applicable to all players operating in the audio-visual content market in a number of ways, including:

A. A new authority will be established in place of the Second Authority Council, whose role will be to regulate the entire field of audio-visual content supply and which will be authorized to issue instructions to prevent actions that may harm competition in the field ("**the Authority**").

B. A limited and focused set of obligations will be applied to the significant players operating in this market, including registration obligations, investment in local productions, distribution of the contents of the Israel Broadcasting Corporation and the Knesset channel, instructions in the fields of ethics and consumerism, where the scope of the obligations will change according to the income level of the content provider.

C. 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 obligations applicable to them for the transfer of broadcast channels and the allocation of transmission channels will be eliminated, as well as the prohibitions applicable to them regarding the transmission of advertisements and maintenance of a news company will be eliminated. In addition, the obligation to supply the broadcast channels to the traditional platforms free of charge will be eliminated. For this matter, a transitional provision was established according to which these changes will enter into force after three years from the publication of the law (where after two years from the publication of the law, the Authority Council may shorten this period).

D. Individual arrangements will be established regarding the provision of news content to the public.

E. Arrangements will be established regarding the supply of sports content to the public, so that the supply of significant sports enterprises through a single content provider will be avoided, and sports enterprises of high demand or of special importance will be accessible to the public.

F. Obligations to invest in local productions will be established, which will apply, *mutatis mutandis*, to all content providers, local and international, with a significant scope of activity in Israel, as well as to Israeli channels that independently provide advertisements to the public.

DBS submitted its reference to the Regulatory Hearing document. Since this is a hearing that is uncertain whether it will mature into binding legislation and what its contents and regulations will be, it is difficult at this stage to assess the extent of the impact of the legislation and regulation that will be determined following the regulatory hearing (as soon as it is adopted), on DBS's business.

5.1.3. Changes in the scope of activity in the field and its profitability

For data on changes in the scope of DBS' activity and profitability, see Section 1.5.4.4.

5.1.4. The critical success factors in the field of activity and the changes that apply to them

5.1.4.1 Quality, differentiation and originality in the content of the broadcasts, in their variety, branding and packaging.

5.1.4.2 Providing relevant value propositions to various target audiences.

5.1.4.3 Providing advanced on-demand services using advanced technologies (in relation to broadcast technologies, in relation to end devices and in relation to the user interface).

5.1.4.4 Providing TV services via the Internet.

5.1.4.5 Offering a "basket" of communication services that includes television services and other services, such as Internet browsing services (see Section 5.15.2).

5.1.4.6 Collaborations with international content providers.

5.1.4.7 Accessibility of applications operated by international content providers.

5.1.4.8 Accessibility and connection to international content applications.

5.1.4.9 High level of customer service tailored to the type of service.

5.1.4.10 The strength of the brand and its identification with quality, innovation and leadership, content and services for subscribers.

5.1.4.11 Attractiveness of the price.

5.1.5. The main barriers to entry and exit in relation to the field of activity

5.1.5.1 The main barriers to entry into the field of activity are (a) for cable and satellite broadcasts - the need to obtain licenses for cable and satellite broadcasts and to comply with the relevant regulatory requirements; (B) investments required from operators in the field, including the purchase and production of content, as well as for cable and satellite broadcasts - the establishment of a dedicated infrastructure; (C) The limited scope of the Israeli market and its characteristics. The scope and level of barriers to entry into Internet TV services are very low, especially for the international providers for which Israel is another market for existing activity, and this is reflected in an increase in the quantity and variety of services offered in this format.

5.1.5.2 The main exit barriers are: (a) For broadcast license holders there is a regulatory barrier - termination of activity under the broadcast license entails the Minister of Communications' decision to cancel the license before the end of the license period, including conditions (including the licensee) to ensure broadcast continuity and services and to reduce the harm to subscribers; (B) Long-term engagements with material suppliers.

5.1.6. Substitutes for products in the field of activity and changes that apply to them

DBS sees the possibility of receiving many foreign channels using relatively cheap end equipment as a substitute for its services in relation to certain segments. For additional substitutes, see Section 5.15.

5.1.7. The structure of competition in the field of activity and changes that apply to it

Competition in the field of television is characterized by a relatively large number of players, most of whom operate at relatively low price levels (see section 5.1), and through advanced web client interfaces in a way that has led to the intensification of competition in the field. An increase in the number of subscribers in the current competitive situation can be achieved mainly through the recruitment of subscribers from competitors, which requires the investment of considerable resources in retaining existing subscribers and recruiting new subscribers.

DBS does not have data on the number of subscribers of the international companies operating in the field and on the number of viewers of the DTT system, and according to DBS, most of them are, in addition, subscribers of the local television providers operating in the field. According to DBS, the trend of increasing the total market share of all players (out of all households in Israel) is weakened due to the fact that the majority of the remaining households are not potential audiences.

For more details on the competition in the field see Section 5.5.

5.2. Products and services

DBS services through satellite include lienar channel broadcasts, in a variety of value propositions that differ from each other in the scope of the content, the scope of the services included in them, the interface through which they are offered and the price. The offer of OTT services is part of a gradual trend of migration of DBS services from satellite TV services to OTT services. For the migration process see Section 5.17.1.

In recent years, there has been a trend of increasing demand for 'discount' services, which are characterized by a range of services and a lower price level than those customary in the field of satellite and cable broadcasting. Accordingly, an increase in the proportion of customers subscribing to STING TV services out of all DBS customers results in a decrease in the average revenue per customer.

5.2.1. DBS’s television services

5.2.1.1 Satellite broadcasts

Satellite DBS broadcasts include linear channel broadcasts, as well as radio, music and interactive channels.

For the purpose of receiving DBS services via satellite, reception plates are installed in the buildings, and decoders of different types with different features are installed in the subscribers’ houses, which allow a variety of services to be received depending on the converter's features.

In accordance with DBS’s broadcasting license and the council's decisions, the broadcasting of the DBS via satellite includes a basic package of linear channels that each subscriber is required to purchase (along with other basic packages that DBS may offer), as well as other channels that the subscriber can choose to purchase, either as packages or as discrete channels.

DBS provides satellite subscriber services to its subscribers ("**satellite subscribers**") VOD via the Internet (in the OTT format). The vast majority of satellite subscribers subscribe to a content package that includes VOD and the rest may purchase these services, when some of the content included in the VOD service is provided in exchange for a separate payment.

Connecting satellite subscribers to VOD services requires, among other things, the use of certain types of decoders. To the question of the regulation of the field of DBS’s VOD services see Section 5.14.2.

Satellite TV services are offered in a wide package, which includes the vast majority of linear channels and VOD services, which is purchased by most satellite subscribers, and in packages with a smaller content scope (when subscribers can purchase additional channels that are not included in any of the packages they purchased).

5.2.2. OTT Services

DBS offers a number of OTT services:

5.2.2.1 Yes+ services

DBS offers the Yes+ service, which includes linear TV channels, as well as on-demand services, including VOD content in a number of offered packages, the most common of which is similar to that offered in the broad package offered to the satellite subscriber. The service also includes advanced technological interface that includes advanced features that are not available in the satellite interface. The service is provided via compatible streamers, TV displays and additional end devices including mobile. The service can be used on its own or in parallel with the satellite service.

5.2.2.2 Sting TV services

DBS operates the "Sting TV" service, which includes linear TV channels as well as on-demand services, including VOD content, and is intended for customers who are not satellite subscribers. The service is offered in a number of viewing packages that do not include the full range of content offered as part of DBS' other services, and are characterized by relatively low price levels. The service is provided via compatible streamers, TV displays and additional end devices including mobile.

5.2.3. Internet access services

In June 2022, DBS began providing Internet access services, focusing on selling combined Internet and television packages to customers.[74]

5.3. Customers

The vast majority of DBS subscribers are private customers. In general, DBS enters into a subscription agreement with its subscribers, which regulates the subscribers' set of rights and obligations in their relationship with DBS. With respect to the subscription agreement with the satellite subscribers, the approval of the council is required, which was received.[75]

5.4. Marketing and distribution

5.4.1. The marketing of DBS services is done through advertising in the various media. DBS' sales activity to existing and new customers is carried out through the following main distribution channels (some of which are operated by DBS employees and some by external marketers):

5.4.1.1 Call centers.

5.4.1.2 Digital channels.

5.4.1.3 Field sales people, working to recruit new subscribers.

5.5. Competition

5.5.1. Competitors in the field

The field is characterized as of the date of the report by a number of competing groups (see Section 5.1).

DBS's main competitors are Hot, which is a declared monopoly in the field of supply Multi-channel TV broadcasting services[76] and holds, to the bet of DBS's knowledge, the largest market share, as well as Cellcom, Partner and Netflix.

To the best of DBS's knowledge, during the year 2023, a cooperation venture between Keshet Broadcasting Ltd., which operates, among other things, a commercial TV channel transmitted as part of DBS Broadcasting ("**Keshet**"), and RGE Group Ltd. ("**RGE**") is expected to establish and operate a multi-channel broadcasting platform, while acquiring minority holdings in RGE from Keshet, and this after receiving an exemption from the restrictive arrangement of the Competition Authority for the activity of the said venture, as well as the approval of the Second Authority to Keshet, both for a period until September 2025. According to DBS, the start of the project activity is expected to intensify

[74] Initially, the services were provided according to a special license to access the Internet, and as of October 2022, the services are provided according to a general permit in accordance with the provisions of the Telecommunications Regulations (Bezeq and Broadcasting) (General Permit for the Provision of Bezeq Services), 5782-2022.

[75] According to the broadcasting license, the approval of the Uniform Contracts Court is also required for the subscription agreement (approval previously granted and expired). DBS has applied to the Council for amendments to the subscription agreement and for the amendment of the license, as part of which DBS requested, *inter alia*, to revoke the license provision requiring the approval of the Uniform Contracts Tribunal, in view of an amendment to legislation made in this regard. As of the date of this report, the Council's position regarding DBS's requests has not yet been received.

[76] To the best of DBS's knowledge, in 2021, Hot appealed to the Competition Commissioner to cancel its declaration as a monopoly as stated.

the competition in the field, in particular in view of the identity of the companies of the project (for details about the Sports Channel Ltd. which is part of the RGE Group and about Keshet, see Section 5.9.2).

Below is data on subscription numbers and market shares[77] of DBS, to the best of its knowledge, as of December 31, 2021 and 2022[78]:

The year 2022		2021	
Subscriptions (thousands)	Market Share	Subscriptions (thousands)	Market Share
579	33%	563	32%

5.5.2. Competitive characteristics today

The competition in the field focuses on the variety and content of the broadcasts, the price of the services, the quality of the service, and the offer of advanced end equipment and advanced user interfaces, as well as the offer of additional services, including broadcasts. HD, 4K and on-demand services, including VOD.

The competition is also characterized by the offer of additional communication services alongside the offer of video content (for the offer of "service baskets" of the Hot, Cellcom and Partner groups, see also Section 1.7.1, and for the offer of service baskets by DBS, see also Section 1.7.2.3), in access and connection to international content providers and by the increase in the number of competitors and their establishment (see Section 5.1).

5.5.3. Positive and Negative Factors Affecting the Competitive Status of DBS

5.5.3.1 In the opinion of DBS's Management, the main competitive advantages of the DBS are:

a. The quality and variety of content that DBS broadcasts to its subscribers.

b. Level, quality and availability of DBS' customer service system

c. Use of advanced technologies to provide advanced services and a good user experience.

d. Cultivating and promoting the "Yes" brand as a preferred, well-liked brand with a high level of loyalty.

e. Marketing several call formats, characterized by different price levels, different content offerings, different broadcast methods, different technological interfaces and different types of customer service format.

f. Collaborations with international content providers.

g. Selling integrated packages of TV and Internet services

5.5.3.2 DBS's competitive activity in the field of broadcasting suffers from disadvantages or factors that adversely affect it, in a number of areas, the main ones being:

a. Infrastructure inferiority - DBS' satellite infrastructure does not allow two-way communication, does not allow the provision of VOD services and does not allow the transfer of telephony and Internet services, in

77 The market shares were calculated from all DBS, Hot, Partner and Cellcom subscribers as detailed below (and not from all viewers and subscribers in the field in the absence of actual data about them). The assessment of DBS' market shares in 2021 and 2022 is based on the number of DBS subscribers, of Cellcom and Partner (according to their reports on the number of subscribers as of the end of the third quarter of 2022), as well as of Hot, which did not publish the number of subscribers for several years, so the data in relation to Hot is according to DBS's estimate, taking into account past trends and the existing data in relation to the other players). However, there is no certainty that the data presented in relation to Hot are accurate, and therefore it is possible, respectively, that the actual market shares are different from those estimated.

78 The number of subscribers is approximate, and the market share is in a circle. Subscriber - one household or a small business customer. In the case of a business customer who owns more than a certain number of decoders (such as a hotel, kibbutz or gym), the number of subscribers is adjusted. The number of non-small business customers is calculated as the total payment received from all non-small business customers divided by the average income from a small business customer, which is determined once per period.

contrast to the infrastructures used by HOT, Cellcom and Partner, which enable the provision of these services. In addition, the satellite infrastructure is limited in relation to the Internet infrastructure in the offer of advanced technological interfaces. For details about migration to OTT services and OTT services see Sections 5.2.2 and 5.17.1.

b. Regulatory restrictions -

For restrictions regarding the marketing of a shared basket of services, see Section 5.15.3.

For restrictions by virtue of the terms of the Commissioner for a merger with Bezeq, see Section 2.16.9.3. These restrictions also apply to DBS activities in the field of OTT.

For competitive inferiority resulting from the lack of regulatory oversight of players who do not have broadcasting licenses, see Section 5.18.2.2.

c. Space segments - the use of space segments involves heavy fixed expenses, depending on the receipt of the services by a third party (see section 5.16), and involves a limitation with respect to the ability to expand the supply of broadcasts (see Section 5.6).

5.5.4. Main methods of dealing with competition

The following are the main methods of DBS to deal with the competition:

5.5.4.1 Content - DBS works to purchase, produce and broadcast quality, innovative and diverse content, while creating differentiation, emphasizing branding and achieving originality in relation to the content broadcast by it.

5.5.4.2 Pricing policy - offering a variety of services at different price levels.

5.5.4.3 Offering OTT services (see Section 5.2.2).

5.5.4.4 Service - DBS places emphasis on the customer service system.

5.5.4.5 Technology - DBS is investing in expanding its technological capabilities, with an emphasis on providing innovative and advanced services.

5.5.4.6 Branding - DBS cultivates, promotes and differentiates the brand "Yes".

5.5.4.7 Collaborations with international content providers and accessibility of content applications.

5.6. Production capacity

The number of channels that DBS can transmit to satellite subscribers depends on the number of space segments at its disposal, the content compression capabilities and the bandwidth required to transmit each type of channel. As of the date of the report, DBS almost fully utilizes the space segments it uses. The space segments are provided to DBS by Space (see Section 15.5). These restrictions do not apply in relation to the OTT and VOD services whose transmission depends on web browsing volumes.

5.7. Property, plant and equipment, real estate and facilities

The following are the main components of DBS's property, plant and equipment:

5.7.1. Real estate

DBS leases a number of real estate properties for its operations. DBS' headquarters, as well as its main broadcasting center, are located in leased real estate in Kfar Saba, whose lease period ends in 2024 (with options granted to DBS for the extension of the lease, subject to the terms of the agreement, until 2034). The balance of the lease period of the other properties that DBS leases ranges between about six months to about six years (these periods are based on the exercise of options to extend lease periods granted to DBS).

5.7.2. Satellite end equipment

DBS installs reception dishes and other end infrastructures in its subscription houses, including decoders that enable the reception of the broadcasts, as well as smart cards used to decode them. The decoders are rented to subscribers in exchange for fixed fees, paid during the period of receipt of the services, or lent to subscribers.

5.7.3. End equipment for OTT services

Yes+ and Sting TV services can be viewed via a variety of end devices, including streamers and smart TVs of various models. DBS purchases streamers and leases them to its subscribers.

5.7.4. Broadcasting equipment and computer and communication systems

DBS has a main broadcasting center located in Kfar Saba, as well as a secondary broadcasting center located in the Ella Valley, through which its broadcasts are transmitted via satellite and OTT. The broadcast centers have reception and transmission equipment, as well as computer and communication systems. The secondary broadcasting center is partly operated on third-party premises, which provides DBS with the services of operating the secondary broadcasting center and maintaining it in accordance with the framework agreement valid until the end of 2023 (with the right to extend for additional 5 years each time granted to DBS, which can be realized six months before the end of the agreement period).

5.7.5. Operating and encryption systems

DBS purchases from Cinemedia Group ("**Cinemedia**") development, implementation, encryption, maintenance and warranty services related to the operating systems of the satellite broadcasting system and also purchases similar services from Cinemedia in relation to the OTT system, in accordance with the framework agreements between DBs. SS and Cinemedia from January 2020. These services are provided in relation to various DBS systems, end equipment, and viewing cards and other hardware components required to receive these services, and DBS has also been granted relevant licenses for the use of systems and end equipment.

The contract period with Cinmedia in relation to the satellite system is until February 2026 subject to the terms of the agreement, with the possibility of early termination by DBS in the event of the cessation of satellite broadcasts as part of the migration. See Section 5.18.1.

For the services and products provided under this agreement, DBS pays monthly payments, where the agreement stipulates a minimum monthly consideration for the provision of services to the extent specified, and an additional consideration is possible, the amount of which depends on the types of services provided to DBS, and on development services that DBS may order under the agreement.

The engagement period in relation to OTT is until December 2024 (after which an automatic renewal mechanism applies for periods of two years unless one of the parties notifies otherwise in accordance with the dates set for this matter in the agreement). DBS is granted the right to exit the agreement in relation to the OTT system, subject to prior notice and payment of an "exit fee" (at a decreasing rate depending on the duration of the agreement period).

DBS depends on the continuous supply of these services, both in relation to the satellite system and in relation to OTT.

5.7.6. Computerized customer management system

DBS uses software and computer systems to manage the contracts with its subscribers, including its billing and collection system. In this context, DBS contracts for licenses, development services and technical support with NetCracker Technology Solutions Ltd and NetCracker Technology EMEA Limited (jointly: "**NetCracker**"), and DBS also uses Salesforce software together with Pelephone and Bezeq International,, according to Pelephone's contract with Salesforce (for details, see Section 3.8.4).

DBS is dependent on the NetCracker system and services and-Salesforce, due to their importance for the management and monitoring of DBS 'acquisition of services and content by its subscriber as well as for the purpose of charging and collecting from a subscriber. System failures or discontinuation of services to DBS(Including depending on cell phone connection with Salesforce) Are expected to cause operational difficulty until the matter is repaired or the system / supplier replaced, which may take a long time. As of the date of this report, some of the components of the engagementWith NetCracker is renewed annually and some are valid until the end of 2024. The contracting with Salesforce is until the end of 2027.

5.8. Intangible assets

5.8.1. Licenses

DBS has the following main licenses:

5.8.1.1 Broadcasting license valid until February 2026 - this license is material to DBS' satellite activity and constitutes the main regulatory permit for this activity (for the terms of this license, see Section 5.14[79]).

5.8.1.2 License for satellite television broadcasts in the Judea and Samaria area valid until February 2026, the provisions of which are similar to DBS's broadcasting license specified in Section 5.8.1.1.[80]

5.8.1.3 License to perform uplink operations (transfer of broadcast-focused broadcasts to the broadcast satellite and to carry out ancillary set-up and operation operations), which are valid until January 2022.[81] This license is essential for DBS's activity and constitutes the regulatory permit for the transmission of transmission messages from the transmission center to the transmission satellites and from them to the satellite subscribers' homes.

5.8.2. Trademarks

DBS has registered trademarks, the main ones of which are intended to protect its trade name (Yes) and the key brands it uses (Yes, Yes+, StingTV).

5.9. Broadcasting rights

5.9.1. DBS has broadcasting rights in video content of two types:

Content whose rights to broadcast are acquired from third parties, including discrete content and channels. DBS works to adapt as much as possible broadcasting rights acquired by it in a way that will allow broadcasting in the various media and formats in which it operates.

Content that DBS invests in its production (in full or in part), and in addition to the right to broadcast the content as part of its broadcasts, DBS usually has rights in the same content, at the rates specified in the agreements with the producers. In most cases, DBS is also entitled to grant rights to the use of rights and to participate in revenues arising from additional uses of the content beyond their transmission on DBS.

Broadcasting and distribution of content by DBS, in the various media, involves the payment of royalties to copyright holders and performers in musical works, sound records, scripts and content directing, as well as in respect of sub-broadcasting, including under the Copyright Law, 5768-2007 ("**Copyright Law**") and the Performers and Broadcasters' Rights Law, 5744-1984. Such royalties are paid to a number of organizations, which collect the royalties to which they are entitled through comprehensive licenses (blanket licenses) for the intellectual property rights holders. The payments under these licenses are sometimes based on a fixed payment and sometimes on different pricing methods, with some organizations being required to pay additional fees for the transfer of content in certain media or in certain formats, in amounts that DBS estimates are not expected to be substantial.

This assessment of DBS is a forward-looking assessment, as defined in the Securities Law, based on, among other things, DBS estimates, including in relation to the extent of the

79 In July 2021, DBS submitted an application for renewal of the broadcasting license, which is being examined.

80 In July 2021, an application was made to the Head of the Judea and Samaria Administration for the renewal of this license.

81 After an extension made in January 2022.

use of the said content, and the positions of the various organizations, and in the event of changes in any of them, this assessment may materialize differently.

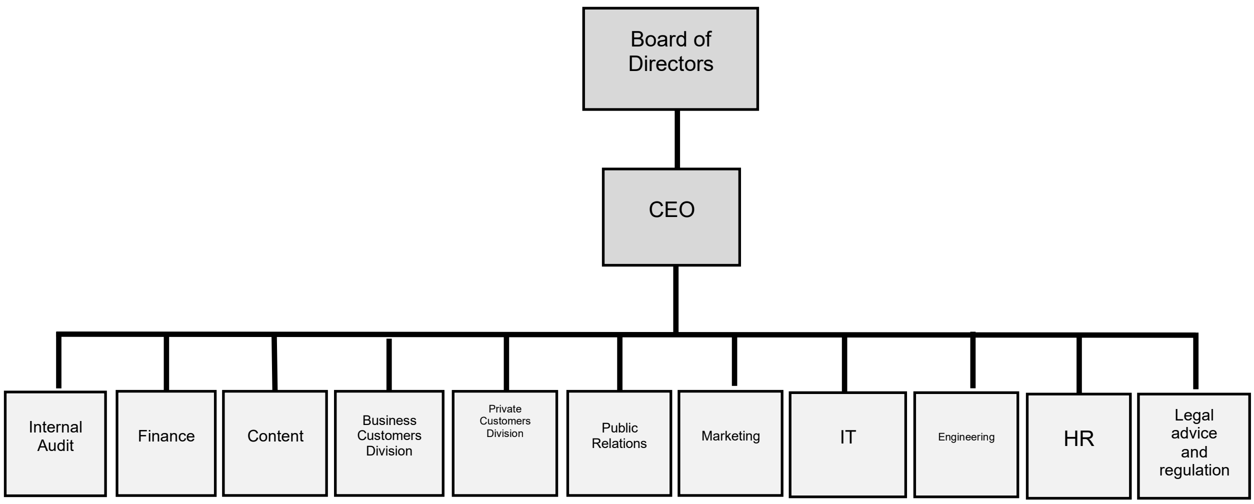
5.9.2. Dependence on content provider

In view of the large number of content providers from whom DBS acquires broadcasting rights, DBS does not have a primary content provider and is not dependent on a single content provider. However, in the field of Israeli sports broadcasting, as of the date of this report, there is a dependence on the acquisition of the broadcasting rights of local sports channels from Sports Channel Ltd. and Charlton Ltd., with whom there is a contract for several years. This dependence stems from the fact that they are the exclusive providers of Israeli sports broadcasts and in light of the existence of a high demand for such services, from among a significant group of DBS customers. Remuneration under these agreements is based on a fixed monthly payment in accordance with the number of subscribers to DBS broadcasts (except for exceptions set forth in these agreements). Also, in view of the high demand for the contents of the commercial channels (see Footnote 71) among DBS customers, it is important to broadcast them as part of its broadcasts.

5.10. Human capital

5.10.1. Organizational structure

DBS's Management consists of divisions, with each division headed by a VP, who serves as a member of the DBS management.



The CEO of DBS also serves as the CEO of Pelephone. In addition, most of the VPs who serve at DBS also serve as VPs at Pelephone, so does the Internal Auditor, and a few in Bezeq International.

5.10.2. DBS employee base by divisions:

	Number of employees	
	31.12.2021	**31.12.2022**
Administration	347	351
Customer Division	747	714
Total	**1,094**	**1,065**

The number of employees included in the table above includes employees employed part-time. The total number of jobs in DBS as of December 31, 2021 was 999.

5.10.3. Benefits and nature of employment agreements

The terms of employment in the DBS are regulated, among other things, in collective agreements and in a collective arrangement, as detailed below, and apply to the majority of the employee population (does not apply to some of the management levels and also employees in special positions of trust). The representative organization of DBS's employees is the Histadrut.

In addition, DBS employees are employed in accordance with personal employment agreements on a monthly or hourly wage basis, with some employees also being entitled to performance-based compensation. The employment agreements are usually for an indefinite period and each party may terminate the contract with prior notice in accordance with the personal agreement and the law, subject to the provisions of the collective agreement, as applicable.

In August 2021, DBS engaged in a collective agreement with the Histadrut and the Employees' Committee, which included, among other things, amendments to previous collective agreements and collective arrangement. The new collective agreement is valid from January 1, 2022 until December 31, 2024. According to the new collective agreement, among other things, salary increases and grants were provided, ancillary conditions were improved, a retirement plan was agreed o, and it was agreed that the parties would maintain industrial silence during the period of validity of the agreement in all matters regulated therein.. The collective agreements applicable to DBS employees (as amended above) regulate, *inter alia*, the periods after which a DBS employee will be considered a permanent employee, mechanisms that involve the Employees' Committee in decision-making regarding employment and the termination of employment of permanent employees, as well as annual wage increases and additional financial benefits to be provided by DBS to employees, during the term of the agreement.

After ending on December 31, 2024, the collective agreement will be automatically extended for a period of 12 months each time, if one of the parties does not notify, at least 90 days before the end of the validity, of its desire to make changes.

5.10.4. Employee remuneration plans

DBS usually provides its officers, as well as managers and some of its employees, with bonuses on an annual basis based on meeting targets and evaluating performance, for components of capital remuneration from Bezeq in relation to some of DBS's executives, see Section 2.9.5.

5.11. Suppliers

5.11.1. Rate of purchases from and form of engagement with main suppliers

DBS considers as a "main supplier", for the purposes of Section 23 of the First Schedule to the Prospectus Details Regulations, a supplier from whom DBS's annual volume of purchases exceeded 5% of the total annual volume of purchases of the Group, and the volume of purchases from it of the total volume of purchases of the field of activity exceeded 10%. During the year 2022, DBS did not have a main supplier as defined above.

5.11.2. Dependence on suppliers

DBS believes that it may be dependent on the following suppliers:

Space, for details on the contract, see Section 5.15.

Cinmedia, for details on the contract, see Section 5.7.5.

NetCracker and Salesforce, for details on the connection see Section 5.7.6.

To purchase broadcasting rights from local sports channels, see Section 5.9.2.

5.12. Financing

Most of the financing of DBS is carried out from its own sources, but it may need investments or credit from the Company according to the needs of DBS.

DBS's estimate as mentioned above is forward-looking information, as defined in the Securities Law. There is no certainty that DBS will be required in the future for financing by Bezeq or that Bezeq will provide financing for DBS's activities and on what dates, and this depends, among other things, on the situation of DBS, on developments in its areas of activity and on the state of competition in these areas and on the future financing needs of DBS.

In March 2023, Bezeq approved a credit facility or investment in DBS capital in a total amount of up to NIS 40 million, for a period of 15 months starting on January 1, 2023. This approval is instead of a similar approval given in November 2022 (and not in addition to it).

5.13. Taxation

For more details, see Note 7 to the 2022 statements.

5.14. Restrictions and supervision of DBS

5.14.1. Regulation of satellite broadcasts

DBS's activity as a holder of a regulated satellite broadcasting license in an extensive legal system has applied to the field of satellite and cable broadcasting, which includes primary legislation (and in particular the Communications Law and regulations enacted thereunder), secondary legislation (including communications rules), as well as, *inter alia*, Council directives.

In addition, DBS's satellite activity is subject to the provisions of its licenses, primarily the broadcasting license.

The law authorizes the Director General of the Ministry of Communications as well as the Chairman of the Council to impose financial sanctions for various violations of the provisions of the law and of orders and provisions issued under it, as well as for violation of conditions in the broadcasting license.

5.14.1.1 Terms of service for a satellite broadcasting license holder, restrictions on cross-ownerships

Satellite broadcasting license regulations set various restrictions on the licensee, including, among other things, eligibility conditions in relation to the holdings of the licensee and stakeholders, directly and indirectly, in holders of cable broadcasting licenses, in holders of franchises under the Second Authority Law[82] and in newspapers with daily circulation, as well as "Israeliness" requirements regarding officers in the DBS and "Israeli" holding at a minimum rate of 26%, in accordance with the provisions set forth in the regulations.

5.14.1.2 Rates supervision

The broadcasting license sets forth provisions regarding the types of payments that the licensee may charge its subscribers for services provided by virtue of the license, and these are determined in DBS’s Council-approved price list. The vast majority of satellite subscribers subscribe to promotions, offering DBS services, including various composition of content packages, ancillary services as well as receiving and installing end equipment, at prices lower than the list price.

DBS has a duty to notify the chairman of the Council of any change in the price list immediately upon its publication and the chairman may in certain cases prohibit the change of the price list. The chairman of the Council may also interfere with promotions or discounts offered by DBS, if he finds that they have the effect of misleading the public or discriminating between subscribers.

By virtue of the Communications Law, the license can set maximum prices at which a subscription can be charged. As of the date of this report, no such prices have been set.

5.14.1.3 Obligation to invest in local productions

In accordance with the requirements of the broadcasting license and the decisions of the Council, in each of the years 2022 and 2023, DBS must invest an amount of not less than 8% of its revenues from the subscription fees of

[82] As of the date of the report, the activities of these entities (both in the field of cable broadcasting and under the Second Authority Law) are regulated through licenses and not franchises.

satellite subscribers[83] in local productions, when according to the rules of the media and the decisions of the council, DBS must invest different rates out of these investment amounts in different categories of local productions.

In December 2022, the Council decided to postpone for 2024 the entry into force of its previous decision, according to which the rate of investment obligation in local productions will exceed and stand at 9%. The Council also determined that during 2023 and in accordance with developments, it will hold another discussion to examine the current legislative situation and the economic situation of licensees, including a hedging formula set out in the council's previous decision and give instructions as it sees fit.

5.14.1.4 Duty to transfer channels

DBS is obligated to transmit the "mandatory channels" in satellite broadcasts and everything as determined by the Minister and in the broadcasting license.[84]

In addition, DBS is required to allow channel producers provided by law to use its infrastructure to distribute broadcasts to its subscribers, for a fee ("transfer fee") to be determined in the agreement, and in the absence of consent - for a fee to be determined by the Minister, after consulting the Council. In addition, the Minister may require the transmission of small-license broadcasts under the Second Authority Law (which did not have dedicated licenses prior to the amendment to the law), taking into account the satellite capacity of DBS. According to an amendment to the Second Authority Law of 2018, holders of small and small designated licenses, who had a dedicated license under the Communications Law, are exempt from paying transfer fees to Hot to DBS, for a transition period, after being extended as part of an amendment to the Second Authority Law from February 2023, will end in August 2024.

5.14.1.5 Contents of the broadcasts and obligations in relation to the subscriber

The broadcasting license sets forth provisions relating to the content of DBS broadcasts, including supervision by the Council in relation to channels broadcast by DBS. The Communications Law prohibits broadcast licensees from broadcasting commercials, subject to a number of exceptions.

In addition, the broadcasting license includes conditions regarding the terms of service for subscribers, including the prohibition of discrimination between them.

According to an amendment to the license from November 2022, DBS will be entitled, as of February 28, 2025, not to connect new subscribers to the satellite services according to the license, and accordingly to refuse requests to enter into the subscription agreement, without discriminating between those seeking to become subscribers.

For a preliminary data demand Council in connection with inactive subscribers see Section 1.7.7.10.

5.14.1.6 Ownership of broadcast channels

According to the rules of communication, DBS, including entities affiliated with it (as defined in the rules of communication), may own up to 30% of the local channels broadcast as part of DBS broadcasts (compared to a limit of 20% applicable to HOT). DBS is also restricted according to the Communications Law, in owning a news broadcast producer.

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83 Based on its revenues in the past year from satellite subscribers, including DBS's revenues from end equipment and its installation. According to the position of the Council, according to which the actual investments are made, even though DBS disagrees with it, these revenues also include revenues from VOD service to satellite subscribers.

84 According to the provisions of the Communications Law, DBS is exempt from payment to the commercial channels included in the mandatory channels due to the transmission of their broadcasts with it.

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 revoke or suspend the Broadcasting License on the grounds set forth in the Communications Law and the Broadcasting License. The Communications and Broadcasting License Law sets limits on the transfer, foreclosure and encumbrance of the Broadcasting License and of assets from the license assets. The Broadcasting License requires the approval of the Minister in relation to certain changes in the maintenance of means of control in the DBS and imposes reporting obligations regarding the holders of the means of control; Infringement of competition is prohibited by way of an agreement, arrangement or understanding with a third party regarding the provision of broadcasts and services unless approved in advance and in writing by the Council; The obligation to submit reports to the Ministry of Communications, as well as conditions related to the supervision of the licensee's activities, were established; The obligation to provide bank guarantees to the Ministry of Communications to secure DBS's liabilities under the license has been determined, in the amount (principal) of NIS 30 million (a total as of the date of the report of approximately NIS 40 million).

5.14.2. Regulation of OTT services

OTT services (such as those offered by DBS as well as other local providers and international providers operating in Israel) are not subject to the current standard in relation to multi-channel satellite television broadcasts or other arrangements under the Communications Law. DBS also believes that the VOD services it provides via the Internet to satellite subscribers (see Section 5.2.1) are not subject to such regulation. However, from various decisions of the Council (see also Section 5.2.1), it seems that the Council considers itself authorized to arrange the VOD services for DBS satellite subscribers.

For the processes of examining the regulation of OTT services, see Section 5.1.2.

To the extent that a regulation of content transfer via the Internet is implemented, it is expected to impose restrictions on the provision of the said services by DBS, but this regulation may reduce the existing gap in the regulation regimes between licensees and broadcasters between other entities active in the OTT field.

The estimates concerning the results of the regulation of OTT services in this section above are forward-looking information, as defined in the Securities Law, based, *inter alia*, on the Regulatory Hearing document and the wording of the legislative initiatives. There is no certainty that this issue will be regulated in legislation and regulation in general, and in the manner proposed in particular. These assessments may not materialize, or materialize in a materially different way than would be expected, *inter alia*, depending on the results of the Regulatory Hearing and the actual implementation of the Minister's decisions and in legislative amendments, if further regulation is formulated as a result thereof.

5.14.3. Offer of baskets of services

According to the broadcasting license, DBS may offer a shared basket of services, including Bezeq service and DBS service, subject to obtaining approval from the Ministry of Communications (in the absence of objection within the period specified in the license will be considered as possible) and subject to conditions, the main ones are the “detachability” obligation and the existence of a parallel basket marketed by a licensee who is not affiliated with Bezeq (see Section 1.7.2.3). A shared basket of services marketed by DBS, which includes Bezeq's Internet infrastructure service only, does not require the approval of the Ministry of Communications and does not have detachability obligation..

Regarding conditions published by the Commissioner in connection with the merger of Bezeq and DBS and the amendment under consideration, see Section 2.16.9.3.

In the opinion of DBS, in view of the development of competition between the communication groups and the growing importance of providing comprehensive communication services (see Section 1.7.1), in particular in the competition between it and HOT, Cellcom and Partner, which are not subject to these restrictions, insofar as the restrictions remain in relation to Bezeq's collaborations with it (see Section 1.7.3.3), may increase the adverse effect of these restrictions on DBS results.

5.15. Material agreements

The following is a concise description of the main points of the agreements that may be considered material agreements that are not in the ordinary course of business of DBS, which were signed or are valid during the reporting period:

Agreement for the lease of space segments[85]

According to an agreement with Space, since 2013, as amended (including amendment from January 2023), DBS has leased space segments in satellites from the "Amos" series ("**the Space Agreement**").

Comply with the provisions of the Space Agreement, DBS leases space segments on "Amos 3" satellite (whose estimated end of useful life is at the beginning of 2026), as well as the "Amos 7" satellite, in which Space has the right to lease space segments under an agreement between it and the owner of the rights in this satellite, and in which space segments are leased to DBS until February 2025 (or until the end of his life, whichever is earlier).[86]

Period of the agreement - until the end of the life of the "Amos 3" satellite (subject to the exceptions set forth in the agreement), but in any case the agreement will expire no later than February 2026[87].

The leased space segments - according to the Space Agreement (and subject to unavailability events), until the end of the Amos 7 DBS lease period, DBS will lease 12 space segments from Space, in accordance with the division between the relevant satellites stipulated in the Agreement according to the different periods, and then DBS will lease 10 space segments in Amos 3. The Agreement also regulates the provision of backup segments to space segments leased by Space during the term of the Agreement, so that in the event of space segments not available on one of the satellites, Space will place alternate segments on the other satellite so that the total number of segments is not less than 10 segments, subject to the terms and conditions set forth in the Space Agreement.[88]

Cost - the average annual cost until the end of the lease in Amos 7 is approximately USD 25 million, and thereafter approximately USD 18 million, subject to the discount and reimbursement mechanisms set forth in the Space Agreement.

Early termination of the agreement - according to the Space Agreement, DBS may announce an early termination without cause, of a Space Agreement subject to 12 months' prior notice and payment of the lease in "Amos 7" plus payment of parts of the lease balance in the space segments in "Amos 3".

DBS has a substantial dependence on Space, as the sole owner and sole supplier of the space segments used by DBS, which is also responsible for the operation of the space segments. Regarding exposure to risks in the event of a failure in the activity of one of the satellites, the unavailability of the space segments used by DBS and the lack of redundancy for the Amos 3 satellite from the end of the Amos 7 lease, see Section 5.19.3.4.

5.16. Legal Proceedings[89]

5.16.2. Legal proceedings are pending

[85] The assessments in this section regarding the activity and end of the useful lives of the satellites, the amount of segments leased and those intended to be made available to DBS for various event controls (such as backup cases), and all implications are forward-looking information, as defined in the Securities Law, which is based, among other things, on the information provided by Space to DBS, and which in part is not even controlled by Space and depends on its engagements with third parties. Therefore, these assessments may not materialize, or materialize in a materially different manner than expected, *inter alia*, depending on the conditions associated with the start of satellite operation, the conditions required for their proper operation and availability, the end of the existing satellite’s useful life, and external factors (including third parties and the rights in Amos Satellite 7) that affect their activity and the activity of Space as well as the business position of Space.

[86] See Bezeq's immediate report dated February 27, 2023.

[87] In some cases, DBS may announce the continued use of the "Amos 3" satellite even after the end of its life.

[88] In addition, according to the space agreement, it holds spare tubes on the "Amos 7" satellite, and must make every reasonable effort to locate alternative satellite segments in other satellites under the terms and conditions set forth in the Agreement, including maximum amounts and rates of Space’s participation in additional expenses.

[89] For reporting policy and materiaityl threshold, see Section 0.

	Date	Sides	Court	Type of procedure	Details	Amount of claim / remedies
a.	December 2020		Tel Aviv District Court		For details regarding an indictment filed in December 2020 by the State Attorney's Office (following an open investigation opened in June 2017), *inter alia*, against the former CEO of DBS and its former CFO see Section 1.1.6.	
b.	June 2017	Bezeq shareholders vs. Bezeq, Chairman of the Board of Bezeq, members of the Board of Bezeq, as well as members of the Eurocom Group and vs. the (former) CEO of Bezeq and CEO (former) and CFO of DBS	Tel Aviv District Court (Economic Department)	Motion for approval of class actions	For details regarding a motion for approval of a class action lawsuit filed against, among other things, the former CEO of DBS and its former CFO, in connection with a 2015 transaction in which Bezeq acquired the remaining shares of the DBS shares held thereby from Eurocom DBS, see Section 2.18.1D.	
c.	July - August 2017	Bezeq shareholders against Bezeq and DBS	Tel Aviv District Court	Motion for disclosure of documents before submitting a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law	For details regarding a motion for disclosure of documents before submitting a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law against Bezeq and DBS, for disclosures of certain documents in connection with a 2013 DBS and Space stakeholder transaction as amended in 2017 (Space Agreement) See Section 2.18.1 Subsection E.	
d.	June 2018	Bezeq shareholders against The Company, DBS and the former controlling shareholders of	Tel Aviv District Court (Economic Department)	Request for disclosure and review of documents under section 198A of the Companies Law	For details regarding a motion for disclosure of documents prior to filing a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law, which were filed by shareholders against Bezeq, DBS, the former controlling shareholder in Bezeq, Mr. Shaul Elovich, and his son, Mr. Or Elovich for the delivery of documents and information in connection with the breach of the fiduciary, fairness and trust obligations of Elovich in connection with the sale of Bezeq shares on February 2, 2016 by the Company, see	

Date	Sides	Court	Type of procedure	Details	Amount of claim / remedies
	Bezeq			section 2.18.1, subsection i.	

5.17. Targets and strategy

5.17.2. DBS's targets are to maintain market share, while maintaining DBS's business and competitive position in the field and Yes's brand status as a leading communications and television brand.

As of 2019, DBS has been implementing a migration plan from satellite broadcasts to the Internet (OTT) in a long-term gradual procedure that is expected to be spread up to early 2026, in accordance with the decision of the Boards of Directors of DBS and Bezeq. The said decisions were made in light of the trends in the television content market, which include lowering entry barriers, entry of new players and establishing OTT broadcast technologies, changing the value chain and changing consumption habits, along with the differences between old satellite broadcast technology and OTT broadcast technology, changing the value chain and changing consumption habits, along with the differences between the old satellite transmission technology and the OTT transmission technology on the benefits inherent in it (also paying attention to the aspects of equipment, obligations and content rights). In accordance with the decision, DBS regularly monitors market conditions, competition and the technological environment, and frequently examines the applicability of the outline and the need, if any, to make changes to it, the pace of implementation or the manner in which it is implemented, taking into account its customer needs as well as regulatory amd other obligations of DBS.

Since this is the implementation of an outline for the transition in a multi-year gradual procedure, with ongoing monitoring, there is no certainty, at this stage, regarding the actual duration of the process and / or that the move as stated will be completed. As the transition is completed, it is expected to lead to savings in DBS expenses and a better adaptation to changing market conditions.

As of the date of approval of the statements, the rate of DBS subscribers using the Services Yes+ and StingTV transmitted via the Internet (as stated in the Sections 5.2.2.1 and 5.2.2.2 above) is about 60%[90] of all DBS subscribers. For this matter see also Section 1.5.4.4 (Note 3).

5.17.3. In order to achieve the aforementioned targets, along with actions to reduce expenses, DBS invests considerable efforts in the areas of marketing and sales and in an appropriate marketing strategy designed to further recruit existing subscribers and retain existing subscribers; Continuous improvement in the subscriber service system; Upgrading customer value propositions, creating differentiation and originality in the content of its broadcasts; Offering a variety of products (both low cost and premium), increasing the volume of content purchased by each subscriber and expanding the added value services of DBS; Marketing of Internet access services, focusing on selling combined Internet and TV packages to customers; Having collaborations with international content providers and making content apps accessible, As well as investment in the development and implementation of advanced technologies, advanced customer interfaces and new services; These efforts include the pursuit of DBS to implement the outline of the transition to OTT services.

5.17.4. DBS's objectives as stated above, including with respect to the transition outline described above, are forward-looking information, as defined in the Securities Law, based, *inter alia*, on DBS's Management's assumptions, estimates and forecasts regarding the current trend in the broadcasting market, regarding competition, business developments, consumption habits, the technological environment, the regulatory environment and the manner of regulation (both on DBS and other parties) both in the satellite broadcasting market and in the Internet television broadcasting market (OTT) and in the Internet access services market, also paying attention to the restrictions that

[90] This rate also includes subscribers who also use satellite services.

apply and will apply to Bezeq, which affect DBS. However, the predictions of the DBS Management, its preparations, objectives and the above outline may not materialize, or materialize in a materially different manner, in view of changes in demand in the aforementioned markets, in view of the intensification of competition in these fields, in view of the entry of additional factors into them or into alternative fields, in view of change in technologies and in consumption habits, in view of the pace of development of the Internet browsing rates, in view of regulatory restrictions imposed or to be imposed on DBS, or its collaborations with Bezeq and other parties in the fields, and in view of how the fields will be regulated.

5.18. Discussion of risk factors

The following are the threats, weaknesses and other risk factors of DBS (“**the Risks**") arising from its general environment, from the industry and from the unique characteristics of its activities.

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 rate risks. The main market risk is the shekel-US dollar exchange rate, in light of the fact that some significant portion of DBS's expenses and investments are made in US dollars (mainly content, satellite segments, purchase of end equipment and other logistics equipment). Therefore, sharp exchange rate changes have an effect on DBS's business results.

5.18.1.2 Recession / economic slowdown / security situation - an economic slowdown in the economy, an increase in unemployment rates and a decrease in disposable income may lead to a decrease in the number of DBS subscribers, a decrease in DBS revenues and damage to its business results.

5.18.1.3 Also, an ongoing deteriorating security situation in large areas of Israel, which disrupts the daily lives of the residents, could lead to a deterioration in the business results of DBS.

5.18.1.4 Epidemic - Disease outbreaks and epidemic events in general (such as the outbreak of COVID-19 in 2020) may have consequences for DBS's business activities depending on the extent of the spread and its severity as well as the national and global measures that will be taken as a result. These consequences may be manifested, among other things, in damage to DBS's activities and its customer service system as well as in damage to the supply chain. Events of this type are changing events that are not under the control of DBS, and their consequences are subject, among other things, to the decisions of countries and authorities in Israel and around the world that may affect DBS accordingly. For this matter see also Section 5.18.1.2 and the Company's reference in Sections 2.20.10 and 2.20.13.

5.18.1.5 Damage caused by nature, war, disaster - damage to DBS infrastructure and services as a result of natural disasters, including earthquakes, as well as as a result of war or disaster, may adversely affect its business and results.

5.18.2. Industry risks

5.18.2.1 Dependence on licenses - DBS satellite TV broadcasts are provided in accordance with the broadcasting license and through additional licenses, and therefore depend on the existence of these licenses and their extension from time to time. Violation of the provisions of the licenses, as well as the provisions of the law by virtue of which the licenses were granted, may result, subject to the conditions set forth in the licenses, to revoke, change, suspend or not extend the licenses and consequently materially impair DBS's ability to continue operating in the field.

5.18.2.2 Regulation - the provision of satellite television broadcasts is subject to the obligations and limitations set forth in the legislation as well as to the licensing regime, supervision and approvals by various regulatory bodies, and may therefore be affected and limited in light of policy considerations dictated by these bodies and their decisions (see Section 5.14). Regulatory changes may affect DBS activity and may materially impair its financial results. The OTT services including those of DBS are not monitored, as of the date of the report (for the possibility of arranging these services, see Section 5.14.2). Continued activity of content providers (and the entry of additional providers) via the Internet as stated in the Section 5.1.1 without the application of regulatory rules to their activities and / or without appropriate amendment of the regulatory rules applicable to broadcast license holders, may materially impair the financial results of DBS. In addition, DBS's activity, as a company that provides services to the public, is subject, among other things, to legislation in the field of consumer protection as well as to the laws of protection of privacy and information security (see Section 1.7.7.4).

5.18.2.3 Fierce competition - the field is characterized by fierce competition with a variety of different competitors (see Section 5.1.7), which are also expected to increase in the future in the face of the entry of additional local and international factors, as well as a change in consumer preferences, that requires DBS to constantly and continuously invest in recruiting and retaining customers and dealing with high transfer rates of subscribers between companies, and may even require a change in DBS's business model . For the characteristics of competition, see Section 5.5.

DBS's estimate, as stated in this paragraph above in relation to the possibility of the entry of local and international factors, is forward-looking information. This assessment is based on DBS's assessments of the state of the industry and possible changes in it. This assessment may not materialize or partially or otherwise materialize in view of the materialization or non-materialization of plans by various factors to enter into the industry, the manner in which they are actually implemented and the conditions of competition that will prevail.

5.18.2.4 Technological developments and improvements - technological improvements and the development of new technologies that will make existing technology inferior, may require DBS to make large financial investments in order to maintain its competitive position (see Section 5.1.1).

5.18.2.5 Alternative infrastructure for multi-channel broadcasts - the activity of the DTT system, and in particular its expansion, as well as the deepening of the intrusion of OTT operators, may harm the financial results of DBS (see Section 5.1.1).

5.18.2.6 Unauthorized viewing - the field of broadcasts is exposed to the "pirated" connection of viewers to the reception of the broadcasts, without paying a subscription fee, and is also exposed to the public's access to content in which the broadcaster has rights.

5.18.2.7 Exposure to legal proceedings - DBS is a party to legal proceedings, including requests for approval of class actions, which may result in a charge of material amounts which cannot be assessed, and for which no provision has been made in its statements. These class actions can amount to large sums, as a substantial portion of Israel's residents are DBS subscribers, and a claim relating to a small damage to a single subscriber may become a material claim to DBS, if recognized as a class action applicable to all subscribers or to a substantial portion thereof.

5.18.3. Special risks to DBS

5.18.3.1 Limitations as a result of the ownership structure - DBS is limited in its cooperation with Bezeq in relation to the offer of a basket of communications services in a manner that materially affects DBS's business situation and its competitive capabilities (see Section 5.15.3).

5.18.3.2 Restrictions as a result of the eligibility conditions - "cross" holdings of holders, directly or indirectly, in DBS, as well as a decrease in the holding rate of Israeli citizens or residents in DBS, may lead to non-compliance with the eligibility conditions of its broadcasting license (including in light of the Israeliness requirement (see Section 5.14.1.1).

5.18.3.3 Maintaining a sufficient cash flow - DBS must maintain a sufficient cash flow for the purpose of meeting its business plan. The lack of sufficient cash flow, including through investment or financing from Bezeq, may adversely affect DBS's business, as well as make it more difficult for it to deal with competitive threats in view of technological developments and changes in consumption habits in the field.

According to DBS's estimate, it is expected to continue to accumulate operating losses in the coming years and therefore without Bezeq's support it will not be able to meet its obligations and continue to operate as a going concern. According to DBS, the sources of financing available to it, which include, *inter alia*, the working equity deficit and the credit and Bezeq's investment framework in equity as stated in Section 5.12, will meet the needs of DBS activity for the coming year.

5.18.3.4 DBS satellite transmissions are made using space segments of satellites located at the same point in space. In the operation of one of the satellites, damage to one of them or unavailability of space segments in any of the satellites, including unavailability of a satellite intended to replace a satellite that has ceased to transmit or provide services to DBS or termination of segment leasing in any of the satellites may significantly disrupt and reduce the volume of satellite broadcasts via satellite, unless an alternative is found to the segments of space that are not available as aforesaid and also in view of the lapse of time until the implementation of such an alternative. However, the duplication of satellites through which transmissions are made to subscribers as of the date of this report, also taking into account the partial backup mechanisms set forth in the Space Agreements (the quality and scope of which depend on the identity of the backed satellite), significantly reduces the risk of damage, failure or unavailability, and improve the survivability of the bulk of the broadcast. In the event of the availability of such satellite, it will be possible, through space segments available to DBS on the other satellite, to broadcast the channels broadcast by DBS (all or almost all) (for the Space Agreement, including backup mechanisms determined under it, see Section 5.15.1). However, according to DBS, the said duplication of satellites is expected to end in the beginning of 2025, and from that period onwards, DBS will operate with one satellite - see Section 5.15.1. DBS does not have insurance for loss of revenue caused by satellite failure.

Termination of the receipt of the satellite services, for any reason (including due to the end of the agreement period), while a substantial part of DBS subscribers are still satellite subscribers may result in substantial damage to DBS revenues.

The progress of the process of switching to or accelerating transmission via the Internet may reduce the vulnerabilities mentioned above involving the failure, damage, unavailability or termination of satellite services.

DBS's estimates as stated in this paragraph above is forward-looking information. This assessment is based on the provision of space segments and the implementation of space backup mechanisms and space assessments in relation to the useful life of satellites, the beginning of the activity of new satellites, the end of the activity of existing satellites and the exercise of contracts in relation to them, and possible termination of lease of segments of space. This assessment may not materialize or be partially or otherwise materialized if there is a change in the useful life of the satellites and the exercise of their lease option or if space does not provide the BBC with alternative segments in the event of unavailability or failure of the space segments or satellites.

5.18.3.5 Dependence on the owner of the rights in the space segments - DBS has a substantial dependence on Space, as the sole rights holder and the sole supplier of the space segments used by DBS, which is also responsible for the operation of the space segments. In relation to Amos 7, the supply of the segments of space also depends on the third party who owns the satellite and the body responsible for its operation, with whom Space has contracted (see Section 5.15 and on the realization of its engagement with Space in relation to this satellite until the end of the period determined in a manner that will allow the continued leasing of the segments of space on this satellite.

5.18.3.6 Dependence on software suppliers, equipment, content, infrastructure and services - DBS has dependence on software vendors and equipment, as well as on certain content vendors (see Sections 5.7.2 and 5.9.5) and receipt of certain services, including broadcast encryption services (see Section 5.7.5). Failure to receive the products and services provided by them may impair the functioning of DBS and its results. In addition, inability to purchase streamers or receiving support services from current provider, is expected to involve a period of preparation that will be required to make the alternative engagement and change their supply and support system.

5.18.3.7 Impairment of the activity of the broadcasting centers and the logistics center - Impairment of the activity of the broadcasting center may cause a significant limitation in the continuation of the broadcasts, but decentralization of broadcasts to two broadcasting centers (in Kfar Saba and the Ella Valley) partially reduces the risk of damaging one of them. In the event of damage to one of the broadcasting centers, DBS will be able to continue to broadcast from the other broadcasting center only part of its channels as part of the satellite broadcasts, as well as all VOD broadcasts. Each transmission center has the same satellite encryption system, and therefore there is full backup for the encryption system in case of damage to one of the transmission centers. In the event of a cessation of activity of the Kfar Saba site, OTT services will not be possible at all, and in the event of a cessation of activity of the secondary site only, the main activity of the OTT services will be possible through the Kfar Saba site, including broadcasting some channels and VOD service. Damage to the DBS logistics center may also disrupt its operations, and in particular the installation and maintenance of end equipment.

The assessment of DBS as stated in this paragraph is forward-looking information. This assessment is based on the provision of the provider services that operate the secondary broadcasting site in the event of an injury to the broadcasting center in Kfar Saba. This assessment may not materialize or partially or otherwise materialize if DBS is not allowed to receive the services of the said provider in full and properly.

5.18.3.8 Failure of DBS’s computer systems - significant failure of DBS's major computer systems could significantly impair DBS's operational capacity. However, DBS has a remote backup site designed primarily for storing information and providing an internal computing service limited to failures in such a way that in the event of a failure of the DBS site's computer systems in Kfar Saba, it will be possible to reactivate the central systems through the backup site.

DBS's assessment in relation to the backup capability as stated in this paragraph is forward-looking information. This estimate is based on the functionality of the remote backup site. This assessment may not materialize or partially or otherwise materialize if such functionality is not possible.

5.18.3.9 Cyber risks - DBS is exposed to the risk of the occurrence of an activity intended to harm the use of a computer or computer material stored on it ("**cyber attack**"). Such attacks can disrupt business, cause theft of information / money, damage databases and subscriber privacy, damage to reputation, damage to systems and information leakage, which may also be caused by an intentional or inadvertent internal factor. As a leading company in the field of subscriber television broadcasting, DBS is a target for cyber attacks and experiences cyber attacks, which are handled by its information security and cyber protection teams.

DBS has defined a policy for cyber risk management that establishes guiding principles for cyber protection, which refer, among other things, to the confidentiality of information, the reliability of information and the availability of information in connection with the implementation of cyber protection in the following aspects: organizational framework, cloud computing, human resources and security, physical and logical cyber protection in processes , in systems and infrastructures. The person responsible for implementing the policy in DBS is the information security manager.

DBS also implements standards for managing cyber risks and information security, as well as a protection policy that includes layers of protection, starting with managers and policies, and ending with physical layers of defense systems against cyber attacks, which are operated in a configuration that combines effective security with the operational needs of DBS, with the aim of protecting its infrastructure and systems and reducing the possibility of illegal exploitation of its resources. In addition, there are tools for attacking and detecting information security weaknesses that operate automatically and help discover information security loopholes and weaknesses. DBS has an annual work plan in connection with reducing the exposure resulting from the cyber risk while carrying out control and monitoring of actual implementation.

DBS also periodically performs information security surveys, risk surveys, penetration tests, attack drills, as well as other actions for the purpose of examining the effectiveness of the risk management policy in dealing with and reducing cyber risk, as well as control over examining the way cyber risks are managed through internal audits. In addition, DBS allocated resources to manage cyber risks through the establishment of an information security system consisting of professional employees in the field.

DBS’s Board of Directors is involved in and supervises the management of cyber risk at DBS within the framework of handling the overall risk management policy of DBS..

Despite DBS's actions investments in measures to reduce such risks, DBS is unable to guarantee that these measures will in practice succeed in preventing a cyber attack and/or damage and / or disruption to the systems and information related to them.

5.18.3.10 Technical limitation that prevents the offering of integrated services – DBS’s satellite infrastructure suffers from technical limitations compared to Hot infrastructure. The technical limitation prevents DBS from providing telephony, Internet and various interactive services, including VOD, on its satellite infrastructure, and therefore their supply depends on third parties.

5.18.3.11 Defects in the encryption system or its bypass – DBS’s broadcasts via satellite and via the Internet, are based on the encryption of the broadcasts transmitted by it, including the encoding of its satellite broadcasts using the "smart cards" installed in the decoders in the satellite subscribers’ houses. Defects in its encryption system or hacking or bypassing it may allow free viewing of DBS broadcasts, thereby leading to a decrease in revenue, as well as a breach of agreements between DBS and its content providers.

5.18.3.12 Lack of exclusivity in the field of frequencies - the field of frequencies used by DBS to transfer satellite transmission from the transmission satellites to the reception dishes installed in the subscribers' homes, and which has been allocated under a license by the Ministry of Communications, is defined as a frequency range that an Israeli entity that may make authorized use of in the field of frequencies. If the holder of the main allotment uses the above-mentioned frequencies, disruptions in the quality of the DBS broadcasts and / or the availability of the broadcasts to the subscriber may result in damage to the financial results of DBS. As of the date of this report, to the best of DBS's knowledge, no holder of the main allotment used the said frequencies in a manner that caused actual and / or persistent interruptions in DBS's broadcasts.

5.18.3.13 Interference for transmissions - since DBS transmissions via satellite are transmitted wirelessly from the transmission centers to the transmission satellites and from there to the reception dishes in the subscribers' houses, transmission of wireless signals, in the same frequency range, whether originating in Israel and abroad, and extreme weather conditions of heavy rain, hail or snow may cause disruptions in the quality and / or availability of the broadcasts via the satellite provided by DBS to the subscriber and material damage to its financial results. In relation to broadcasts via the Internet, there may be disruptions in the quality and / or availability of the broadcasts as a result of disruptions or unavailability of the Internet infrastructure.

5.18.3.14 Labor relations - DBS is a party to a collective agreement with the Histadrut and the Employees' Committee, which may reduce its administrative flexibility (see Section 5.10.3). In addition, In addition, disruptions in labor relations at DBS, and possibly also at other Bezeq subsidiaries, could cause damage to DBS's day-to-day operations.

5.18.3.15 Loss of knowledge and information - The changes that are taking place in the labor market in Israel and around the world, along with organizational changes, entail risks for the loss of key employees, loss of knowledge as a result of employee turnover and difficulty in recruiting employees, etc.

5.18.3.16 Delay in improving internet browsing speeds - as BDS's outline for the transition to OTT broadcasting (see Section 5.17.1) is also based on an improvement in Internet browsing speeds, nationwide, failure to improve browsing speeds through the deployment of fiber optics or through the implementation of another technological solution, by the Company or other communications operators, can delay the implementation of the layout or impair its implementation.

DBS assessments as to the browsing speeds required to enable OTT broadcasts as designed in an outline in a way that enables the operation of several converters in a customer's home is forward-looking information. These estimates are based on the expected development in browsing speeds, taking into account, among other things, the expected needs of customers' homes and the expected mix of broadcasts. These assessments may not materialize or materialize differently if there is a delay in improving Internet browsing rates or a change in customer needs or DBS.

Below is a presentation of the risk factors according to their influence in the opinion of the DBS's Management. It should be noted that the following DBS assessments regarding the extent of the risk factor's impact on DBS reflect the extent of the risk factors' impact in assuming the materialization of the risk factor, and the aforesaid does not express any assessment or give any weight to such prospects. In addition, the order in which the risk factors appear above and below is not necessarily according to the risk inherent in each risk factor or the probability of its occurrence.[91]:

[91] See Footnote 51.

Risk Factors Summary Table - Multi-Channel TV

	The degree of influence		
	High	**Medium**	**Small**
Macro risk			
Financial risks		X	
Recession / economic slowdown / security situation			X
Pandemic		X[92]	
Damage caused by nature, war, disaster	X		
Industry risk			
Dependence on licenses	X		
Changes in regulation	X		
Fierce competition	X		
Technological developments and changes		X	
Alternative infrastructures		X	
Unauthorized viewing		X	
Exposure to legal proceedings		X	
Unique risk			
Limitations as a result of the ownership structure		X	
Restrictions due to eligibility conditions	X		
The need to maintain a sufficient cash flow	X		
Satellite failure and damage	X		
Dependence on the supplier of space segments	X		
Dependence on software, content, equipment and infrastructure vendors	X		
Impairment of the activity of the broadcast centers	X		
Failure of computer systems	X		
Cyber failures	X		
Technical limitation that prevents the offer of integrated services		X	
Encryption system failure	X		
Lack of exclusivity in frequencies		X	
Interference with transmissions	X		
Work relations			X
Loss og knowledge and information		X	
Delay in improving internet browsing rates	X		

The information contained in this section 5.18 and DBS's assessments regarding the impact of risk factors on DBS's activities and business, are forward-looking information as defined in the Securities Law. The information and assessments are based on data published by the regulatory bodies, on DBS's assessments of the market situation and its competitive structure, on possible developments in the Israeli market and economy, and on the factors specified in this section above. The actual results may differ materially from the estimates given above if there is a change in one of the factors taken into account in these estimates.

92 The extent of the effect of this risk factor on DBS activity was classified as moderate, assuming that the event would be limited in scope and time. Otherwise, the degree of impact may be large.

6. The Company

6.1. Financing

6.1.2. The Company's debentures

For details about the debentures issued by the Company See Note 13 to the 2022 Consolidated Statements and Section 4 of the Board of Directors' Report.

6.1.3. Credit rating

As of August 13, 2020, the Company's debentures are not rated in any rating. On the eve of the termination of the rating, the rating of the Company's debentures (Series C) by Midroog was Caa2.il, with a stable rating horizon.

6.2. Legal proceedings

6.2.1. In June 2017, two motions for approval of a class action lawsuit, in the total amount of NIS 1.8 billion, were filed against the Company, Bezeq, officers in the Group and companies from the then controlling group in Bezeq regarding the purchase of DBS shares by Bezeq from Eurocom. According to the decision of the Court, a consolidated motion is expected to be filed in lieu of these two motions.The said procedure has been delayed at the request of the Attorney General several times, when as of this date, the procedure has been delayed till July 2023.

6.2.2. In November 2020, a claim was filed with the Tel Aviv District Court (Economic Department) accompanied by a motion for approval as a class action by a private person who claims to be a shareholder of Bezeq ("**the Applicant**") against the Company, Bezeq and members of Bezeq’s Board of Directors ("**the Respondents**"). The matter of the motion is the approval of a class action for compensation of the Applicant and the members of the represented group for damages caused to them, according to the motion, "due to Bezeq's failure to report and disclose to the Tel Aviv Stock Exchange (hereinafter: "**TASE**") and the concealment of material information from investors, in connection with a public report on "the Ministry of Communications' moves to eradicate the phenomenon of dual subscribers in the field of ISP Internet services, on the extensive and substantial scope of the phenomenon of dual subscribers in the Bezeq International subsidiary (hereinafter: "**Bezeq International**") and their material negative impact on the business of the subsidiary and Bezeq". The definition of the group according to the motion is anyone who purchased the Bezeq shares from August 17, 2020 until October 30, 2020 and held the above shares or some of them on October 30, 2020, except for the respondents and / or those on their behalf and / or entities related to them. In the application, the damage caused to the group members as a result of the incidents that are the subject of the lawsuit amounts to approximately NIS 55 million to NIS 65 million, based on an expert opinion attached to the motion. In December 2021, the Company filed a motion for *in limine* dismissal of the motion for approval against it, *inter alia*, because the motion for approval does not specify claims against the Company and because for most of the relevant period the Company was a dual company so the law applied to it is US law, and because the motion is not supported by the opinion of an expert on foreign law. In July 2021, the respondents filed a response claiming that the motion for approval was unbased, *inter alia*, due to the fact that the information alleged in the motion for approval that was required for publication did not meet the standards set by law for the purpose of establishing a reporting obligation, accompanied by an arrangement procedure and in combination with professional consultants and under the supervision of the Board of Directors, and hence, the appropriate means to comply with the provisions of the law were performed, and these findings contradict the applicant's contention. After several hearings for responses and a pre-trial hearing in February, a decision was made in which the parties were asked to update whether they wished to hold a mediation, an additional preliminary hearing or to coordinate a hearing. The parties have announced that they are working to coordinate deadlines for evidentiary hearings. On July 19, 2022, the evidence hearing took place as aforementioned, and the procedures for submitting summaries on behalf of the parties were determined, while the applicant's summaries were submitted on November 30, 2022, and in accordance with the Court's decision, the date for submitting the respondents' summaries was set for March 30, 2023

In November 2020, a lawsuit was filed in the Tel Aviv District Court (Economic

Department) with motion for approval as a class action by a private individual ("**the Applicant**") who claims is a shareholder of the Company who claims to hold the Company's shares and Bezeq shares, against the Company, Bezeq and 72 other respondents, which include past and present officers in the two companies ("**the Respondents**"). The matter of the application is the approval of a class action for compensation of the Applicant and the members of the represented groups for damages caused to them, as alleged in the motion, as a result of the Respondents' actions and omissions when they refrained from disclosing to the investing public seemingly material information that they had to disclose in accordance with the provisions of the law, in connection with the two companies' report dated November 9, 2020 according to which Bezeq International books have unexplained net asset balances (deductible) of tens of millions of NIS, whin a significant portion of them otiginate, apparently, in past periods of more than 15 years. The definition of the groups according to the motion is: (a) Anyone who purchased Bezeq shares from November 8, 2005 to November 9, 2020, except the Respondents or those on their behalf and (b) Everyone who purchased the Company's shares on the Tel Aviv Stock Exchange from November 8, 2007 to November 9, 2020, except the Respondents or those on their behalf. The amount of the class action specified in the statement of claim is "over NIS 2.5 million (for matters of substantive authority)" when in accordance with the economic opinion that was attached to the motion, "the estimate for the drop in the price of the security" in respect of the information included in the immediate report dated November 9, 2020 is 5.26%-5.40% in relation to Bezeq and 9.07% - 9.36% in relation to the Company.

In July 2022, the applicant, Bezeq and the Company submitted a notice regarding a motion for a mediation procedure and a motion for the approval of a negotiated settlement, in which they announced that in the conversation that took place between them, they agreed on holding a mediation process ("**the Negotiated Settlement**"). The court approved the aforementioned settlement. As of the date of the report, the first mediation meeting was scheduled for April 2023 and the parties will submit an updated notice by May 2023

___________________	March 14, 2023
B Communications Ltd.	Date

Names and roles of the signatories:
Darren Glatt, Chairman of the Board of Directors
Tomer Raved, CEO

7. Appendix A - Glossary

A. Names are abbreviated according to the legislation that appear in the report

Consumer Protection Law	-	Consumer Protection Law, 5741-1981
Economic Competition Law	-	Economic Competition Law, 5748-1988
Companies Law	-	Companies Act, 5769-1999
Non-Ionizing Radiation Law	-	The Non-Ionizing Radiation Law, 5776-2006
Centralization Law	-	Law for the Promotion of Competition and the Reduction of Centralization, 5774-2013
Second Authority Law	-	Second Television and Radio Authority Law, 5755-1990
Planning and Construction Law	-	Planning and Construction Law, 5725-1965
Communications Law	-	The Communications (Bezeq and Broadcasting) Law, 5742-1982
Securities Law	-	Securities Law, 5728-1968
Rules of communication		Rules of Communication (Holder of a Broadcasting License), 5747-1987
Telegraph Order		Wireless Telegraph Order [New Version], 5732-1972
Usage regulations		Communications (Bezeq and Broadcasting) Regulations (Use of an NIO’s Public Network), 5775-2014
The media order		Communications Order (Bezeq and Broadcasting) (determination of an essential service provided by Bezeq, The Israel Telecommunications Company Ltd.), 5777-1997
The Planning and Construction Regulations (Exemption from the Permit)	-	Planning and Construction (works and buildings exempt from the permit), 5774-2014
Prospectus Details Regulations	-	Securities Regulations (Prospectus Details, Draft Prospectus Structure and Form), 5729-1969
Reciprocal linking regulations	-	Communications Regulations (Bezeq and Broadcasting) (Payments for Reciprocal Linking), 5764-2000
Satellite Broadcasting License Regulations	-	Communications Regulations (Bezeq and Broadcasting) (Procedures and Conditions for Licensing Satellite Broadcasting), 5758-1998

B. **Technological terms and other key terms appearing in the report**[93]

Internet Gold	-	Internet Gold Gold Lines
Bezeq Online	-	Bezeq online Ltd.
Bezeq International	-	Bezeq International Ltd
BAP	-	BAP Communications Solutions (Limited Partnership) which is controlled by Bezeq International
Golan telecom	-	Golan Telecom Ltd.
2021 statements	-	The Company's consolidated financial statements for the year ended December 31, 2021
Interconnectivity fee	-	The interconnectivity fee (also called the call completion fee) is a payment that one operator pays to another operator for a reciprocal link (see definition below)
DBS	-	DBS Satellite Services (1998) Ltd.
Hot	-	Hot Communications Systems Ltd., and corporations under its control that operate in the field of broadcasting (multi-channel television)
Hot Telecom	-	Hot Telecom Limited Partnership
Hot Mobile	-	Hot Mobile Ltd. (formerly MIRS Communications Ltd.) and corporations under its control
Hot-Net	-	Hot-Net Internet Services Ltd.
The Stock Exchange	-	The Tel Aviv Stock Exchange Ltd.
The Histadrut	-	The New General Workers' Union
Council	-	Cable and Satellite Broadcasting Council
The Second Authority	-	The Second Television and Radio Authority
Walla	-	Walla! Communications Ltd. and corporations under its control
Space	-	Space Communications Ltd.
Eurocom DBS	-	Eurocom DBS Ltd.
Eurocom Communications	-	Eurocom Communications Ltd.
Switching	-	In the context of a communications network - a telephony system that supports the connection of devices for transferring calls between different end units
Mbps	-	Megabits per second; Measurement unit for data transfer speed
NIO	-	National interior operator; A body that provides landline interior telephony services under a general or unique NIO license
Roaming	-	Roaming services allow a customer of one communication network to receive services from another communication network other than his "home network" (the network with the license he subscribes to), based on roaming agreements between the home network and the host network
Network endpoint	-	Network endpoint - an interface to which one is connected, on the one hand a public Bezeq network and on the other hand end equipment or a private network. Network endpoint services include the supply and

93 It should be noted that the definitions of the terms are provided for the convenience of the reader, and are not necessarily identical to the definitions in the Communications Law or its regulations.

		maintenance of equipment and services in the customer's premises
Cellcom	-	Cellcom Israel Ltd. and corporations under its control
Pelephone	-	Pelephone Communications Ltd.
Fiber project		The Company's plan for the deployment of ultra-broadband landline infrastructure that includes a massive deployment of fiber optics across the country on a large scale that will enable the offer of ultra-fast Internet services.
Partner	-	Partner Communications Ltd. and corporations under its control
Interconnectivity	-	Interconnectivity enables the transmission of instant messages between subscribers of different licensees, or the provision of services by one licensee to the subscribers of another licensee; Interconnectivity is possible through a connection between a public Bezeq network of one licensee (for example - Bezeq) and a public network of another licensee (for example - a cellular operator); See also " Interconnectivity Fee" Definition
Mobile phone radio	-	Mobile radio telephone phone; Cellular telephony
Unified general license / unified license	-	A general license that is one of the following or a license that unites several thereof: (1) a unique general license; (2) a general mobile radio telephone license in another network; (3) a general license for the provision of Bezeq International services; (4) a special license for the provision of network endpoint services; (5) Special license for the provision of Internet services.
NIO license	-	Unique general or general license for the provision of landline interior Bezeq services
Mobile Radio license		General license for the provision of mobile radio telephone services - in the cellular method
Broadcasting license	-	License for satellite television broadcasts
ILA	-	Israel Lands Authority
Rami Levy	-	Rami Levy Cellular Communications Ltd.
Bezeq services	-	Performing Bezeq operations (transmission, transfer or reception of signs, signals, writing, visual forms, sounds or information, using wire, wireless, optical system or other electromagnetic systems) for others
Transmission services	-	Electromagnetic signal transmission or bit sequence
Data communication services	-	Network services for data transfer from point to point, data transfer between computers and various communication networks and remote business access services
Reporting period	-	Twelve months ended December 31, 2021
Bitstream Access (BSA)	-	Managed broadband access that allows provider services to connect to the infrastructure owner network and offer broadband services to subscribers
xDSL	-	Digital Subscriber Line - technology that uses the copper wires of telephone lines to transmit data at high rates by using frequencies higher than the audible frequency and therefore allows simultaneous use of call and data transmission
DTT	-	Digital Terrestrial Television- Wireless digital broadcasting of TV channels via terrestrial relay stations

GSM	-	Global System for Mobile Communications - International Standard for Cellular Communication Networks ("2G")
HD	-	High Definition TV - High definition (broadcast) TV broadcasts
HSPA	-	High Speed Packet Access - Cellular technology that is a continuation of the UMTS standard that enables data transfer at high speeds ("3.5G")
IBC	-	ABC Israel Broadband Company (2013) Ltd.
IP	-	Internet Protocol. The use of this protocol enables convergence between voice (data) and contractual (video) services over the same network
IPVPN	-	A virtual private network (Virtual Private Network) based on an Internet Protocol (IP) which is established on the public network, and through which it is possible to: (a) allow end users to connect to the corporate network and perform remote access; And - (b) make a connection between the branches of the organization (intranet)
ISP	-	Internet Service Provider - has a special license to provide Internet access services (Internet Service Provider). The Internet access provider is the body that allows the end user to connect to the IP / TCP protocol that connects it to the global Internet network
LTE		Long Term Evolution - Fast WIFI mobile standard devices such as cell phones
MVNO	-	Mobile Virtual Network Operator - a virtual cellular operator, which uses the existing communication infrastructure of the cellular operators without the need for its own infrastructure
NGN	-	Next Generation Network - Bezeq's communications network based on IP architecture
UMTS	-	Universal Mobile Telecommunications System - an international standard for cellular communications that is a development of the GSM standard ("3G")
VoB	-	Voice Over Broadband - Telephony services and related services in IP technology using landline broadband access services
VoC	-	Voice over Cellular Broadband - Telephony services over a cellular data communication channel ("Mobile VoB Services")
VOD	-	Video on Demand - TV services on demand by the subscriber
VoIP	-	Voice over Internet Protocol - technology that enables the transmission of voice messages (telephony service delivery) via IP protocol
Wi-Fi	-	Wireless Fidelity - Wireless access to the Internet in the local area

8. Appendix B - Financial Indices and Operational Performance Indices (Key Performance Indicators)

General

The indices below, which are specified in the chapters of Bezeq's periodic report, are financial indices that are not defined or detailed in generally accepted accounting principles included in the financial statements. The definition of the indices and / or how they are calculated may change from time to time, they do not constitute a substitute for indices based on accepted accounting rules and they may not even be calculated in the same way as parallel indices in other companies.

Details will be provided below in relation to the aforesaid indices, including in accordance with the update of the decision of the Securities Authority 99-6 regarding the use of financial indices that are not based on generally accepted accounting rules.

Financial indices

EBITDA

(Earnings Before Interest, Taxes, Depreciation and Amortization) EBITDA is defined as profit before financing expenses (revenue), taxes, depreciation and amortization. The EBITDA index is an accepted index in the field of the Company's activity which neutralizes aspects due to differences in the capital structure, various aspects of taxation and the manner and period of the reduction of property, plant and equipment and intangible assets. The Company's EBITDA is calculated as operating profit before depreciation, amortization and impairment (ongoing losses from impairment of property, plant and equipment and intangible assets). As of January 1, 2019, and for the purpose of adequately presenting economic activity, the Company presents ongoing losses from impairment of property, plant and equipment and intangible assets in the DB and Walla under depreciation and amortization, as well as ongoing losses from impairment of broadcasting rights under operating expenses and general expenses (in the statement of income).

Free flow (Free Cash Flow - FCF)

The Company's free cash flow is calculated as cash arising from current activities less cash for the purchase / sale of property, plant and equipment and intangible assets (net) and as of 2018, with the application of a IFRS16 standard, payments for leases are also deducted. The free cash flow index is an accepted index in the field of the company's activity in general and it represents the cash that the Company is able to produce after the investment needed to maintain or expand its asset base.

Operational performance indices (Key Performance Indicators)

ARPU (Average Revenue Per User)

The ARPU reflects the average monthly income per line / subscriber / parent house and is calculated as the monthly average distribution of the total relevant income for the period in the average number of active lines / subscribers / households in that period, as applicable. It will be clarified that the Group has four main areas of activity that correspond to the corporate division between the Group companies and the definition of a different active subscription between the areas of activity.

Churn rate

The churn rate reflects the Company's ability to retain its customer base and is calculated as the distribution of the number of lines / subscribers / households that disconnected from the Company's services during the period in the average number of active lines / subscribers / households in that period, as applicable. It will be clarified that the Group has four main areas of activity that correspond to the corporate division between the Group companies and the definition of a different active subscription between the areas of activity.

Chapter B
Report of the Board of Directors
on the State of Affairs of the Corporation
for the Year Ended December 31, 2022

Report of the Board of Directors on the State of Affairs of the Corporation for the Year ended December 31, 2022

The Board of Directors of B Communications Ltd. (“**the Company**") is honored to submit the Board of Directors' report on the State of the Company and consolidated for all Group Companies (the Company and the Subsidiaries will be collectively referred to hereinafter as: "**the Group**"), for a period of a year ended December 31, 2022 (“**the Report Date**") in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 ("**the Reporting Regulations**").

For the investigation by the Securities Authority and the Israel Police, see Note 1.3 to the Company’s statements.

The auditors drew attention to this in their opinion on the statements.

The Group reports on four main operating segments in its statements, as follows:

1. **Landline interior communication**
2. **Cellular communication**
3. **Internet, international communications and network endpoint services and ICT solutions (hereinafter: "Bezeq International Services")**
4. **Multichannel TV**

For more information, see Note 28 to the Statements.

The following are the Group's consolidated results:

	2022	**2021**	**Increase/decrease**	
	NIS millions	NIS millions	NIS millions	**%**
Net profit	**891**	996	(105)	(10.5)
EBITDA*	**3,493**	3,745	(252)	(6.7)
Adjusted EBITDA*	**3,724**	3,695	29	(0.8)

* Financial indices that are not based on generally accepted accounting principles, see below

The decrease in net profit mainly stemmed from a decrease in equity gains from the sale of real estate assets and an increase in provision expenses for claims in the landline domestic communications sector as well as an increase in expenses for the termination of employer-employee relations in early retirement voluntary retirement and collective agreements in the Group. The decrease is conditioned by an increase in the profit of the cellular communication sector as well as by a decrease in the Company's financing expenses.

For more information, see Chapter 1.2 below.

<u>* Financial indices that are not based on generally accepted accounting principles</u>

As of the Report Date, the Group's Management is assisted by financial performance indices that are not based on the generally accepted accounting rules for examining and presenting the Group's financial performance. These indices do not constitute a substitute for the information contained in Bezeq's statements.

The following is a breakdown of the indices:

Index	Details of the method of calculation and the purposes of the index
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Defined as profit before financing revenue (expenses), financing, taxes, depreciation and amortization. The EBITDA index is an accepted index in the Group's field of activity which neutralizes aspects due to differences in the capital structure, various aspects of taxation and the manner and period of the amortization of property, plant and equipment and intangible assets. The Group's EBITDA is calculated as operating profit before depreciation, amortization and impairment (including ongoing losses from impairment of property, plant and equipment and intangible assets as described in Notes 3.10.2, 10.5, and 10.6 to the Statements).
Adjusted EBITDA	Calculated as an EBITDA index net of the other operating expenses / revenue item, net and one-off losses / profits from impairment / increase in value and expenses in respect of the capital remuneration plan. The index allows comparisons of operational performance between different periods while neutralizing one-off effects of exceptional expenses / revenue. It should be noted that the adjusted EBITDA index should not be compared to indices with a similar name reported by other companies due to a possible difference in the way the index is calculated.

	2022	**2021**
	NIS millions	
Operating profit	**1,625**	1,856
Depreciation, amortization and impairment	**1,868**	1,889
EBITDA	**3,493**	3,745
Other operating expenses (revenue), net	**220**	(77)
Capital compensation expenses	**11**	27
Adjusted EBITDA	**3,724**	3,695

1. Explanations by the Board of Directors on the state of the corporation's business, the results of its operations, shareholders' equity, cash flows and other matters

1.1 Financial position - Assets

	December 31, 2022	December 31, 2021	Increase (decrease)		Explanation
	NIS millions	%	NIS millions	%	
Cash and current investments	**1,727**	2,132	(405)	(19.0)	For more information, see Chapter 1.4 below.
Current and non-current trade receivables	**2,189**	2,572	(383)	(14.9)	The decrease was mainly due to the moving forward of credit dates with the credit card companies, as well as receipts postponed from 2021 due to the labor strikes in the cellular communications sector and in the Bezeq International services sector.
Inventory	**85**	74	11	14.9	
Broadcasting rights	**57**	60	(3)	(5.0)	
Right-of-use assets	**1,746**	1,828	(82)	(4.5)	
Property, plant and equipment	**6,542**	6,312	230	3.6	The increase was mainly due to the landline interior communications segment, partly due to the progress of the fiber network deployment project, see Note 9.4 to the Statements.
Intangible assets	**3,251**	3,251	-	-	
Deferred expenses and non-current investments	**258**	306	(48)	(15.7)	The decrease was mainly due to classification of long-term deposits in the Company as current.
Deferred tax assets	**-**	24	(24)	(100)	See Note 7.5 to the Financial Statements
Total assets	**15,855**	16,559	(704)	(4.3)	

1.1. Financial position – Liabilities and equity

	December 31, 2022	December 31, 2021	Increase (decrease)		Explanation
	NIS millions	%	NIS millions	%	
Debt to financial institutions and debentures	**9,178**	10,048	(870)	(8.7)	The decrease in debt was due to repayment (including early repayment) of debentures and repayment of loans in Bezeq and the Company, offsetting the receipt of loans in the landline interior communications sector. For more information, see Note 13 to the Statements.
Liabilities in respect of leases	**1,908**	1,977	(69)	(3.5)	
Trade payables	**1,598**	1,755	(157)	(9.0)	The decrease was mainly due to payment for 5G frequencies in the cellular communication segment in the current quarter. For more information, see Note 14 to the Statements
Employee benefits	**600**	753	(153)	(20.3)	The decrease was mainly due to payments for employee retirement and an increase in the discount rate of liabilities to employees in the landline interior communications sector, offset by an increase in the provision for termination of employee-employer relationship in early retirement and voluntary retirement in the Group, see Note 16.5 to the Statements.
Provisions	**205**	118	87	73.7	The increase was mainly due to an increase in provisions for claims in the landline interior communications segment, see Notes 15 and 17 to the statements.
Deferred tax liabilities	**319**	296	23	7.8	
Other liabilities	**151**	142	9	6.3	
Total liabilities	**13,959**	15,089	(1,130)	(7.5)	
Non-controlling interests	**1,842**	1,454	395	27.3	
Shareholders’ equity	**54**	16	31	134.8	
Total equity	**1,896**	1,470	426	29.0	Equity as of December 31, 2022 constitutes approximately 11.9% of the total balance sheet, compared to approximately 8.9% of the total balance sheet as of December 31, 2021. The increase was due to net profit offset by distribution of dividends to non-controlling interests and the repurchase of shares in the Company.
Total liabilities and equity	**15,855**	16,559	(704)	(4.3)	

1.2. Enterprise results

1.2.1. Key results

	2022	2021	Increase (decrease)		Explanation
	NIS millions		NIS millions	%	
Revenue	**8,986**	8,821	165	1.9	The increase in revenue was mainly due to the landline interior communications segment and the cellular communications segment, offset by a decrease in revenue of the "Other" segment.
Operating and general expenses	**3,396**	3,265	131	4.0	The increase was due to all the Group's main segments, except for the cellular communication segment.
Salary	**1,877**	1,888	(11)	(0.6)	Decrease in salary expenses in the "Other" segment, offset by an increase in the landline interior communications segment and the multichannel TV segment. For more information see Note 23 to the Statements.
Depreciation, amortization and impairment	**1,868**	1,889	(21)	(1.1)	The decrease in Bezeq Group's expenses was offset by an increase in expenses in the landline interior communications segment.
Other operating expenses (income), net	**220**	(77)	297	-	The change was due to a decrease in equity gains from the sale of real estate assets in the landline interior communications segment as a result of an increase in expenses on provisions for legal claims compared to a decrease in the said expenses in the corresponding year, as well as from an increase in expenses due to termination of employee-employer relations in early retirement, voluntary retirement and collective agreements in the Group, see Note 24 to the Statements.
Operating Profit	**1,625**	1,856	(231)	(12.5)	
Financing expenses, net	**398**	478	(80)	(16.7)	The decrease in financing expenses was mainly due to a decrease in the costs of refinancing the Company's debt which arose during the year 2021, for more information see Note 25 to the Statements.
Income tax	**336**	382	(46)	(12.0)	The decrease in tax expenses on the income resulted from a decrease in the Group's profit before tax in 2022 relative to 2021.
Profit in the year	**891**	996	(105)	(10.5)	

1.2.2. Operating segments

a. The following are data regarding revenues and operating profit in accordance with the Group's operating segments:

	2022		2022	
	NIS millions	% of segment revenue	NIS millions	% of segment revenue
Revenue by operating segments				
Interior landline communication	**4,306**	**47.9**	4,182	47.5
Cellular communication	**2,399**	**26.7**	2,289	25.9
Bezeq International services	**1,239**	**13.8**	1,237	14
Multi-channel TV	**1,277**	**14.2**	1,270	14.4
Others and adjustments	**(235)**	**(2.6)**	(157)	(1.8)
Total	**8,986**	**100.00**	821,8	100.00

	2022		2022	
	NIS millions	% of segment revenue	NIS millions	% of segment revenue
Profit (loss) by operating segments:				
Interior landline communication	**1,460**	**33.9**	1,748	41.8
Cellular communication	**193**	**8.0**	42	1.8
Bezeq International services	**(30)**	**(2.4)**	22	1.8
Multi-channel TV *	**(48)**	**(3.8)**	(41)	(3.2)
Others and adjustments	**50**	**-**	85	-
Consolidated operating profit / percentage of Group revenue	**1,625**	**18.1**	1,856	21.0

*** The results of the multi-channel television segment are presented net of the overall impact of impairment recognized starting from 2018, is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.4 to the Consolidated Financial Statements for a summary of selected data from the DBS' statements.**

1.2.2. Activity segments (Cont.)

a. **Interior landline communications segment**

	2022	2021	Increase (decrease)		Explanation
	NIS millions			%	
Internet - infrastructure	**1,789**	1,624	165	10.1	The increase is due to growth in the average revenue per retail subscription, mainly from services and installations for customers on the fiber network and auxiliary end equipment and from the provision of Internet access services (ISP) starting in April 2022, as well as an increase in wholesale Internet service rates and in the wholesale market activity scope.
Landline telephony	**780**	913	(133)	(14.5)	The decrease was due to a decrease in the average revenue per telephone line, mainly due to the reduction of telephony rates by the Ministry of Communication starting from April 2022, and due to a decrease in the number of lines.
Transmission, data communication and other	**1,406**	1,327	79	5.9	The increase was mainly due to an increase in revenue from paid jobs and transmission services to businesses.
Cloud and digital services	**331**	318	13	4.1	The increase was due, among other things, to virtual switchboard services and cloud services.
Total revenue	**4,306**	4,182	124	3.0	
Operating and general expenses	**759**	667	92	13.8	The increase was mainly due to an increase in the costs of subcontractors and materials due to the deployment of the fiber network.
Salary	**970**	934	36	3.9	The increase was mainly due to the onboarding of employees mainly due to the fiber network deployment project and salary updates, offsetting employee retirement.
Depreciation and amortization	**1,005**	938	67	7.1	The increase was mainly due to an increase in subscriber equipment depreciation expenses and an increase in the balance of investments in the fiber network deployment project.
Other operating expenses (revenue), net	**112**	(105)	217	-	The change was due to the recording of high equity gains from the sale of real estate in the corresponding year as well as an increase in provision expenses for claims compared to a decrease in said expenses 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 financing expenses, net, was mainly due to financing revenue in respect of employee benefits that were recognized as a result of the increase in the discount rate, a decrease in interest expenses due to a decrease in debt, revenue from hedging transactions on the dollar exchange rate, and in the quarter also due to early repayment costs that were included in the corresponding year.
Taxes on revenue	**279**	343	(64)	(18.7)	
Segment profit	**849**	1,063	(214)	(20.1)	

1.2.2. Activity segments (Cont.)

b. **Cellular communications segment**

	2022	2021	Increase (decrease)		Explanation
	NIS millions			%	
Services	**1,791**	1,642	149	9.1	The increase was mainly due to the recovery from the effects of the COVID crisis, which was reflected in the increase in roaming revenues and from the continued growth in the number of subscribers, including subscribers in 5G packages.
Sale of end equipment to customers	**608**	647	(39)	(6.0)	The decrease in the period was mainly due to a decrease in wholesale sales.
Total revenue	**2,399**	2,289	110	4.8	
Operating and general expenses	**1,327**	1,346	(19)	(1.4)	The decrease was mainly due to a decrease in the cost of selling end equipment in parallel with a decrease in revenues, from the registration of the implementation of a cloud computing system in the corresponding year, from a decrease in call completion fees, as well as a decrease in repair service costs. The decrease was partially offset by an increase in roaming costs at the same time as an increase in revenue, as well as due to an increase in loan-loss expenses.
Salary	**314**	315	(1)	(0.3)	
Depreciation and amortization	**532**	577	(45)	(7.8)	The decrease was mainly due to a decrease in the ownership of cellular site right-of-use assets and assets whose amortization period has ended, as well as an update of the estimate of site dismantling and disposal assets.
Other operating expenses, net	**33**	9	24	266.7	The increase was due to the effects of the collective agreement regarding a bonus for employees and expenses for employee retirement.
Operating profit	**193**	42	151	359.5	
Financing income, net	**26**	42	(16)	(38.1)	The decrease in net financing revenue was mainly due to an increase in exchange rate differential expenses in light of the increase in the exchange rate, as well as financing expenses due to interest and linkage differences, offsetting an increase in revenue from interest on loans given to the parent company.
Income tax expenses	**54**	20	34	170.0	
Segment profit	**165**	64	101	157.8	

1.2.2. Activity segments (Cont.)

c. **Bezeq International services**

	2022	2021	Increase (decrease)		Explanation
	NIS millions			%	
Revenue	**1,239**	1,237	2	0.2	Increase in revenues from business services due to an increase in activity and the initial consolidation of CloudEdge's activity, as well as an increase in revenues from licensing equipment and service contracts, offset by a decrease in revenue from Internet services due to a decrease in the number of subscribers following the reform in unified Internet.
Operating, general and impairment expenses	**827**	799	28	3.5	The increase was due to business services expenses, mainly due to the consolidation of CloudEdge's activity and an increase in cloud licensing expenses, as well as an increase in payments to mobile radio telephone operators due to an increase in the volume of calls and rates. On the other hand, there was a decrease in local capacity expenses mainly due to a decrease in Internet activity in the retail segment in parallel with a decrease in revenues.
Salary	**237**	237	-	-	Decrease in salary expenses resulting from a continuous decrease in the number of Company employees, was offset by salary expenses due to the initial consolidation of CloudEdge, salary updates and the cessation of discount of sales incentives.
Depreciation, amortization and impairment	**134**	173	(39)	(22.5)	The decrease was due to a decrease in depreciation of assets (see Note 10.6 in the Statements) as well as a decrease in depreciation expenses of a subscription acquisition asset due, among other things, to the cessation of discount as aforementioned and a decrease in depreciation of other long-term assets.
Other operating expenses	**71**	6	65	1083.3	The increase was mainly due to the registration of a provision for voluntary retirement.
Operating profit (loss)	**(30)**	22	(52)	-	
Financing expenses, net	**1**	2	(1)	(50.0)	The decrease was due to the fact that tax expenses for previous years were recorded in the corresponding year.
Taxes on revenue expenses	**1**	12	(11)	(91.7)	
Segment profit (loss)	**(32)**	8	(40)	-	

1.2.2. Activity segments (Cont.)

d. **Multi-channel TV ***

	2022	2021	Increase (decrease)		Explanation
	NIS millions			%	
Revenue	**1,277**	1,270	7	0.6	The increase was mainly due to an increase in revenues from the sale of content to external entities, offsetting the effect of the change in the mix of subscribers from premium to discount.
Operating and general expenses	**855**	825	30	3.6	The increase was mainly due to an increase in the scope of content costs as well as an increase due to internet activity (ISP).
Salary	**193**	182	11	6.0	The increase was mainly due to an increase in employment costs and the effects of the collective agreement.
Depreciation and amortization	**274**	292	(18)	(6.2)	The decrease was mainly due to fully depreciated assets (mainly satellite decoders).
Other operating expenses	**3**	12	(9)	(75.0)	The decrease was mainly due to recording expenses for a new collective agreement in 2021.
Operating loss	**(48)**	(41)	(7)	(17.1)	
Financing expenses (income), net	**(6)**	1	(7)	-	The change was mainly due to the effect of dollar exchange rate hedging transactions.
Income tax	**1**	1	-	-	
Segment loss	**(43)**	(43)	-	-	

*** The results of the multi-channel television segment are presented net of the overall impact of impairment recognized starting from 2018, see "pro forma" income below. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. For more information, see Notes 10.5 and 28 to the Statements. In addition, see Note 31.4 to the Statements for a summary of selected data from the DBS' statements.**

1.2.2. Activity segments (Cont.)

e. **Multi-channel TV (Cont.) - Comparison between accounting profit and proforma profit**

	2022		2021	
	Accounting profit	Proforma profit	Accounting profit	Proforma profit
	NIS millions			
Revenue	**1,277**	**1,277**	1,270	1,270
General and operating expenses	**867**	**855**	835	825
Salary	**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 income, net	**(6)**	**(6)**	1	1
Income tax	**1**	**1**	1	1
Profit (loss) for the year	**13**	**(43)**	30	(43)

1.3. Main data from the Group's consolidated quarterly income statements (NIS millions)

	Q1/2022	Q2/2022	Q3/2022	Q4/2022	2022	Explanation
Revenue	2,255	2,225	2,262	2,244	8,986	
General and operating expenses	1,798	1,764	1,798	2,001	7,361	The increase in Q4 was mainly due to expenses for termination of employee-employer relations in early retirement, voluntary retirement and collective agreements in the Group, see Note 16.5 to the Statements.
Operating profit	**457**	**461**	**464**	**243**	**1,625**	
Financing expenses, net	104	99	97	98	398	Q1 includes early repayment costs for Bezeq debentures (series 9) amounting to NIS 26 million.
Profit after financing expenses, net	**353**	**362**	**367**	**145**	**1,227**	
Income tax	93	89	91	63	336	The decrease in the fourth quarter is due to a low profit before taxes as a result of expenses for the termination of employee-employer relations in early retirement and collective agreements in the Group.
Profit for the period	**260**	**273**	**276**	**82**	**891**	

1.4. Cash flow

	2022	2021	Change		Explanation
	NIS millions			%	
Net cash flow from operating activities	**3,491**	2,826	665	123.5	The increase in net cash flow from current activities was due to changes in working equity, mainly due to the moving forward of credit dates with the credit card companies, and due to the transition in collection from customers from the fourth quarter of 2021 until the first quarter of 2022 due to employees' sanctions in the cellular communications segment and the Bezeq international services segment, as well as from a decrease in Income Tax paid in the interior landline communication segment.
Net cash flow used for Investing operations	**(1,420)**	(1,578)	158	90.0	The decrease in the net cash flow used for investment activity was mainly due to an increase in the net proceeds from the repayment of deposits in banks, offsetting a decrease in the proceeds from the sale of property, plant and equipment in the landline interior communications segment.
Net cash flow used for financing operations	**(2,315)**	(1,144)	(1,171)	(202.4)	The increase in the net cash flow used for financing activities was mainly due to the payment of a dividend from Bezeq to non-controlling interests, from an increase in the repayment of debentures (inducing early redemption), offsetting a decrease in the repayment of loans, from the self-purchase of the Company's shares during 2022, and since the corresponding year included the issuance of Bezeq's debentures (series 13 and 14).
Net increase (decrease) in cash and cash equivalents	**(244)**	104	(348)	-	

<u>Average volume in the reported year</u>

Long-term liabilities (including current liabilities) to financial institutions and bondholders: approx. NIS 9,765 million.

Supplier credit: approx. NIS 961 million.

Short-term customer credit: approx. NIS 1,951 million.

Long-term customer credit: approx. NIS 278 million.

<u>Working equity</u>

The Group's consolidated working equity as of December 31, 2022 amounted to approximately NIS 1 million, compared with working equity of approximately NIS 565 million as of December 31, 2021.

The Company's working equity (according to the "Solo” Statements) as of December 31, 2022 amounted to approximately NIS 69 million, compared with working equity of approximately NIS 212 million as of December 31, 2021.

Bezeq (according to the "Solo" Statements) as of December 31, 2022, has a working equity in the amount of approx. NIS 62 million, compared with a working equity of NIS 161 million as of December 31, 2021.

1.5. Disclosure regarding the Company's projected cash flow

The Company's Board of Directors reviewed the Company's consolidated financial statements and separate (Solo) financial statements as of December 31, 2022, including sources for repayment of the Company's liabilities, including the Company's debentures (Series C and F). In addition, the Company's Board of Directors examined the warning signs set forth in Regulation 10(b)(14)(a) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and determined that despite the existence of a continuing negative cash flow from current operations in the separate (Solo) financial statements of the Company, in the opinion of the Company's Board of Directors, after receiving explanations for its opinion from the Company's Management, the continuing negative cash flow from current activities in the Company's separate (Solo) statements does not indicate a liquidity problem in the Company, and the Company has sufficient financial resources to continue its operations and meet its obligations, *inter alia*, taking into account the Corporation's cash balances in the solo statement.

1.6. Exchange and early repayment of the Company's debentures

On January 10, 2022, the Company made an exchange of approximately 417 million of series C debentures in exchange for approximately 432 million of series 6 debentures.

On June 30, 2022, the Company made a partial early repayment of approximately NIS 100 million on Series C debentures (plus interest accrued until the repayment date).

1.7. Self-purchase of the Company's shares

During the year 2022, the Company repurchased 7,603,514 of its shares for approximately NIS 121 million.

1.8. Effects of the COVID19 outbreak

At the beginning of 2020, the "Corona" virus (COVID-19) broke out in the world and in Israel (the "Event"). Following the Event, many countries, including Israel, took various measures and restrictions in an attempt to prevent the spread of the virus. During the year 2022, there was a significant decrease in the outbreak of the virus and the effects of the Event, when the consequences of the Event on the Group's activities in 2022 were manifested mainly in damage to Pelephone's revenues from roaming services (damage that gradually decreased throughout the year until the date of publication of this report), without significant negative effects in other areas of activity. As of the date of publication of the report, there are no special effects of the event on all areas of the Group's activity.

For further information, see the analysis of the results of the activity of the cellular communications segment in Chapter 1.2.2, Section C.

1.9. Update on the effects of inflation and the increase in interest rates on the results of the Group's activities

As stated in Note 30.5.1 to the Statements, changes in the inflation rate affect the Group's profitability and future cash flows, mainly due to Bezeq’s index-linked liabilities. Bezeq implements a policy to reduce and partially hedge the exposure to the price index and the dollar-shekel exchange rate through the execution of forward transactions. See details regarding hedging transactions in Note 30.6 to the Statements.

In 2022, the increase in the consumer price index increased Bezeq’s financing expenses to the extent of approximately NIS 95 million (approximately NIS 72 million after hedging) compared to the corresponding year. It should be noted that the net effect of the increase in interest rates in the economy on the Bezeq Group's operating results was not material during the reporting period.

In accordance with the scope of Bezeq's index-linked debt as of December 31, 2022, every 1% increase in the Consumer Price Index is expected to result in an increase in its financing expenses to the extent of approximately NIS 25 million, this is before considering the effect of hedging transactions. In addition, a 1% change in the Bank of Israel interest rate is expected to cause an increase in Bezeq's financing expenses to the extent of approximately NIS 7 million per year, and accordingly, is not expected to have a material effect on Bezeq's operating results.

The Company's debentures are in shekels and are therefore not affected by changes in the inflation rate or interest rate increases.

2. Corporate governance aspects

2.1. Involvement of the Group members in the community and donations

The Company supports Bezeq's corporate responsibility policy and will continue to promote this policy in all Group companies, and in addition, the Company discusses the Company's donation policy every year, with a focus on health, education and community issues. In the year of the report, the Company donated to the Ichilov Hospital, the Reut Rehabilitation Hospital and other non-profit organizations in amounts that are not material to the Company.

According to the community contribution policy approved by Bezeq's Board of Directors, Bezeq contributes to the community out of its deep commitment to the issue of social responsibility, through financial donations, donations of services and communication infrastructure, and support for employee volunteering in the community.

Bezeq focuses the main contribution on reducing the digital gap in Israel by donating communication services to non-profit organizations and disadvantaged populations, supporting programs that promote digital equality through training, providing skills and assistance, and harnessing additional partners. At the same time, Bezeq works to create a social impact while providing a framework for initiative, meaningful action and volunteering in the community.

In 2022, the Bezeq Group donated a total of approximately NIS 6.4 million, which includes a financial donation of approximately NIS 1.8 million, donation of services and communication infrastructure to associations and disadvantaged populations in the amount of approximately NIS 3 million, and a salary donation in the amount of approximately NIS 1.6 million.

2.2. Disclosure regarding auditor's salary

The following are the fee expenses for the auditors of the main consolidated companies in the Group for audit and audit-related services (NIS thousands):

Company	Auditor	Details	2022	2021
B Communications Ltd.	Somekh Chaikin	Audit and audit-related, including audit-related tax services	400	380
		Other services[1]	151	130
Bezeq – the Israeli Telecommunications Corp. Ltd.	Somekh Chaikin	Audit and audit-related, including audit-related tax services	1,530	1,530
		Other services[1]	485	684
Pelephone Communications Ltd.	Somekh Chaikin	Audit and audit-related, including audit-related tax services	603	642
		Other services[1]	434	366
Bezeq International Ltd.	Somekh Chaikin	Audit and audit-related, including audit-related tax services	379	1,483
		Other services[1]	403	519
DBS Satellite Services (1998) Ltd.	Somekh Chaikin	Audit and audit-related, including audit-related tax services	612	671
		Other services[1]	283	83
Total			**5,280**	**6,488**

The accountants' fees were discussed by the Boards of Directors' committees for examining the statements and approved by the Boards of Directors of the Company and of each of the Group companies. The fees are determined with reference to the hours and the hourly rate of the previous year while adjusting them to changes and events that occurred in the reporting year.

2.3. Directors with accounting and financial expertise and independent directors

As of the date of the report, all seven directors serving in the Company have accounting and financial expertise; For details about the directors with accounting and financial expertise serving in the Company as of the date of the report, see Regulation 26 in the report of additional details on the Company (part D of this periodic report) and also in Sections 2 and 9 of the corporate governance questionnaire.

2.4. Additional corporate governance issues

The Company established a gatekeepers' forum, with the participation of the Internal Auditor, the auditing accountants and the external legal advisors, led by the Company's CFO. This forum convenes as needed, in order to discuss general control and enforcement issues in the Company.

1 "Other services" provided to main companies in the Group in 2022 and 2021 included, among other things, consulting services on tax and accounting issues that are not related to auditing and special approvals.

2.5. Disclosure regarding the internal auditor in a reporting corporation

Details concentration	
Name of internal auditor	Ilan Chaikin
Date of appointment	2008
Compliance with the provisions of the law	The internal auditor complies with the conditions set forth in Article 3(a) and 8 of the Internal Audit Law and the provisions of Article 146(b) of the Companies Law.
Employment format	Hourly fee, according to the number of hours determined at the beginning of each year by the Audit Committee.
Method of appointment	**<u>The method of appointment and summary of the reasons for approving the appointment:</u>** The appointment was approved by the Board of Directors in 2008, following the recommendation of the Audit Committee. **<u>Duties, powers and roles assigned to the auditor:</u>** The authority and responsibility of the Company's Internal Auditor are fixed in the Company's internal audit procedure approved by the Audit Committee. According to the procedure, the Auditor's duties and powers are: Checking the correctness of the Company's operations and the actions of its officers, checking the reliability and integrity of the financial and operational information, examining the management of funds and liabilities and examining the Company's computerized information systems and the Company's information security system. The Internal Auditor is also responsible for examining employee complaints in accordance with the arrangements established by an audit committee in accordance with Article 117(6) of the Companies Law, 5759-1999. His powers are to receive any information, explanation and document necessary to fulfill his duties, right of access to any regular or computerized database of the Company, any database and any automatic or non-automatic data processing work plan of the Company and its units, and receive permission to enter any property of the Company. The Internal Auditor is also entitled to be invited to all meetings of Management, the Board of Directors and its committees.
Organizational supervisor of the Internal Auditor	The organizational supervisor of the internal auditor is the CEO of the Company.
Work plan	The work plan in 2022 was derived from the Company's multi-year work plan established for the years 2021-2024. **The considerations in determining the internal audit work plan** The guiding principle in building the internal audit work plan is the inherent risk in the Company's processes and activities. In order to assess these risks, the internal audit referred to the risk survey conducted by it, as well as to other sources that influenced the risk assessment in these processes, such as conversations with Management, findings of previous audits and other relevant activities. The main considerations taken into account in building the work plan are: Reasonable coverage of most areas of the Company's activity in accordance with the exposure to material risks, taking into account existing controls in the Company's areas of activity and the findings of previous audits.

	Parties involved in determining the work plan The Internal Auditor, Management and the Audit Committee of the Board of Directors. **The party that receives the work plan and approves it** The Audit Committee of the Board of Directors, after the issue has been discussed with the Company's CEO. **The Auditor's discretion to deviate from the work plan** The CEO of the Company or the Chairman of the Audit Committee may propose issues in matters where the need arises to conduct an urgent inspection as well as recommend reducing or stopping an inspection on a subject approved in the work plan. The Internal Auditor has the discretion to deviate from the work plan. **Examination of material transactions** The Internal Auditor is present at the Board of Directors' discussions where material transactions are approved and reviews the relevant material sent as part of these discussions.
Reference of the audit to material equity-held investee corporations	The work plan of the Company’s Internal Auditor does not include an audit of material equity-held investee corporations. The internal auditor conducts meetings with the internal auditor and other control factors of materially held corporations for the purpose of receiving periodic updates.
Performing the audit	In accordance with the Internal Auditor’s notice, the audit work is conducted in accordance with the internal audit standards accepted in Israel and around the world and in accordance with professional guidelines in the field of internal audit, including international internal audit standards as well as in accordance with the Internal Audit Law and the Companies Law.
Access to information	The Internal Auditor was presented with documents and information as stated in Article 9 of the Internal Audit Law and was given constant and unmediated access to the corporation's information systems, including financial data.
Internal Auditor’s report	The Internal Auditor submits written audit reports regularly during the reporting year to the chairman of the Board of Directors, the CEO, the Chairman of the Audit Committee and the members of the committee. The reports are submitted before the date of the committee hearing (usually about three days before this date). The Company's Audit Committee convened to discuss internal audit reports on the implementation of the inspection procedure report by the Internal Auditor for Q4/2021 on March 22, 2022. In addition, an audit report on the implementation of the inspection procedure by the Internal Auditor for Q2/2022 was presented on September 15, 2022, and an internal audit report on debt management was presented on November 29, 2022.
Board of Directors’ evaluation of the Internal Auditor's activity	The Board of Directors believes that the scope of the audit, the nature and continuity of the Internal Auditor's activity, as well as the work plan, are reasonable under the circumstances of the case and are capable of achieving the goals of the audit.
Remuneration	The Internal Auditor’s remuneration is determined each year according to the scope of the audit hours, according to an hourly fee. In 2022, the number of hours invested in the audit by the Internal Auditor was approximately 200 hours, noting that the said number of hours is sufficient for the Internal Auditor to complete the audit work properly. In 2022, the Internal Auditor was paid a remuneration in the amount of NIS 60,840 including VAT. In the opinion of the Board of Directors, the scope of the Internal Auditor’s remuneration had no effect on his professional judgment.

2. Disclosure in connection with the Corporation's financial reporting

3.1. Disclosure regarding valuations

The following are details of highly material valuations and a substantial and a material valuation in accordance with Regulation 8B(i) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

A highly material valuation of Bezeq Fixed Lines as of December 31, 2022 is not attached to the report since it was the Company's opinion that under any reasonably possible change in the key assumptions used to determine the recoverable value of the cash-generating unit, no highly matyerial impairment would have been recognized.

	Pelephone **Material valuation as of December 31, 2022** **See Section 3.1.3 below**	**Bezeq Fixed Line** **Highly material valuation as of December 31, 2022**	**DBS** **Highly material valuation as of December 31, 2022 – attached to Bezeq's Financial Statements as of December 31, 2022** **See Sections 3.1.1 and 3.1.3 below**	**Bezeq International** **Highly material valuation as of December 31, 2022 – attached to Bezeq's Financial Statements as of December 31, 2022** **See Section 3.1.3 below**
Identification of subject of valuation	Pelephone's value in use for the purpose of testing goodwill in accordance with International Accounting Standard 36.	Bezeq's value in use for the purpose of testing goodwill impairment attributed thereto in the Company's statements in accordance with International Accounting Standard 36.	Impairment examination of DBS Satellite Services (1998) Ltd.	Impairment examination of Bezeq International Ltd.
Timing of the 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 of the subject of the valuation close to the date of the valuation	NIS 1,395 million book value of the net operating assets of Pelephone plus the balance of excess costs created when Bezeq shares were purchased by the Company.	NIS 10,550 million book value of the net operating assets of Bezeq plus the balance of excess costs created when Bezeq shares were purchased by the Company.	Book value before impairment as of December 31, 2022 is negative in the amount of approx. NIS 18 million.	Book value before impairment as of December 31, 2022 is approximately NIS 2 million.

	Pelephone Material valuation as of December 31, 2022 See Section 3.1.3 below	Bezeq Fixed Line Highly material valuation as of December 31, 2022	DBS Highly material valuation as of December 31, 2022 – attached to Bezeq's Financial Statements as of December 31, 2022 See Sections 3.1.1 and 3.1.3 below	Bezeq International Highly material valuation as of December 31, 2022 – attached to Bezeq's Financial Statements as of December 31, 2022 See Section 3.1.3 below
Valuation model	Approx. NIS 2,533 million. The Company came to the conclusion that there is no impairment that requires a reduction in the unit's book value amount recorded in the Company's books.	Approx. NIS 17,819 million. The Company came to the conclusion that there is no impairment that requires a reduction in the amount of goodwill recorded in the Company's books.	DBS's total enterprise value is negative in the amount of approximately NIS 103 million. In light of the negative enterprise value, the net value of the assets and liabilities of DBS was determined as the fair value and zero, whichever is higher. Accordingly, DBS's recoverable amount was determined, obtained as a result of the position according to the fair value, net of costs of sale, of the balance sheet items according to the requirements of IAS 36, is negative in the amount of approximately NIS 88 million. Based on the valuation, in 2022, the Group recognized an impairment loss of approximately NIS 275 million.	DBS's total enterprise value is negative in the amount of approximately NIS 166 million. In light of the negative enterprise value, the net value of the assets and liabilities of DBS was determined as the fair value and zero, whichever is higher. Accordingly, Bezeq International's recoverable amount was determined, obtained as a result of the position according to the fair value, net of costs of sale, of the balance sheet items according to the requirements of IAS 36, is negative in the amount of approximately NIS 22 million. Based on the valuation, in 2022, the Group recognized an impairment loss of approximately NIS 104 million.
Identification and characterization of the valuator	The valuation was performed by Prof. Hadas Gelander, Partner, Director of Valuations and Economic Models in the Economic Department of Ernest Young (Israel) Ltd. Prof. Gelander holds a bachelor's degree in accounting from the College of Management, Rishon LeZion; A master's degree in business administration from the Hebrew University of Jerusalem; And a doctorate *cum laude* from Ben-Gurion University, Beer-Sheva, and is also a certified public accountant in Israel. As part of her role, Prof. Gelander accompanies projects with leading companies in Israel and around the world, in various fields of activity and industries such as technology, finance, pharmaceuticals, energy, infrastructure, real estate and industry. In addition, as part of her role accompanying and advising companies in the areas of valuations for business (valuations and fair opinions) and accounting (allocation of acquisition costs, valuation of intangible assets, valuation of options for employees, etc.) needs, she provided economic opinions as a court-appointed expert witness. The valuator has no dependence on Bezeq or the Company. Bezeq undertook to indemnify the valuator for damages in excess of three times her fee, unless she acted maliciously or through gross negligence.			

	Pelephone **Material valuation as of December 31, 2022** **See Section 3.1.3 below**	**Bezeq Fixed Line** **Highly material valuation as of December 31, 2022**	**DBS** **Highly material valuation as of December 31, 2022 – attached to Bezeq's Financial Statements as of December 31, 2022** **See Sections 3.1.1 and 3.1.3 below**	**Bezeq International** **Highly material valuation as of December 31, 2022 – attached to Bezeq's Financial Statements as of December 31, 2022** **See Section 3.1.3 below**
Valuation model	The discounted cash flow (DCF) method.	The discounted cash flow (DCF) method.	In the first stage - the value in use was calculated using the DCF method. In the second stage - the fair value of the net assets and liabilities of DBS, minus sales costs, as of December 31, 2022, was determined.	In the first stage - the value in use was calculated using the DCF method. In the second stage - the fair value of Bezeq International's net assets and liabilities, minus sales costs, as of December 31, 2022, was determined.
Assumptions under which the valuator made the valuation	Discount rate - 10% (after tax). Permanent growth rate - 1.5% Percentage of the scrap value of the total value which is estimated to be 73.7%.	Discount rate - 8% (after tax). Permanent growth rate - 1% Percentage of the scrap value of the total value which is estimated to be 74.8%.	Discount rate - 10% (after tax). Permanent growth rate - 1% The percentage of the scrap value of the total value determined in the valuation is not relevant. In addition, assumptions were made regarding the fair value minus cost of sale of DBS's assets.	Discount rate – 10.3% (after tax). Permanent growth rate - 3% The percentage of the scrap value of the total value determined in the valuation is not relevant. In addition, assumptions were made regarding the fair value minus cost of sale of Bezeq International's assets.

(*) Pelephone's net operating assets do not include customer debt balances for the sale of end equipment in installments shown at current value.

3.1. Disclosure regarding valuations (Cont.)

3.1.1 Despite the negative operating value of DBS, Bezeq supports DBS by approving credit facilities or investing in DBS capital (see Note 412.2.2 to the Statements). Bezeq's support as mentioned in DBS stems, among other things, from the current and expected contribution of the multi-channel TV activity to the overall activity of Bezeq Group.

3.1.2 In the consolidated financial statements of the Company as of December 31, 2022, the value of the activity segment "Bezeq" the Israel Telecommunications Corp. Ltd., the activity segment Pelephone Communications Ltd., the activity segment DBS Satellite Services (1998) Ltd. and the activity segment Bezeq International Ltd. amounted to over 25% of its total assets. Accordingly, the valuator is considered a highly substantial valuator according to Legal Staff Position 105-30 of the Securities Authority ("Staff Position"). For details about the valuator as required by the Staff Position, see the valuations attached to Bezeq's Statements.

3.1.3 Information according to Regulation 10(b)(8) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

A. Regarding Pelephone's valuation as of December 31, 2020, which was attached to Bezeq's 2020statements, the Group examined the actual data in 2022 regarding Pelephone's free cash flows compared to the 2022 forecast that was included in the aforementioned valuation and found that Pelephone's free cash flows, according to its 2022 statements, are significantly higher than the forecast in the aforementioned valuation. The main difference stems from the collection from customers in 2022 for the year 2021 as a result of organizational sanctions in 2021, which caused a delay in the amounts and dates of collection from customers and, in addition, from revenues from services that are higher than the forecast and timing gaps in the flow of investments.

B. Regarding the valuation of DBS as of December 31, 2021, which was attached to Bezeq's 2021 statements, the Group examined the actual data in 2022 regarding the free cash flows compared to the 2022 forecast that was included in the aforementioned valuation and found that DBS's free cash flows, according to its 2022 statements, are lower than the forecast in the aforementioned valuation. The gap is due to the timing of content payments, higher than forecast operating expenses (salary and content) offsetting higher revenues compared to forecast (number of subscribers, and higher than forecast mix of premium subscribers). For more information, see Appendix H in the DBS valuation as of December 31, 2022 attached to Bezeq's statements.

C. Regarding the valuation of Bezeq International as of December 31, 2021, which was attached to Bezeq's 2021 statements, the Group examined the actual data in 2022 regarding the free cash flows of Bezeq International compared to the 2022 forecast that was included in the aforementioned valuation and found that the free cash flows of Bezeq International, according to its 2022 statements, are higher than the forecast in the aforementioned valuation. The gap is due to a decrease in investments and a decrease in revenue-dependent operating and general expenses. For more information, see Appendix G in the valuation of Bezeq International as of December 31, 2022 attached to Bezeq's statements).

3.1.4 For more information, see Note 10 to the Statements.

3.2. Due to the materiality of the lawsuits filed against the Group, which cannot be estimated or for which the exposure cannot yet be calculated, the auditor CPAs drew attention to this in their opinion on the Statements.

3.3. Material events during and after the reporting period

Regarding material events during and after the reporting period - see Note 32 to the Condensed Consolidated Financial Statements.

4. Details related to a series of liability certificates

The following are data about the Company's debentures in circulation, as of December 31, 2022:

		Series C debentures	Series F debentures
A	Issue date (without extensions)	September 15, 2016	July 6, 2021
B	Total nominal value at the date of issuance (par value)	NIS 1,882,265,000	NIS 393,973,000
C	The nominal value (par value) as of the date of the report	NIS 496,746,480	NIS 1,471,766,642
D	The amount of interest accrued as of the date of the report	NIS 4,562,477	NIS 1,624,293
E	Fair value as included in the Statements	NIS 481,021,775	NIS 1,429,896,334
F	Stock market value	NIS 490,288,776	NIS 1,354,466,841
G	Interest type	Fixed at 3.85%	Fixed at 3.65%
H	Principal payment dates	On November 30, 2024	On November 30, 2026
I	Interest payment dates	On May 31 and November 30 of each year, starting on May 31, 2020 until November 30, 2024.	On May 31 and November 30 of each year, starting on November 30, 2021 until November 30, 2026.
J	Linkage	Non-linked	Non-linked
K	Total liability in relation to total Company liabilities	Material	Material
L	Trustee details	Trust company - Reznik Paz Nevo Trusts Ltd. Name of person in charge at the trust company - CPA Michal Avtalion E-mail michal@rpn.co.il, Tel.: 03-6389200, fax: 03-6389222 Address - 14 Yad Harutzim St., Tel Aviv.	
M	Rating	The debentures are not rated	
N	Compliance with the terms of the trust deeds	The Company issued to the trustees of the debentures of series C, F certificates regarding its compliance with the terms of the trust bonds for the year 2022.	
O	Liens	First degree unlimited amount lien pari passu on 728,373,713 ordinary Bezeq shares of NIS 1 each held directly by the Company and on the rights attached to these shares.	
P	Financial clauses/restrictions applicable to the Company for the purpose of securing the value of the guaranty and the rights of the holders to act to exercise the lien granted in their favor	The Company has committed that during two consecutive quarters the LTV will not exceed (1) a rate of 80% until November 30, 2023 and (2) 75% starting from December 2023 until the final repayment date of the debentures.	
Q	Restriction that applies to the Company in connection with the creation of additional liens on its assets or in connection with its authority to issue additional debentures	For details about the restrictions that apply to the Company in connection with the expansion of the series, see Section 3.2.2 of the trust deeds (series C, F) of the Company. For details about the limitations that apply to the Company in connection with the creation of additional liens, see Section 6.1.3 (c) of the trust deed (series C) of the Company.	

Financial clauses of the Company's debentures

In accordance with the Company's commitment in debenture series C and F to comply with the LTV clause, the LTV ratio as of December 31, 2022 was 41.4%.

The Company's net debt balance as of December 31, 2022 is approximately NIS 1,812 million and consists of a debt balance principal and accrued interest as of the balance sheet date in respect of its debentures in the amount of NIS 1,975 million, net of cash balances in the amount of NIS 103 million.

5. Miscellaneous

For information regarding the balance of liabilities of the reporting corporation in its financial statements as of December 31, 2022, see the form to be reported by the Company on the MAGNA system on March 14, 2023.

Darren Glatt	Tomer Raved
Chairman of the Board of Directors	CEO

Date of signing: March 14, 2023.

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group

Chapter C

Consolidated Financial Statements
for Year Ended December 31, 2022

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Somekh Chaikin
KPMG Millennium Tower
17 HaArbaa Street P.O.B. 609
Tel Aviv 6100601
03 684 8000

Auditors' report to the shareholders of B Communications Ltd.

We reviewed the attached consolidated statements of the financial position of B Communications Ltd. (hereinafter – “the Company") as of December 31, 2022 and 2021 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended on December 31, 2022. These statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards accepted in Israel, including standards set forth in the Accountants Regulations (Accountant’s Mode of Operation), 5733-1973. According to these standards, we are required to plan and perform the audit in order to obtain a reasonable degree of assurance that the separate financial information is not materially misrepresented. An audit includes a sample examination of evidence supporting the amounts and details included in the statements. An audit also includes an examination of the accounting rules applied in preparing the statements and of the significant estimates made by the Company's Board of Directors and Management, as well as an assessment of the adequacy of the presentation of the statements. We believe that our audit provides an adequate basis for our opinion.

In our opinion, the above consolidated financial statements adequately reflect, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2022 and 2021, as well as the results of their operations, their changes in equity and their cash flows for each of the three years in the period ending on December 31, 2022, in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

Without limiting our above opinion, we draw attention to what is stated in Note 1 which refers to Note 1.3 to the consolidated statements, regarding the investigation by the Securities Authority and the Israel Police of a suspicion of committing offenses under the Securities Law and the Penal Code concerning, *inter alia,* transactions related to the former controlling shareholder and the notice of the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of prosecuting the Company and holding a hearing for suspicions of the offense of bribery and the offense of reporting with the aim of misleading a reasonable investor, and what is stated in this note regarding the filing of indictments against the former controlling shareholder in the Company in various offenses, among other things, for offenses of bribery and causing misleading detail in immediate reporting, and regarding the filing of an indictment against the former controlling shareholder of the Company and former senior officers of Bezeq Group, which attributes to the defendants fraudulent receipt and reporting offenses under the Securities Law. Also, following the opening of the aforementioned investigation, a number of civil legal proceedings were opened against the Company, former officers of the Company as well as companies from the group that previously controlled the Company, including motions for the approval of class actions. As stated in the above note, at this stage the Company is unable to assess the effects of the investigations, their findings and results on the Company as well as on the statements and estimates used in the preparation of these reports, if any.

In addition, without limiting our above opinion, we draw attention to what is stated in Note 17 to the Company’s consolidated statements regarding claims filed against Group companies, which cannot be estimated or for which the exposure cannot yet be calculated.

Key audit matters

Key matters in the audit listed below are the matters that were communicated, or were required to be communicated, to the Company's Board of Directors and which, according to our professional judgment, were most significant in the audit of the consolidated statements for the current period. These matters include, among others, any matter which: (1) Relates, or may relate, to material sections or disclosures in the statements, and (2) Our judgment regarding it was particularly challenging, subjective or complex. These matters are answered

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as part of our audit and formation of our opinion on the consolidated statements as a whole. The communication of these matters below does not change our opinion on the consolidated statements as a whole, and we do not use it to give a separate opinion on these matters or on the sections or disclosures to which they refer.

Measuring the impairment of cash-generating units of DBS Ltd. and Bezeq International Ltd.

Why was the matter determined as a key matter in the audit

As described in Notes 3.10.2, 10.2, 10.5 and 10.6 to the consolidated 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 NIS (88) and (22) million, respectively, and the total loss from the impairment of these units for the year that ended on December 31, 2022 amounts to NIS 378 million. In accordance with International Accounting Standard 36 ("IAS36"), the recoverable amount is the higher 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 minus selling costs. Allocation of the impairment of the Company's assets is carried out in accordance with the fair value minus sales costs of each of the unit's assets. The impairment audit of the units required us to exercise discretion, when examining the reasonableness of the assumptions and estimates used by Management and external experts on its behalf, for the purpose of measuring the recoverable amount and allocating the impairment. Accordingly, we identified the measurement of the impairment of the units as a key matter in the audit.

Audit procedures carried out in 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 minus the exercise costs of the Company's assets, checking the reasonableness of the significant assumptions and estimates used in building 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 statements, made inquiries of the relevant parties in the Company involved in the process and checked the planning, implementation and operational effectiveness of certain internal controls related to the assessment of the recoverable amount of the units.

For the purpose of carrying out the procedures, we used experts with skill and knowledge in fair value valuations 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 use value of the units and fair value minus sales costs of the units' assets.

We also audited, in accordance with Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", components of internal control over the financial reporting of the Company as of December 31, 2022, and our report dated March 14, 2023 included an unreserved opinion on the effective existence of those components.

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Certified Public Accountants

March 14, 2023

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The auditors' report to the shareholders of B Communications Ltd. regarding an audit of components of internal control over financial reporting in accordance with Article 9b (c) of the Securities Regulations (Periodic and Immediate Reporting), 5730-1970

We audited components of internal control over financial reporting of B Communications Ltd. and subsidiaries (hereafter collectively - "the Company") as of December 31, 2022. These control components were determined as explained in the next paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and evaluating the effectiveness of components of internal control over financial reporting attached to the periodic report as of the aforementioned date. Our responsibility is to express an opinion on components of internal control over the Company's financial reporting based on our audit.

Components of internal control over financial reporting that were audited were determined in accordance with Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control Over Financial Reporting" (hereinafter - "Audit Standard (Israel) 911"). These components are:
(1) Controls at the organization level, including controls on the process of preparing and closing financial reporting;
(2) Controls over cash process and debt management;

We conducted our audit in accordance with Auditing Standard (Israel) 911. According to this standard, we are required to plan and perform the audit with the aim of identifying the audited control elements and obtaining a reasonable degree of assurance as to whether these control elements have been effectively implemented in all material respects. Our audit included gaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk of a material weakness in the audited control components, as well as examining and evaluating the effectiveness of the planning and operation of those control components based on the assessed risk. Our audit, regarding those control elements, also included the performance of such other procedures as we deemed necessary according to the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all the essential processes in connection with the financial reporting, and therefore our opinion refers to the audited control components only. Also, our audit did not refer to mutual effects between the audited and non-audited control components and therefore, our opinion does not take into account such possible effects. We believe that our audit provides an adequate basis for our opinion in the context described above.

Due to inherent limitations, internal control over financial reporting in general, as well as its components in particular, may not prevent or detect a misstatement. Also, drawing conclusions about the future based on any current assessment of effectiveness is exposed to the risk that controls will become inappropriate due to changes in circumstances or that the extent to which the policies or procedures exist will change for the worse.

In our opinion, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2022.

As described in the report regarding the effectiveness of the internal control over the financial reporting and disclosure, as of December 31, 2022, of B Communications Ltd. (hereinafter – “the Corporation"), regarding the investigations of the Securities Authority and the Israel Police, as specified in Section 1.1.7 of the chapter describing the corporation's business in this report, to the Corporation does not have complete information regarding these investigations, their design, the materials and evidence available to the law authorities in the matter. Accordingly, the Corporation is unable to assess the effects, findings and results of the investigations on the Company, as well as on the statements and the estimates used in their preparation, if any.

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We also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the company for December 31, 2022 and 2021 and for each of the three years in the period ending on December 31, 2022 and our report, dated March 14, 2023, included an unlimited opinion on those statements, based on our audit and the reports of the other auditors, as well as references to what is stated in Note 1.3 regarding the investigation of the Securities Authority and the Israel Police into suspicions of committing offenses under the Securities Law and the Penal Code concerning, among other things, transactions related to the former controlling shareholder and the notice of the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of prosecuting the Company and holding a hearing for suspicions of the offense of bribery and the offense of reporting with the aim of misleading a reasonable investor, as well as what is stated in this note regarding the filing of an indictment against the former controlling shareholder of the Company, for various offenses, among others the offenses of bribery and causing a misleading detail in an immediate report, and regarding the filing of an indictment against the former controlling shareholder of the Company and former senior officers of Bezeq Group, which attributes to the defendants fraudulent receipt and reporting offenses under the Securities Law. Also, following the opening of the aforementioned investigation, a number of civil legal proceedings were opened against the Company, former officers of the Company as well as companies from the group that previously controlled the Company, including motions for the approval of class actions. As stated in the above note, at this stage the Company is unable to assess the effects of the investigations, their findings and results on the Company as well as on the statements and estimates used in the preparation of these statements, if any, and drawing attention to what is stated in Note 17 regarding claims filed against the Group and for which it is not possible to estimate or calculate the exposure at this stage.

Somekh Chaikin
Certified Public Accountants

March 14, 2023

Consolidated statements of financial position as of December 31

		2022	2021
Assets	**Note**	**NIS millions**	**NIS millions**
Cash and cash equivalents	4,3.3	**754**	998
Investments	5,3.3	**973**	1,134
Trade receivables	6 ,3.3	**1,440**	1,859
Other receivables	6 ,3.3	**289**	280
Inventory	3.9	**85**	74
Total current assets		**3,541**	4,345
Trade and other receivables	6 ,3.3	**460**	433
Broadcasting rights – net of rights exercised	3.4	**57**	60
Right-of-use assets	8 ,3.7	**1,746**	1,828
PP&E	9 ,3.5	**6,542**	6,312
Intangible assets	10 ,3.6	**3,251**	3,251
Deferred expenses and investments *	11	**258**	306
Deferred tax assets	7 ,3.16	**-**	24
Total non-current assets		**12,314**	12,214
Total assets		**15,855**	16,559

* Including investment in long term bank deposits.

Consolidated statements of financial position as of December 31 (Cont.)

Liabilities and assets	Note	2022 NIS millions	2021 NIS millions
Debentures, loans and credit	13 ,3.3	**921**	980
Current maturities of lease liabilities	8 ,3.7	**456**	466
Trade payables	14	**1,598**	1,755
Employee benefits	16 ,3.11	**399**	510
Provisions	15 ,3.12	**168**	69
Total current liabilities		**3,542**	3,780
Loans and debentures	13 ,3.3	**8,257**	9,068
Lease liabilities	8 ,3.7	**1,452**	1,511
Employee benefits	16 ,3.11	**201**	243
Derivatives and other liabilities		**151**	142
Deferred tax liabilities	7 ,3.16	**319**	296
Provisions	15 ,3.12	**37**	49
Total non-current liabilities		**10,417**	11,309
Total liabilities		**13,959**	15,089
Equity attributed to:			
Shareholders of the Company	20	**54**	16
Non-controlling interests		**1,842**	1,454
Total equity		**1,896**	1,470
Total liabilities and equity		**15,855**	16,559

Darren Glatt Chairman of the Board of Directors	**Tomer Raved** CEO	**Itzik Tadmor** CFO

Date of approval of the financial statements: March 14, 2023

The notes attached to the consolidated statements form an integral part thereof.

Consolidated income statements for the year ended December 31

	Note	2022	2021	2020
		NIS millions	NIS millions	NIS millions
Income	21 ,3.13	**8,986**	8,821	8,723
Operating expenses:				
General and operating expenses	22	**3,396**	3,265	3,182
Salaries	23	**1,877**	1,888	1,894
Depreciation, amortization and impairment	8,9,10,11	**1,868**	1,889	1,858
Impairment losses	10	**-**	-	8
Other operating expenses (income), net	24	**220**	(77)	73
Total operating expenses		**7,361**	6,965	7,015
Operating profit		**1,625**	1,856	1,708
Financing expenses (income)	25 ,3.15			
Financing expenses		**530**	533	525
Financing income		**(132)**	(55)	(51)
Financing expenses, net		**398**	478	474
Profit before income tax		**1,227**	1,378	1,234
Income tax expenses	7 ,3.16	**336**	382	334
Net profit for the year		**891**	996	900
Net profit attributable to:				
Shareholders of the Company		**158**	129	157
Non-controlling interests		**733**	867	743
Net profit for the year		**891**	996	900
Profit per share (NIS)	27			
Basic		**1.42**	1.11	1.35
Diluted		**1.41**	1.11	1.35

Consolidated statements of comprehensive income

	2022	2021	2020
	NIS millions	NIS millions	NIS millions
Net profit for the year	**891**	996	900
Reassessment of defined benefit plan, net of tax	**56**	(1)	(9)
Additional other comprehensive income (loss) from hedging, net of tax	**(6)**	37	(5)
Total comprehensive income for the period	**941**	1,032	886
Attributable to:			
Shareholders of the company	**171**	139	154
Non-controlling interests	**770**	893	732
Total comprehensive income for the period	**941**	1,032	886

The notes attached to the consolidated statements form an integral part thereof.

Consolidated statements of changes in equity

	Share capital	Shares premium	Treasury shares	Other funds	Deficit balance	Total	Non-controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2020	12	1,495	(*)	(38)	(1,710)	(241)	(197)	(438)
Profit for the year 2020	-	-	-	-	157	157	743	900
Other comprehensive loss for the year, net of tax	-	-	-	(1)	(2)	(3)	(11)	(14)
Total comprehensive income for the year 2020	-	-	-	(1)	155	154	732	886
Transactions imputed directly to equity								
Transaction with non-controlling interests	-	-	-	-	(39)	(39)	(1)	(40)
Net compensation in respect of the Horev claim	-	-	-	-	19	19	-	19
Balance as of December 31, 2020	12	1,495	(*)	(39)	(1,575)	(107)	534	427
Profit for the year 2021	-	-	-	-	129	129	867	996
Other comprehensive income for the year, net of tax	-	-	-	10	-	10	26	36
Total comprehensive income for the year 2021	-	-	-	10	129	139	893	1,032
Transactions imputed directly to equity								
Share-based compensation (See Note 26)	-	-	-	-	-	-	27	27
Buyback of shares (see Note 20)	-	-	(16)	-	-	(16)	-	(16)
Balance as of December 31, 2021	12	1,495	(16)	(29)	(1,446)	16	1,454	1,470
Profit for the year 2022	**-**	**-**	**-**	**-**	**158**	**159**	**733**	**891**
Other comprehensive income (loss) for the year, net of tax	-	-	-	**(2)**	**15**	**13**	**37**	**50**
Total comprehensive income (loss) for the year 2022	-	-	-	**(2)**	**173**	**171**	**770**	**941**
Transactions imputed directly to equity								
Share-based compensation (See Note 26)	**-**	**-**	**-**	**1**	**-**	**-**	**11**	**12**
Business consolidation	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Dividend distributed to non-controlling interests (see Note 12.6)	**-**	**-**	**-**	**-**	**-**	**-**	**(392)**	**(392)**
Transaction with non-controlling interests	**-**	**-**	**-**	**-**	**(13)**	**(13)**	**(2)**	**(15)**
Buyback of shares (see Note 20)	**-**	**-**	**(121)**	**-**	**-**	**(121)**	**-**	**(121)**
Balance as of December 31, 2022	**12**	**1,495**	**(137)**	**(30)**	**(1,286)**	**54**	**1,842**	**1,896**

(*) Represents an amount of less than NIS 1 million.

The notes attached to the consolidated statements form an integral part thereof.

Consolidated cash flow statements for the year ended December 31

		2022	2021	2020
	Note	NIS millions	NIS millions	NIS millions
Cash flows from current operations				
Profit for the year		**891**	996	900
Adjustments:				
Depreciation, amortization and impairment	8,9,10,11	**1,868**	1,889	1,858
Loss from impairment of assets	10	**-**	-	266
Cancellation of loss from impairment of assets	10	**-**	-	(258)
Capital gains, net	24	**(8)**	(175)	(40)
Financing expenses, net	25	**445**	498	507
Share-based compensation	26	**12**	27	-
Income tax expenses	7	**336**	382	334
Change in trade and other receivables	6	**342**	(229)	56
Change in inventory		**(21)**	(19)	13
Change in trade and other payables	14	**(54)**	(41)	17
Change in provisions	15	**24**	(47)	(8)
Change in employee benefits	16	**(91)**	(65)	(192)
Change in other liabilities		**18**	(5)	(1)
Income Tax paid, net		**(271)**	(385)	(243)
Net cash derived from operating activities		**3,491**	2,826	3,209
Cash flows for investing activities				
Purchase of PP&E	9	**(1,353)**	(1,328)	(1,133)
Investment in intangible assets and deferred expenses	10,11	**(346)**	(363)	(366)
Payment in respect of frequencies		**(88)**	-	-
Government grant in respect of frequencies		**74**	-	-
Investment transactions, net		**223**	(164)	222
Proceeds from the sale of PP&E		**40**	278	148
Proceeds from the sale of “Walla”, net		**-**	-	44
Miscellaneous		**30**	(1)	18
Net cash used for investing activities		**(1,420)**	(1,578)	(1,067)
Cash flows for financing activities				
Issuance of debentures and receipt of loans	13	**400**	1,730	718
Purchase of non-controlling interests	12	**(15)**	-	(40)
Repayment of debentures and loans	13	**(1,416)**	(2,072)	(1,828)
Lease principal and interest payments	8	**(420)**	(387)	(391)
Buyback of Company shares	20	**(121)**	(16)	-
Interest paid	13	**(307)**	(333)	(392)
Dividend distributed to non-controlling interests	12	**(392)**	-	-
Early repayment fees	13	**(26)**	(34)	(65)
Payment for completed hedging transactions		**(18)**	(30)	(57)
Miscellaneous		-	(2)	(7)
Net cash used for financing operations		**(2,315)**	(1,144)	(2,062)
Net increase in cash and cash equivalents		(244)	104	80
Cash and cash equivalents as of January 1		**998**	894	814
Cash and cash equivalents at the end of the year		**754**	998	894

The notes attached to the consolidated statements form an integral part thereof.

1. General

1.1. The reporting entity

1.1.1. B Communications Ltd. (hereinafter - “**the Company**") is a company incorporated in Israel and its registered office is at 144 Menachem Begin Rd., Tel Aviv. The Company is a public company traded on the Tel Aviv Stock Exchange. The consolidated statements of the Company as of December 31, 2022 include those of the Company and its subsidiaries (hereinafter - "**the Group**").

On April 14, 2010, the Company acquired 30.44% of the shares of Bezeq, the largest telecommunications group in Israel, and became the controlling shareholder of Bezeq. Bezeq's shares are listed for trading on the Tel Aviv Stock Exchange.

As of December 31, 2022, the Company owns approximately 26.81% of Bezeq’s issued share capital.

1.2. Control of the Company

On December 2, 2019, Searchlight Capital Partners, through its subsidiary, Searchlight II BZQ (hereinafter - "Searchlight"), and the Forer family which controls TNR Investments Ltd. (hereinafter - "the Forer Family"), completed the purchase of the control of the Company, so that Searchlight owned 60.18% and the Forer Family owned 11.39% of the Company's ordinary and issued shares.

As of December 31, 2022, Searchlight and the Forer Family own 65.26% and 12.35%, respectively, of the Company's net ordinary and issued shares. The proportion of the holdings of Searchlight and the Forer Family increased following a buyback of the Company's shares carried out during the years 2021 and 2022 (see Note 20).

1.3. Investigations by the Israel Securities Authority and the Israel Police

1.3.1. During the years 2017 and 2018, the Israel Securities Authority and the Israel Police conducted investigations into suspicions of committing offenses under the Securities Law and the Penal Law, 5733-1977 ("Penal Law"), concerning transactions related to the former controlling shareholder of Bezeq and former Chairman of the Bezeq Board of directors, Mr. Shaul Elovich ("Elovich") regarding the purchase of shares in DBS Satellite Services 1998 Ltd. ("DBS") and the provision of satellite communication services to DBS, the conduct of the Ministry of Communications with Bezeq (the "DBS Case") as well as suspicions of the exercise of powers by the Prime Minister, Mr. Binyamin Netanyahu, to promote issues concerning the business and economic interests of Elovich and Bezeq Group. ("Case 4000"). Following 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 Elovich for various offenses, among others, the offenses of bribery and causing a misleading detail in an immediate report in connection with suspicions of the exercise of powers by the Prime Minister, Mr. Binyamin Netanyahu, to promote issues concerning the business and economic interests of Elovich and Bezeq Group.

1.3.1.2. On December 23, 2020, Bezeq received a notice from the Tel Aviv District Attorney's Office (Taxation and Economics) regarding the consideration to prosecute Bezeq and a summons to a hearing in Case 4000 ("the Notice"), according to which:

A. After examining the evidence presented to him, the Attorney General is considering filing an indictment against Bezeq for suspected bribery offenses (an offense under Article 291 of the Penal Law together with Article 23 of the Penal Law), and the offense of reporting with the aim of misleading a reasonable investor (an offense under Article 53(a)(4) of the Securities Law together with Article 23 of the Penal Law).

B. Per the announcement, according to the suspicion, Bezeq's criminal responsibility for the bribery offense stems from the actions and criminal thinking of Elovich, who was its organ during the period relevant to the suspicions.

C. Also, per the announcement, according to the suspicion, Bezeq's criminal responsibility for the reporting offense stems from the actions and criminal thinking of Elovich, who was its organ during the period relevant to the suspicions, and from the actions and criminal thinking of Stella Handler (the former CEO of Bezeq), who was an organ of Bezeq during the relevant period (see Note 1.3.1.3b). According to the claim in this context, Bezeq reported on a letter from the Director General of the Ministry of Communications which allegedly included a misrepresentation (of which Elovich and Stella Handler were aware), and only after the intervention of senior officials in the State Attorney's Office, the letter was corrected and the correction was reported by Bezeq to the public.

D. It should be noted that Walla (a former subsidiary of Bezeq) also received a similar notification according to which, after examining the evidence presented to him, the Attorney General is considering filing an indictment against Walla for suspicions of bribery (an offense under Article 291 of the Penal Code together with Article 23 of the Penal Code) when, according to the suspicion, Walla's criminal responsibility for the offense of bribery stems from the actions and criminal thinking of Elovich, who was its organ during the period relevant to the suspicions.

E. Following this, on July 8, 2021, Bezeq and Walla submitted a written claim to the hearing. On August 12, 2021, the companies will be heard before the Deputy State Attorney (Criminal Enforcement) and before the team of attorneys handling the case. As of the date of publication of the report, the Attorney General's Office and the Attorney General has not yet decided on the filing of an indictment following the claims raised in the hearing, and the companies have not been given an expected date for receiving the decision.

1.3.1.3. On December 23, 2020, to the best of Bezeq's knowledge, a notice was published by the Attorney General's Office, according to which, among other things, the Taxation and Economic Attorney's Office filed with the economic department of the Tel Aviv District Court, on the same day, an indictment against Elovich, as well as against former senior officials of Bezeq Group and DBS, Or Elovich, Amikam

Shurer, Linor Yochelman, Ron Ayalon and Mickey Neiman in the DBS Case. According to the notice:

A. The indictment attributes to the defendants the offenses of obtaining by fraud under aggravated circumstances, fraud and breach of trust in a corporation, and reporting offenses according to the Securities Law, and refers to two cases: fraud in relation to the payment of consideration for the purchase of DBS shares by Bezeq, and fraud in relation to the conduct of the independent committees that were established in Bezeq for the purpose of examining Bezeq transactions in which Elovich was personally interested.

B. The Taxation and Economic Attorney's Office entered into an arrangement for a conditional termination of proceedings under the terms of the Securities Law with Stella Handler, in the framework of which Stella Handler admitted the facts according to which she was involved in the inclusion of a misleading detail in Bezeq's reports. In accordance with what is specified in the settlement, the DBS case was closed in the case of Stella Handler.

C. The investigation files of other suspects investigated in the cases mentioned above were closed, including against the Bezeq's former VP of Regulation, as well as against Or Elovich and Amikam Shurer (in relation to both of them - except in regards to the DBS case as indicated at the beginning of this section).

1.3.1.4. On July 20, 2022, the decision of the Economic Department of the Tel Aviv-Yafo District Court was published on the request of some of the defendants to drop charges in the case ("the Decision"). In accordance with the Decision, the second and third charges in the indictment (fraud in relation to the conduct of the independent committees in the "Bezeq-Yes" transaction and the "Yes-Space" transaction) were dropped against all the defendants in the following charges: the former controlling shareholder of Bezeq, Mr. Shaul Elovich, former officers in Bezeq - Mr. Or Elovich, Mr. Amikam Shurer and Mrs. Linor Yochelman, as well as against the companies accused of the same charges - companies from the "Eurocom" group. It was also determined in the Decision, among other things, that it is not possible to accept the claim put forward by Mr. Shaul Elovich, that the indictment does not reveal guilt in connection with the first charge (fraudulent obtainment of advances at the expense of the second contingent consideration in the "Bezeq-Yes" transaction). It was also emphasized in the Decision, that it does not in any way affect the civil aspect, and the pending proceedings in this context. Bezeq is studying the decision and its consequences. On September 6, 2022, an announcement was published by the Ministry of Justice according to which the Criminal Department of the Attorney General's Office filed an appeal against the Decision on the same day.

1.3.1.5. As far as DBS is concerned, which on November 20, 2017 received a "suspect notification letter" according to which the investigation case in which it was questioned as a suspect was forwarded to the Attorney General's Office for consideration - in accordance with the notice of the Attorney General's Office received at DBS, after the Securities Authority case, in which it was questioned as a suspect, was examined by the Attorney General's Office, it was decided on January 11, 2021 to dismiss the case against it, without filing an indictment.

1.3.2. It should be noted that following the opening of the aforementioned investigations, a number of civil legal proceedings were opened against Bezeq and DBS, Bezeq officers during the relevant period, as well as companies from the Group that formerly controlled Bezeq, including motions for approval of class actions and motions for discovery of documents before submitting a motion for approval of a derivative claim. For details regarding these procedures, see Note 17.

1.3.3. Bezeq does not yet have complete information regarding the investigations, their content, the materials and evidence in the possession of the law authorities in the matter (although in January 2021 Bezeq received the core of the investigation material in connection with Case 4000 and this as part of the hearing on this matter as detailed in section 1.3.1.2 above). Accordingly, Bezeq is still unable to assess the effects of the investigations, their findings, and their results on Bezeq, as well as on the statements and the estimates used in the preparation of these reports, if any.

1.4. Epidemic - outbreak of COVID-19

At the beginning of 2020, the "Corona" virus (COVID-19) broke out in the world and in Israel (the "Event"). Following the Event, many countries, including Israel, took various measures and restrictions in an attempt to prevent the spread of the virus. During the year 2022, there was a significant decrease in the outbreak of the virus and the effects of the Event, when the consequences of the Event on the Group's activities in 2022 were manifested mainly in damage to Pelephone's incomes from roaming services (damage that gradually decreased throughout the year until the date of publication of this report), without significant negative effects in other areas of activity. As of the date of publication of the report, there are no special effects of the event on all areas of the Group's activity.

1.5. Definitions

In these statements:

The Company	B Communications Ltd
The Group	the Company and its consolidated companies
Bezeq	"Bezeq" The Israel Telecommunications Corp. Ltd
Consolidated companies	Companies whose reports are fully consolidated, directly or indirectly, with the Company's reports as specified in Note 12.
Included companies	Companies, the Group's investment in which is included, directly or indirectly, in the statements based on the balance sheet value.
Investees	Consolidated companies or included companies.
Related party	As defined in International Accounting Standard 24 regarding related parties.
Interested party	As defined in Paragraph (1) of the definition of "interested party" in a corporation in Article 1 of the Securities Law, 5748-1968.

2. Basis of preparation of the statements

2.1. Declaration of compliance with international financial reporting standards

The consolidated financial statements were prepared by the group in accordance with international financial reporting standards (hereinafter: "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 14, 2023.

2.2. Activity currency and presentation currency

The consolidated financial statements are presented in new shekels, which are the group's operating currency, and are rounded to the nearest million. The shekel is the currency that represents the main economic environment in which the group operates.

2.3. Basis of measurement

The consolidated statements were prepared on the historical cost basis with the exception of the following items:
* Derivative financial instruments, measured at fair value through income
* Inventory measured as the lower of cost or net exercise value
* Deferred tax assets and liabilities
* Provisions
* Assets and liabilities in respect of employee benefits

For more information regarding the measurement method of these assets and liabilities, see Note 3 regarding the key points of the accounting policy.

2.4. Operating cycle period

The operating cycle of the Group does not exceed one year. Therefore, current assets and current liabilities include items that are intended and expected to be realized within a year from the date of the financial statements.

2.5. Format for analyzing expenses recognized in the profit and loss statement

Costs and expenses in the income statement are presented and analyzed according to a classification method based on the nature of the expenses. The aforementioned classification is suitable for understanding the business of the Group, which deals in a wide variety of services provided through a shared infrastructure. All costs and expenses are used to provide the services.

2.6. Use of estimates and discretion

When preparing the consolidated statements in accordance with international accounting standards (IFRS), Management is required to exercise discretion and be assisted by estimates, estimates and assumptions that affect the implementation of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from estimates.

The estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates were updated and in any future period affected.

The following is information regarding significant estimates and judgments, for which a change in estimates and assumptions has the potential to have a material impact on the statements of the next fiscal year:

Subject	Key assumptions	Possible implications	Reference
Measuring the recoverable amounts of cash generating units	Assuming the expected cash flows from the cash generating units	Recognition of an impairment loss or cancellation of an impairment loss	Note 10
Duration of PP&E, intangible assets, and other long-term assets	Assumptions regarding the useful duration of groups of PP&E, intangible assets and other assets	Change in the value of PP&E, intangible assets, and additional assets, as well as depreciation and amortization expenses	Notes 9,10,11
Determining the lease period	For the purpose of determining the lease period, the Group takes into account the period during which the lease cannot be canceled, including extension options with reasonable likelihood of exercise and/or cancellation options without reasonable likelihood of exercise	Increase or decrease in the measurement of a right-of-use asset and lease liability and in depreciation and financing expenses in subsequent periods	Note 8
Uncertain tax positions	The degree of uncertainty regarding the acceptance of the Group's tax positions (uncertain tax positions) and the risk that the tax and interest expenses will be higher or lower than the expenses included in the statements. This, based on an analysis of several factors, including interpretations of tax laws and the Group's past experience	Recognition or cancellation of income tax expenses	Note 7
Provisions and contingent liabilities, including levies	Assessing the chances of claims against the Group companies and measuring the potential liabilities related to the claims Bezeq estimates of the payment to the authorities for levies on real estate in the "Sakia" complex	Cancellation or creation of a provision for a claim, recognition of income/expenses and recognition of income for said change, respectively Change in share capital gains gain from the sale of real estate in the "Sakia" complex	Note 6.6
Employee benefits	Actuarial assumptions such as discount rate, future wage increase rate and departure rate	Increase or decrease in liabilities for employee benefits and commitment to early retirement	Note 16
Deferred taxes	Assumption regarding the expectation of exercising the tax benefit in the future, including an assumption that it is more likely than not that transferred losses accumulated in DBS for tax purposes will not be used	Recognition of a deferred tax asset and impact on income tax expenses	Note 7
Effective control over Bezeq	The possibility of appointing most of the members of the Board of Directors of Bezeq, as a result of the Company's permit to control Bezeq, the control over the composition and distribution of the other shareholders in Bezeq and the restrictions applicable to these shareholders under the Communications Law	Consolidation of Bezeq's statements or treatment of investment in Bezeq using the equity method	Notes 12.4, 12.5

2.7. Fair value determination

In order to prepare the statements, the Group is required to determine the fair value of certain assets and liabilities. Additional information regarding the assumptions used in determining the fair values is provided in Note 30.7 on fair value.

3. Main points of the accounting policy

The accounting policy rules detailed below have been consistently applied to all periods presented in these consolidated reports by the Group entities.

In this note, where the Group chose accounting alternatives, which were allowed by accounting standards and/or accounting policies on a subject where there is no explicit instruction in accounting standards, the said disclosure is presented in ***bold***. There is no reason to attribute excessive importance to the aforementioned emphasis compared to the rest of the accounting policies that have not been emphasized.

3.1. Consolidation of the statements

3.1.1. Subsidiaries

Subsidiaries are entities controlled by the Company. The statements of subsidiaries are included in the consolidated statements from the day control is obtained until the day control is lost.

Control exists when the group is exposed, or has rights, to variable returns from its involvement in the acquiree and has the ability to influence these returns through its power of influence in the acquiree. When examining control, actual rights held by the group and by others are taken into account.

3.1.2. Non-controlling interests

Non-controlling interests are the equity in a subsidiary that cannot be attributed, directly or indirectly, to the parent company and include additional elements such as: a share-based compensation that will be settled in equity instruments of subsidiaries.

3.1.3. Allocation of income and other comprehensive income among the shareholders

Income and any other component of comprehensive income is attributed to the Company's owners and non-controlling interests. The total income and other comprehensive income is attributed to the owners of the Company and the non-controlling interests even if as a result the balance of the non-controlling rights will be negative.

3.1.4. Transactions with non-controlling interests while retaining control

Transactions with non-controlling interests while retaining control are treated as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is credited to the Company's owner's share of equity directly to surplus. The amount by which the non-controlling interests are adjusted is calculated as follows: by the increase in the holding rate, according to the relative portion purchased from the balance of the non-controlling interests in the consolidated statements on the eve of the transaction. Also, when there are changes in the holding rate in a subsidiary, while retaining control, the Company reallocates the cumulative amounts recognized in other comprehensive income between the owners of the Company and the non-controlling interests.

3.1.5. Transactions cancelled as part of consolidation

Mutual balances in the Group and income and expenses arising from inter-company transactions were canceled within the framework of the consolidated statements.

3.1.6. Contingent consideration for business consolidations

After the date of purchase, the Group recognizes the changes in the fair value of contingent consideration recognized as part of business consolidations, classified as a financial liability, ***in the income statement as part of the Financing Expenses section.***

3.2. Foreign currency transactions

Foreign currency transactions are translated into the Group's functional currency according to the exchange rate in effect on the dates of the transactions. Financial assets and liabilities denominated in a foreign currency at the reporting date are translated into the activity currency according to the exchange rate in effect at that time.

3.3. Financial Instruments

3.3.1. **Non-derivative financial assets**

Non-derivative financial assets mainly include investments in deposits, marketable securities, customers and other receivables, and cash and cash equivalents.

The Group initially recognizes financial assets at the time when the Group becomes a party to the contractual provisions of the instrument, meaning the time when the Group committed to buy or sell the asset.

A financial asset is first measured at fair value plus transaction costs that can be directly attributed to the purchase or issuance of the financial asset. Customers that do not include a significant financing component are measured for the first time according to the transaction price.

Financial assets are deducted when the Group's contractual rights to the cash flows arising from the financial asset expire, or when the Group transfers the rights to receive the cash flows arising from the financial asset in a transaction in which all the risks and benefits from ownership of the financial asset are effectively transferred.

Classification of financial assets into groups and the accounting treatment of each group

At the time of initial recognition, financial assets are classified into one of the following measurement categories: amortized cost; or fair value through income.
A financial asset is measured at amortized cost if it meets the two cumulative conditions below and is not intended to be measured at fair value through income:

A. Held as part of a business model that aims to hold assets to back the contractual cash flows; also
B. The contractual terms of the financial asset provide entitlement at specified times to cash flows that are only principal and interest payments for the principal amount that has not yet been repaid.

All financial assets in the Group that are not classified for amortized cost measurement are measured at fair value through income.

The Group classifies financial assets as follows:

Cash and cash equivalents

Cash includes immediately usable cash balances and deposits on demand. The cash value includes short-term investments (where the duration between the original deposit date and the redemption date is up to 3 months), with a high level of liquidity, which can be easily converted into known amounts of cash and which are exposed to an insignificant risk of changes in value.

Customers, debtors and deposits

The Group has customer balances, other receivables and deposits held as part of a business model aimed at collecting the contractual cash flows. The contractual cash flows for these financial assets include only principal and interest payments which reflect a return for the time value of money and credit risk. Accordingly, these financial assets are measured at amortized cost.

Subsequent measurement and profits and losses

Financial assets at a amortized cost are measured using the effective interest method and deducting impairment losses. Interest income, gains or losses from exchange rate differences and depreciation are recognized in income. Any profit or loss resulting from a deduction is also recognized in income.

Financial assets at fair value through profit and loss are measured in subsequent periods at fair value. Net gains and losses, including interest income or dividends, are recognized in profit and loss.

3.3.2. **Non-derivative financial liabilities**

Non-derivative financial obligations include: debentures issued by the Group, loans and credit from banks and other credit providers, suppliers and other beneficiaries.

The Group initially recognizes debt instruments issued at the time of their formation. The other financial obligations are recognized at the time the transaction is concluded. Financial liabilities are initially recognized at fair value less any attributable transaction costs. After initial recognition, financial liabilities are measured at amortized cost in accordance with the effective interest method.

Financial obligations are deducted when the Group's liability, as specified in the agreement, expires or when it has been settled or cancelled.

Changing the terms of debt instruments

The exchange of debt instruments, with substantially different terms, between existing borrower and lender, is treated as the settlement of the original financial liability and the recognition of a new financial liability at fair value. The difference between the reduced cost of the original financial liability and the fair value of the new financial liability is recognized in profit and loss in the financing income or expenses section.

The terms are materially different if the discounted present value of the cash flows under the new terms, including any fees paid, minus any fees received and discounted using the original effective interest rate, differs by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforementioned quantitative test, the Group examines, among other things, whether there have been changes in various economic parameters inherent in the exchanged debt instruments.

In the event of a change in the terms (or exchange) of a non-material fixed interest debt instrument, the new cash flows are discounted at the original effective interest rate, with the difference between the current value of the financial liability with the new terms and the current value of the original financial liability recognized in income in the ***"Financing expenses (income)" section***.

The Group has chosen an accounting policy, according to which when a portfolio of financial liabilities with identical characteristics is repaid/exchanged, the calculation of profit or loss from deduction/exchange will be carried out using the FIFO method.

3.3.3. **Index-linked assets and liabilities that are not measured according to fair value**

The value of index-linked financial assets and liabilities, which are not measured according to fair value, is estimated each period according to the actual increase/decrease rate of the index.

3.3.4. Offsetting financial instruments

A financial asset and a financial liability are offset and the amounts are presented on a net basis in the statement of financial position when the Group currently has an enforceable legal right to offset the recognized amounts as well as an intention to dispose of the asset and liability on a net basis or exercise the asset and settle the liability at the same time.

3.3.5. **Hedging**

A. Accounting hedging

The Group holds derivative financial instruments for cash flow hedging purposes in respect of risks of future changes in the consumer price index in connection with the debentures issued by the Group.

At the time of creating the hedging relationship, the Group documents its risk management objective and strategy for performing the hedging. The group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in the cash flows of the hedged item and the hedging instrument are expected to offset each other.

Derivatives are initially recognized at fair value. Attributable transaction costs are charged to profit and loss as incurred. After initial recognition, the derivatives are measured at fair value, with the effective part of the changes in the fair value of the derivative being credited to a hedge fund as part of other comprehensive income. The effective part of the changes in the fair value of a derivative, which is credited to other comprehensive income, is limited to the cumulative change in the fair value of the hedged item (according to current value) from the date the hedge was created. The part that is not effective, the change in fair value is credited to income immediately.

B. Financial hedging

In addition, the group owns derivative financial instruments for cash flow hedging purposes for foreign currency risks. Hedge accounting is not applied in respect of these instruments. Derivative instruments as mentioned are recognized at fair value; The changes in the fair value are immediately credited to the profit and loss statement, ***as income or financing expenses***.

3.4. Broadcasting rights

The broadcast rights are presented according to cost, minus rights exercised and impairment losses.

Costs of broadcast rights purchased to broadcast content include the amounts paid to the rights providers plus direct costs incurred for the purposes of adjusting the broadcast rights, as well as costs of original productions. The broadcasting rights are amortized on a straight line according to the term of the rights agreement or the economic life, whichever is shorter.

Examining the impairment of broadcast rights is done as part of the cash-generating unit to which the broadcast rights are associated (see also Note 10).

The net change in broadcast rights is presented as adjustments to profit as part of current activities within the statement of cash flows.

3.5. PP&E

3.5.1. Recognition and measurement

The Group chose to measure PP&E items at cost minus accumulated depreciation and impairment losses.

Cost includes costs directly attributable to the purchase of the property. The cost of self-constructed assets includes the cost of materials, direct labor and financing costs, any additional cost that can be directly attributed to bringing the asset to the location and condition necessary for it to be able to operate in the manner intended by Management, as well as an estimate of the costs of dismantling and removing the items and restoring the site where the item is located in cases where the Group is obligated to clear and restore the site. The cost of purchased software, which is an integral part of the operation of the related equipment, is recognized as part of the cost of this equipment.

Spare parts, auxiliary equipment and backup equipment are classified as fixed assets when they meet the definition of PP&E in accordance with IAS 16, otherwise they are classified as inventory.

When significant PP&E parts have different durations, they are treated as separate items (significant components) of the PP&E.

Profit or loss from deducting a PP&E item is determined by comparing the proceeds from deducting the asset with its book value. ***Profit or loss from the***

sale of PP&E is included in the other income or other expenses, as the case may be, in the income statement.

3.5.2. Subsequent costs

The cost of replacing part of a PP&E item and subsequent costs are recognized as part of the book value of that item, if it is expected that the future economic benefit inherent in the new part will flow to the Group and if its cost can be reliably measured. Current maintenance costs of PP&E are imputed to income as incurred.

3.5.3. Depreciation

Depreciation is imputed to the income statement according to the straight-line method over the estimated useful life of each part of the PP&E items, since this method reflects the predicted consumption pattern of the future economic benefits inherent in the asset in the best way.

An asset is amortized when it is available for use, that is, when it has reached the location and condition necessary for it to be able to operate in the manner intended by Management.

Improvements in leased buildings are generally amortized over the lease term (which includes the period of the extension options held by the Group which in its assessment are reasonably certain to be exercised) or the useful duration of the leasehold improvements, whichever is shorter.

The estimated useful duration for the current period is as follows:

	Years
Landline and international network equipment (switching, transmission and power)	2-10
Landline network	9-33
Multi-channel TV equipment and infrastructure	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	Until December 31, 2042
Structures	25
Underwater cable	10-25

The estimates regarding the depreciation method, the useful life and the residual value are re-examined at least every reporting year and adjusted when necessary.

3.6. Intangible assets

3.6.1. Goodwill

Goodwill created as a result of the acquisition of subsidiaries is included in the intangible assets section. After initial recognition, goodwill is measured at cost minus accumulated impairment losses. Goodwill is examined for impairment at least once a year. 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 reliably measured; the software is technically and commercially applicable; A future economic benefit is expected from the development, and the Group has the intention and sufficient resources to complete the development and use the software. The costs recognized as an intangible asset include the cost of materials, direct labor and overhead expenses that can be attributed directly to prepare the asset for its intended use. Other development costs are imputed to income as incurred.

Discounted development costs are measured at cost minus accumulated depreciation and impairment losses.

3.6.3. Software

Software that is an integral part of hardware which cannot operate without the software installed on it, is classified as PP&E. On the other hand, licenses to standalone software that add additional functionality to the hardware are classified as intangible assets.

3.6.4. Rights in frequencies

Frequency rights refer to the frequencies assigned to Pelephone for cellular activity, following its winning in dedicated tenders held by the Ministry of Communications. Depreciation for the property is imputed to income according to the "***straight line***" method and is reduced over the frequency allocation period, which begins at the time of their use. 3G frequencies (UMTS/HSEA) are amortized until the end of 2030, 4G frequencies (LTE) and 5g frequencies will be amortized until September 2032.

Reduction of frequency rights is imputed to the depreciation and amortization section of the income statement.

3.6.5. Other intangible assets

Other intangible assets purchased by the Group, with a defined duration, are measured at cost minus accumulated depreciation and impairment losses.

3.6.6. Subsequent costs

Subsequent costs are recognized as an intangible asset only when they increase the future economic benefit inherent in the asset for which they were incurred. The other costs, including those related to reputation or self-developed brands, are imputed to income as incurred.

3.6.7. Amortization

Depreciation of intangible assets is credited to the income statement according to the straight-line method, over the estimated useful duration of the intangible assets from the date the assets are available for use. Goodwill is not systematically amortized, but is examined at least once a year for impairment.

The estimated useful duration for the current period is:

Property type	Amortization period
Frequency usage rights	3G frequencies - until December 2030 4G and 5G frequencies - until August 2032
Computer software and licenses to use the software	1-7 years, depending on the license period or over the estimated duration of use of the software

The estimates regarding the depreciation and useful duration method are re-examined at least every reporting year and adjusted when necessary.

3.7. Leases

3.7.1. Determining whether the arrangement contains a lease

At the time the lease is entered into, the Group determines whether the arrangement is a lease or contains a lease, while examining whether the arrangement transfers a right to control the use of an identified asset for a period of time in exchange for payment. When assessing whether the arrangement transfers the right to control the use of an identified asset, the Group assesses throughout the lease term whether it has the following two rights:

(a) The right to in-fact obtain all the economic benefits from the use of the identified asset; also
(b) The right to direct the use of the identified property.

For lease contracts that include non-lease components, such as services or maintenance related to a lease component, ***the Group has chosen to treat the contract as a single lease component, without separating the components.***

3.7.2. Leased assets and lease liabilities

Contracts that give the Group control over the use of an identified asset for a period of time for consideration are treated as leases. At the time of initial recognition, the Group recognizes a liability in the amount of the present value of the future minimum lease payments (these payments do not include variable lease payments that do not depend on the index, a change in any interest rate, or a change in the exchange rate), and at the same time the Group recognizes the right-of-use asset in the amount of the liability, adjusted for lease payments that were paid in advance or accrued, plus direct costs incurred in the lease.

Since the interest rate inherent in the lease cannot be easily determined, the Group's additional interest rate is used (the interest rate that the Group would have been required to pay in order to borrow for a similar period and with similar collateral the amounts necessary to obtain an asset of similar value to a right-of-use asset in a similar economic environment).

After initial recognition, the asset is treated according to the cost model, and is amortized over the lease term or the asset's useful duration (whichever is earlier).

3.7.3. **Lease period**

The lease period is defined as a period during which the lease cannot be canceled, and includes the periods for which there is an option to extend or cancel the lease if it is reasonably certain that the group will exercise the options to extend the lease and not exercise the option to cancel the lease.

3.7.4. **Variable lease payments**

Lease payments that are linked to the Consumer Price Index are initially measured by using the existing index at the start of the lease, and are included in the measurement of the lease liability. When there is a change in the cash flow of future lease payments resulting from the change in the index, the balance of the obligation is updated against the right-of-use asset.

3.7.5. **Depreciation of a right-of-use asset**

After the start date of the lease, the right-of-use asset is measured using the cost method, minus accumulated depreciation and minus accumulated losses from impairments and is adjusted for remeasurements of the liability for the lease. ***Depreciation is calculated on a straight-line*** basis over the useful duration or the contractual lease period, whichever is earlier, as follows:

Property type	Weighted average of the period of the agreements as of December 31, 2022 (years)
Cellular communication sites	6.1
Structures	14.4
Vehicles	1.8

3.7.6. **Subleases**

In leases where Bezeq Group subleases the base asset, the Bezeq Group examines the classification of the sublease as a financing or operating lease in relation to the right of use received in the main lease. Bezeq Group examined subleases that existed at the time of the first application in accordance with the balance of their contractual terms as of that date.

3.8. Capacity usage rights

Transactions for the purchase of the indefeasible right of use (“IRU”) in underwater cable capacities were treated as service receipt transactions. The amount of the expense paid in advance is amortized as part of depreciation expenses, on a straight line according to the period specified in the agreement, including the extension option that the Company expects to exercise, and no more than the estimated useful duration of such capacities. The payment for the right to use the capacities is presented in cash flow from investing activities.

Capacities that can be identified and are used exclusively by the group, were presented in the PP&E section. The asset is amortized on a straight line according to the period specified in the agreement and no more than the estimated useful duration of such capacities. Capacity usage rights are presented net of accumulated impairment losses.

3.9. Inventory

The inventory cost includes the costs of purchasing the inventory and bringing it to its current location and condition.

Inventory is measured as the lower of cost and net realizable value. **The group chose to determine the inventory cost according to the weighted moving average method.**

Inventory includes end equipment and related accessories intended for sale and service as well as spare parts used for repairs as part of the repair service provided to customers.

Inventories of end equipment, accessories, and spare parts whose consumption is slow are presented minus provision for impairment.

3.10. Impairment

3.10.1. Non-derivative financial assets

The Group chose to measure the provision for predicted credit losses for trade receivables in an amount equal to the contractual credit losses throughout the duration of the instrument.

Predicted credit losses throughout the duration of the instrument are predicted credit losses resulting from all possible fault events throughout the duration of the financial instrument.

Predicted credit losses are a probability-weighted estimate of credit losses. Credit losses are measured according to the present value of the difference between the cash flows that the Group is entitled to according to the contract and the cash flows that the Group expects to receive and are discounted according to the effective interest rate of the financial asset.

Examination of expected credit losses for trade receivable balances in substantial amounts is done on the basis of each individual asset. For the rest of the financial assets, expected credit losses are examined collectively, according to groups with similar credit risk characteristics, also considering past experience.

The provision for expected credit losses is presented as a deduction from the customers' gross book value.

Regarding the deposits in banks for which the credit risk has not increased significantly since the date of initial recognition, the Group measures the provision for predicted credit losses in an amount equal to the predicted credit losses due to a fault event in a 12-month period.

When assessing whether the credit risk of a financial asset has increased significantly since the date of initial recognition and the assessment of forecasted credit losses, the Group takes into account reasonable and substantiated information, which is relevant and obtainable without excessive cost or effort. Said information includes quantitative and qualitative information, as well as analysis based on the Group's past experience, and it includes forward-looking information.

3.10.2. Non-financial assets (see also Note 10)

Impairment Timing Examination

The book value of the Group's non-financial assets, other than inventory and deferred tax assets, is reviewed at each reporting date to determine whether there are any indicators of impairment. If there are indicators as mentioned, an estimate of the recoverable amount of the property is calculated.

The Group performs once a year, on a fixed date, an assessment of the recoverable amount of cash-generating units that include balance of goodwill, or more frequently, if there are indicators of impairment.

Determination of cash generating units

For the purpose of examining impairment, the assets are grouped together into the smallest group of assets that generates cash flows from ongoing use, which are essentially independent of other assets and groups ("cash generating unit").

Recoverable amount measurement

The recoverable amount of an asset or of a cash generating unit is the value in use or the fair value less selling costs, whichever is higher. In determining the value in use, the Group discounts the predicted future cash flows according to the discount rate which reflects the market's assessments regarding the time value of money and the specific risks related to the asset or cash generating unit (for which the future cash flows were not adjusted).

Allocation of goodwill to cash generating units

For the purpose of examining the impairment of goodwill, cash-generating units to which goodwill has been allocated are grouped so that the level at which the impairment is examined reflects the lowest level at which the goodwill is subject to monitoring for the purpose of internal reporting, but in any case is not greater than the activity segment. Goodwill acquired as part of business combinations is allocated for the purpose of examining impairment to cash-generating units that are expected to yield benefits from the synergy of the combination.

Recognition of an impairment loss

An impairment loss of a cash-generating unit is recognized when the cash-generating unit's book value, including goodwill, as far as relevant, exceeds its recoverable amount and is imputed to income. An impairment loss recognized for a cash-generating unit is allocated first to amortize the book value of goodwill attributed to the unit, and then to amortize the book value of the other assets in the cash-generating unit. For the purpose of allocating the loss from impairment, the value of the assets is not reduced below their fair value minus realization costs, their value in use (if determinable), or zero, whichever is higher.

Loss from impairment of assets that is created as a result of a one-time update of forecasts for the coming years is classified in the income statement under the section "Impairment loss". On the other hand, loss from impairment of assets resulting from the ongoing adjustment of non-current assets of the group companies to their fair value minus exercise costs (created in light of the prospect of continued negative cash flow and negative operating value of those companies) is classified in the income

statement under the same sections in which the current expenses were classified for these assets. The aforementioned classification is more in line with the presentation method based on the essence of the expense and is also more suitable for understanding the Group's business.

Accordingly, in the income statement, the continuous decrease in the value of broadcasting rights is shown as part of "General and operating expenses" while the continuous decrease in the value of items of PP&E, intangible assets and capacity usage rights is presented as part of the "Depreciation, amortization and impairment" expenses.

Cancellation of impairment loss

Loss from goodwill impairment cannot be cancelled. As for other assets for which impairment losses were recognized in previous periods, it is checked on each reporting date whether there are indicators that these losses have decreased or no longer exist. An impairment loss is canceled if there is a change in the estimates used to determine the recoverable amount, only to the extent that the book value of the asset, after the cancellation of the impairment loss, does not exceed the book value minus depreciation or amortization, which would have been determined if no impairment loss had been recognized.

3.11. Employee benefits

3.11.1. Post-employment benefits

The Group has several post-employment benefit plans. The plans are usually funded by deposits to insurance companies and are classified as defined deposit plans as well as defined benefit plans.

Defined deposit plans

A defined deposit plan is a post-employment plan whereby the Group pays fixed payments to a separate entity without having any legal or implied obligation to pay additional payments.

The Group's obligations to deposit in a defined deposit plan are imputed as an expense to income in the periods during which the employees provided the services.

Defined benefit plans

The Group's net liability, which refers to a defined benefit plan for post-employment benefits, is calculated for each plan separately by estimating the future amount of the benefit that the employee will receive in exchange for his services in the current period and in previous periods. This benefit is presented according to current value minus the fair value of the plan's assets. The calculations are made every year by a qualified actuary. The discount rate is determined according to the yield at the time of reporting on high-quality corporate debentures, whose currency is the same as the currency in which the benefit is paid or linked thereto, and whose maturity date is similar to the terms of the Group's liability.

The net interest costs for a defined benefit plan are calculated by multiplying the net liability by the discount rate used to measure the liability for a defined benefit, as determined at the beginning of the annual reporting period.

The Group chose to present the interest costs that were credited to profit and loss, as part of the Financing expenses section.

Remeasurement of the net defined benefit liability includes actuarial profits and losses and the return on plan assets (excluding interest). Remeasurements are imputed immediately, through other comprehensive income, directly to ***surplus***.

When there is an improvement or reduction in the benefits that the Group provides to employees, part of the increased or reduced benefits that refers to the past services of the employees is immediately recognized as income when the amendment or reduction of the plan occurs.

3.11.2. Other long-term employee benefits

The Group's liability for long-term employee benefits (such as an obligation for accrued vacation and sick days), which do not refer to post-employment benefit plans, is for the amount of the future benefit due to employees for services granted in the current period and in previous periods. The amount of these benefits is presented at its current value. The discount rate is determined according to the yield at the time of reporting on high-quality linked corporate debentures whose currency is the shekel, and whose repayment date is similar to the terms of the Group's commitment. Actuarial changes are imputed to the income statement in the period in which they were created. ***The actuarial changes resulting from a change in the discount rate are imputed to the Financing expenses/income section, while the other differences are imputed to Salaries expenses***.

3.11.3. Early retirement and severance benefits

Severance benefits are recognized as an expense when the Group has made a clear commitment, with no actual possibility of cancellation, to dismiss employees before they reach the accepted retirement date according to a detailed formal plan. Benefits given to employees in voluntary retirement are imputed as an expense when the Group offered the employees a plan encouraging voluntary retirement and the employees accepted the offer, or when the Company can no longer go back on its offer.

The expenses for early retirement and dismissal that were imputed to income are presented in the Other operating expenses (income) Section. The actuarial changes resulting from a change in the discount rate of long-term benefits for early retirement and dismissal are credited to the financing expenses section, while the other actuarial changes are imputed to Other operating expenses (income).

3.11.4. Short-term benefits

Liabilities for short-term employee benefits are measured on a non-discounted basis, and the expense is imputed when the related service is provided. A liability for short-term employee benefits for a cash bonus is recognized at the amount expected to be paid, when the Group has a current legal or implied obligation to pay the said amount for service provided by the employee in the past, and the obligation can be reliably estimated.

The classification of employee benefits, for measurement purposes, as short-term benefits or as other long-term benefits is determined according to the forecast of when the benefits will be fully settled.

Classification of employee benefits as current or non-current benefits for the purpose of presenting them in the statement of financial position is carried out according to the date on which the liability is due.

3.11.5. Share-based compensation transactions

The fair value at the time the employees were granted warrants for the purchase of the company's shares was credited as a salaries expense at the same time as the increase in capital over the period in which the employees became entitled to the warrants. The company presents the increase in capital as part of the rights that do not confer control.

For share-based compensation grants conditioned on performance conditions that constitute market conditions, the group takes these conditions into account in estimating the fair value of the equity instruments granted, and therefore the group recognizes the expense for these grants regardless of the existence of these conditions.

The amount imputed as an expense is adjusted to reflect the number of share options that are expected to become vested.

3.12. Provisions

A provision is recognized when the Group has a current, legal or implied obligation, as a result of an event that occurred in the past, which can be reliably measured, and when it is expected that an inflow of economic benefits will be required to settle the obligation.

3.12.1. Lawsuits

The handling of pending lawsuits is in accordance with IAS37 and its accompanying provisions. According to the provisions, the claims are classified according to groups with similar characteristics, according to the areas of probability of the realization of the risk exposures as detailed below:

A. Expected - probability above 50%.
B. Possible - probability more than unlikely and less than or equal to 50%.
C. Unlikely - probability less than or equal to 5%.

With respect to claims for which the Group has aa legal or implied obligation as a result of an event that occurred in the past and whose realization is likely to be expected, provisions are included in the statements which, in the opinion of the Group Management that is based, among other things, on its legal advisors handling those claims, are adequate under the circumstances of each case and this despite the fact that the said claims are denied by the Group companies. In addition, there are a limited number of legal proceedings, most of which were received recently, the chances of which cannot be assessed at this stage, and for that reason no provision was made for them.

In Note 17, details were given regarding the amount of the additional exposure due to pending claims which are likely to be realized.

3.12.2. Costs of dismantling and removing sites

The provision for the obligation to dismantle and remove sites is recognized for lease agreements in which Pelephone has an obligation to return the leased property to its original condition at the end of the lease period, after dismantling and removing the site, as well as restoring the premises when necessary. The provision is measured by discounting the future cash flows at a risk-free discount rate that reflects the duration until the expected end of the contract by virtue of which Pelephone was required to dismantle the site. The book value of the provision is adjusted each period to reflect the passage of time that is recognized as financing expenses.

3.12.3. Onerous contracts

When the Group anticipates that the unavoidable costs of a contract will exceed the economic benefits expected to be received from the contract, a provision for onerous contracts is recognized. The provision is measured according to the present value of the projected cost of canceling the contract or the present value of the unavoidable costs (net of incomes) to maintain the contract, whichever is lower. ***Unavoidable costs are costs that the Group cannot avoid because it is bound by the contract.***

3.13. Incomes

3.13.1. The Group recognizes income when the customer obtains control over the promised goods or service. The income is measured according to the amount of consideration to which the Group expects to be entitled in return for the transfer of goods or services promised to the customer, apart from amounts collected for the benefit of third parties.

The model for recognizing income from contracts with customers includes five steps for analyzing transactions in order to determine the timing and amount of income recognition:

A. Identification of the contract with the customer
B. Identification of separate performance obligations in the contract
C. Determining the transaction price
D. Allocation of transaction price to separate performance obligations
E. Recognition of income upon fulfillment of performance obligations

3.13.2. Contract identification

The Group handles a contract with a customer only when all of the following conditions are met:

1. The parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are obligated to fulfill the obligations attributed to them
2. The Group can identify the rights of each party regarding the products or services that will be transferred
3. The Group can identify the terms of payment for the goods or services that will be transferred
4. The contract has a commercial nature (i.e., the risk, timing, and amount of the entity's future cash flows are expected to change as a result of the contract), and
5. It is expected that the Group will collect the consideration to which it is entitled for the goods or services that will be transferred to the customer

3.13.3. Performance obligation identification

The Group evaluates the goods or services promised under a contract with a customer at the time of entering into the contract, and recognizes as an obligation to fulfill any promise to deliver to the customer one of the following two:

(1) Goods or a service (or package of goods or services) that are separate; or
(2) A series of separate goods or services that are essentially the same and have the same pattern of transfer to the customer.

3.13.4. Option to purchase additional goods or services

An option that gives the customer the right to purchase additional goods or services constitutes a separate performance obligation in the contract only if the option provides a substantial right to the customer that he would not have received had he not entered into the original contract.

3.13.5. Transaction price determination

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for the transfer of goods or services promised to the customer, apart from amounts collected in favor of third parties. When determining the transaction price, the Group takes into account the effects of all of the following: variable consideration, the existence of a significant financing component in the contract, non-cash consideration and consideration payable to the customer.

3.13.6. Existence of a significant financing component

For the purpose of measuring the transaction price, Bezeq Group adjusts the amount of the promised return due to the effects of the time value of money if the timing of the payments agreed between the parties provides the customer or the Group with a significant financing benefit. In these cases the contract contains a significant financing component. In assessing whether a contract contains a significant financing component, Bezeq Group examines, among other things, the expected duration between the time when the Bezeq Group delivers the promised goods or services to the customer and the time when the customer pays for these goods or services, as well as the difference, if any, between the amount of the promised consideration and the cash sale price of the promised goods or services.

When there is a significant financing component in the contract, **Bezeq Group recognizes the consideration amount using the discount rate that will be reflected in a separate financing transaction between itself and the customer at the time of engagement.** The financing component is recognized as interest income or expenses during the period calculated according to the effective interest method.

In cases where the gap between the date of receipt of payment and the date of delivery of the goods or service to the customer is a year or less, Bezeq Group applies the practical relief stipulated in the standard and does not separate a significant financing component.

3.13.7. Performance obligation fulfilment

Income is recognized when the Group fulfills a performance obligation by transferring control of goods or a service promised to a customer.

Measuring progress of performance obligation fulfilment

The Group recognizes income over time by measuring progress toward fulfillment in full of the performance obligation in a manner that reflects the Group's performance in transferring control of the promised goods or services to the customer.

3.13.8. Contract costs

Additional costs of obtaining a contract with a customer, such as sales commissions paid to resellers and salespeople employed by the Group for sales and upgrades, are recognized as an asset when it is expected that the Group will recover these costs. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognized as an expense when incurred, unless the customer can be charged for these costs.

Costs discounted as an asset are amortized to the income statement on a systematic basis according to the expected duration of the subscribers and according to their expected average churn rate according to the type of subscriber and the service received thereby (mainly in the range between 1 and 4 years).

In each reporting period, the Group examines whether the book value of the asset recognized as mentioned above exceeds the remaining amount of the consideration that the Bezeq Group expects to receive in exchange for the goods or services to which the asset refers, minus the costs directly related to the provision of such goods or services that were not recognized as expenses, and, if necessary, recognizes a loss from impairment in income.

3.13.9. Principal supplier or agent

When another party is involved in the provision of goods or services to the customer, the Group examines whether the essence of its promise is a performance obligation to provide the goods or services defined by itself, meaning that the Group is a principal supplier and therefore recognizes income in the gross amount of the consideration, or acts for another party to provide these goods or services, meaning the Group is an agent and therefore recognizes income in the amount of the net commission.

The Group is a primary supplier when it controls the promised goods or service before transferring them to the customer. Indicators that the Group controls the goods or services before they are transferred to the customer include, among others, the following: the Group is primarily responsible for fulfilling the promises in the contract; The Group has inventory risk before the goods or service have been delivered to the customer; And, the Group has discretion in setting prices for the goods or services.

3.14. Government grants

A government grant in respect of a frequency tender is initially recognized at fair value when there is reasonable assurance that it will be accepted and that the Group will meet the conditions that entitle their receipt. Government grants received for the purpose of purchasing an asset ***are presented as deferred income in the statement of financial position unfrozen to the income statement throughout the useful duration of the asset. The income unfreezing is recognized in the Other operating income section of the income statement***.

3.15. Financing income and expenses

Financing income mainly includes interest income accrued using the effective interest method for the sale of terminal equipment in installments, interest income from capital and changes in the fair value of financial assets presented at fair value through profit and loss.

Financing expenses mainly include interest expenses and linkage on loans received and bonds issued, expenses for early repayment of the debt as well as financing expenses for employee benefits.

In cash flow statements, ***interest received is presented under cash flows from investing activities. The Group chose to present the interest and linkage differences paid for loans and debentures as part of cash flows used for financing activities.***

3.16. Income tax expenses

Income tax expenses include current and deferred taxes. Income tax expenses are imputed to the income statement or to other comprehensive income if they arise from items that are recognized in other comprehensive income.

Current taxes

The current tax is the amount of tax expected to be paid on the taxable income for the year, when it is calculated according to the applicable tax rates according to the laws enacted or enacted *de-facto* at the time of the report. Current taxes also include changes in tax payments referring to previous years.

Offsetting current tax assets and liabilities

The Group offsets current tax assets and liabilities if there is an enforceable legal 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 if the current tax assets and liabilities are settled at the same time.

Uncertain tax positions

The provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more likely than not that the group will require its financial resources to settle the obligation.

Deferred taxes

The recognition of deferred taxes refers to temporary differences between the book value of assets and liabilities for financial reporting purposes and their value for tax 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 affiliated companies, if it is not expected that they will be reversed in the foreseeable future and if the Group controls the date of reversal of the difference.

Deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the time they will materialize, based on the laws that have been enacted or whose legislation has been completed *de-facto* as of the reporting date.

A deferred tax asset is recognized in the books for transferred losses, tax benefits and deductible temporary differences, when it is expected that in the future there will be taxable income against which they can be utilized. The deferred tax assets are reviewed at each reporting date, and if it is not expected that the related tax benefits will materialize, they are amortized (see also Note 7).

Deferred tax assets that have not been recognized are revalued at each reporting date and recognized if the expectation has changed so that it is expected that in the future there will be taxable income against which it will be possible to utilize them.

<u>Offsetting deferred tax assets and liabilities</u>

The Group offsets deferred tax assets and liabilities if there is an enforceable legal right to offset current tax assets and liabilities, and they are attributed to the same taxable income taxed by the same tax authority in the same taxable company, which intends to settle current tax assets and liabilities on a net basis, or if the current tax assets and liabilities are settled at the same time.

<u>Presentation of tax expenses as part of a cash flow statement</u>

Cash flows arising from income taxes are classified in the cash flow statement as cash flows from operating activities, unless they can be specifically identified with investing activities and financing activities.

3.17. Profit per share

The Group presents basic and diluted profit per share data regarding its ordinary share capital. Basic profit per share is calculated by dividing the profit or loss attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted profit per share is determined by adjusting the profit or loss attributable to the Company's ordinary shareholders and adjusting the weighted average of the ordinary shares in circulation for the effects of all potential dilutive ordinary shares, including warrants granted to employees.

3.18. Dividend

A liability relating to a dividend proposed or announced after the date of the statements is recognized only in the period in which the announcement was made (approval of the general meeting). In cash flow statements, ***a dividend paid is presented as a financing activity.***

3.19. New standards implemented during the reported period:

<u>Amendment to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" regarding onerous contracts (hereinafter: "the Amendment")</u>

As of January 1, 2022, the Group implemented the amendment to IAS 37 regarding onerous contracts. According to the amendment, in examining whether a contract is onerous, the costs for maintaining a contract that must be taken into account are costs that relate directly to the contract, which include the following costs:

A. Additional costs; And

B. Allocation of other costs directly related to the performance of a contract (such as depreciation expenses of PP&E used both for the fulfillment of the contract under consideration and for other additional contracts).

The implementation of the amendment had no effect on the Group's 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 financial benchmarks

The amendment, together with the subsequent amendment to IAS 1, replaces certain classification requirements of liabilities as current or non-current. The amendment will enter into force in reporting periods starting on January 1, 2024. Early application is possible. The amendment and the subsequent amendment will be applied retroactively, including the amendment of comparison numbers. The Group is examining the consequences of implementing the amendment.

3.20.2. Amendment to the IAS 1 standard - Presentation of Financial Statements: "Disclosure of Accounting Policies"

In accordance with the amendment, companies are required to disclose their material accounting policies after the requirement to present their material accounting policies has passed. According to the amendment, information about the accounting policy is material if, when taken into account together with other information provided in the financial statements, it can reasonably be expected that it will influence decisions that the users of the statements make based on those statements.
The amendment to IAS 1 also clarifies that information about the accounting policy may be material if, without it, the users of the statements would be prevented from understanding other material information in the statements. In addition, the amendment clarifies that there is no need to disclose information about accounting policies that are not material. The amendment will be implemented for reporting periods beginning on January 1, 2023, with the possibility of early implementation. The Group is examining the consequences of the amendment on the statements without the intention of early implementation.

4. Cash and cash equivalents

Cash and cash equivalents balance as of December 31, 2022 mainly includes deposits in banks for a period of up to 90 days as well as balances in current accounts.

5. Investments

	December 31, 2022	December 31, 2022
	NIS millions	NIS millions
Shekel deposits in banks (1)	**787**	1,015
Investment in securities	**159**	99
Derivatives	**15**	0
Foreign currency deposits in banks (2)	**12**	20
	973	1,134

(1) Deposits in shekels in banks, due until December 2023.
(2) Deposits in US dollars in banks, due until March 2023.

6. Trade and other receivables

6.1. Composition of trade and other receivables:

	December 31, 2022	December 31, 2022
	NIS millions	NIS millions
Customers*		
Open debts and checks regarding it	**673**	849
Credit cards	**191**	473
Income receivable	**242**	238
Long-term customer current maturities	**333**	297
Relate parties and interested parties	**1**	2
	1,440	1,859
Other receivables and current tax assets*		
Current tax assets	**28**	56
Other receivables	**224**	114
Expenses in advance	**37**	36
Frequency grant to receive (see note 10.1)	**-**	74
	289	280
Long-term customers and other receivables*		
Customers – open debts	**305**	256
Long-term receivables and authorities (mainly for real estate sales)**	**155**	177
	460	433
	2,189	2,572

* Customer balances are presented net of the provision for predicted credit losses.
** See Note 6.6.

6.2. The discount interest rates for long-term customers are in accordance with the credit risk estimate of the customers. The interest rates used by the Group for discount in 2022 are 4.93%-2.36% (in 2021: 4.38%-2.49%).

6.3. Expected exercise dates of long-term customers and receivables:

Expected repayment dates	December 31, 2022
	NIS millions
2024	**242**
2025	**84**
2026 onwards	**134**
	460

6.4. Aging of customer debts as of the reporting date:

	December 31, 2022		December 31, 2022	
	Gross customer balance	Provision for predicted credit losses	Gross customer balance	Provision for predicted credit losses
	NIS millions	NIS millions	NIS millions	NIS millions
Not in arrears	**1,621**	**(7)**	1,922	(4)
Arrears up to 1 year	**141**	**(24)**	175	(21)
Arrears 1-2 years	**15**	**(7)**	56	(20)
Arears over 2 years	**32**	**(26)**	30	(23)
	1,809	**(64)**	2,183	(68)

6.5. The transactions in the provision for predicted credit losses during the year is as follows:

	2022	2021
	NIS millions	NIS millions
Balance as of January 1	**68**	80
Loss recognized from impairment	**29**	6
Loan-loss	**(33)**	(18)
Balance as of December 31	**64**	68

6.6. The balance of long-term receivables and authorities include a balance of receivables in the amount of NIS 106 million for the permit fees and the improvement levy that Bezeq paid to the Israel Land Authority and the Or Yehuda Local Authority for the sale of the Sakia complex in 2019. In addition, Bezeq provided guarantees in the amount of approximately NIS 126 million in accordance with the requirements of the Israel Lands Authority and the Or Yehuda local authority to pay the balance of the permit fees and the improvement levy.

In its 2019 statements, Bezeq recognized share capital gains from the sale of the Sakia complex in the amount of NIS 403 million before tax. The recognition of the share capital gains is based on Bezeq's estimates of the final amount to be paid to the authorities. It should be noted that to the extent that Bezeq's Management estimates do not materialize, the final share capital gains before tax will range from approximately NIS 250 million to approximately NIS 450 million.

A legal proceeding is underway between the parties from 2021.

7. Income tax

7.1. Corporate tax rate

The current taxes for the reporting periods and deferred tax balances as of December 31, 2022 are calculated in accordance with the tax rate relevant 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.

7.2.2. Bezeq has final tax assessments up to and including 2018.

On September 15, 2016, at the same time as the signing of an assessment agreement that ended the dispute between Bezeq and the assessor regarding financing income in respect of the owner's loans to DBS, the Tax Authority gave permission for tax purposes to perform a merger of DBS with and into Bezeq, in accordance with the provisions of Article 103b to the Income Tax Ordinance. According to the approval, DBS losses at the time of the merger were offset against the profits of Bezeq (the absorbing Company), an amount will not be allowed to be offset if it exceeds approximately 12.5% (spread over 8 years) of the total losses of the transferring company and the absorbing company or 50% of the absorbing company's taxable income in that tax year before offsetting the loss from previous years, whichever is lower.

The approval is given in accordance with the applicable tax laws at the time it is given. Without deducting from the amount of losses stipulated in the assessment agreement, if there is a change in the applicable tax laws, the Tax Authority will re-examine the taxation decision according to the tax laws that will apply at the time of the merger. However, it was clarified that the approval is valid until December 31, 2019. The Tax Authority will extend the validity of the approval by an additional year, every year, subject to a declaration by Bezeq and DBS that there has been no material change in their business and in the conditions of the taxation decision, and subject to the interpretation given to the tax laws, provided that said interpretation has been published in writing. A change in the tax laws that does not require a change in the approval will not cause a change in it. The validity of the taxation decision has been extended several times since then.

On December 11, 2022, Bezeq received a letter from the Tax Authority extending, at the request of Bezeq, the validity of the taxation decision for one more year, i.e. until December 31, 2023. It should be noted that the Tax Authority's letter included a statement similar to the one included in its letter from the previous year according to the fact that in light of the fact that there have been no substantial developments regarding the cancellation of the structural separation between Bezeq and DBS from the date of the taxation decision to the date of this extension, and in light of the long time that has passed since the date of the taxation decision, and after examining all Bezeq’s claims on the subject, the Tax Authority will consider not extending the validity of the taxation decision beyond December 31, 2023, as long as there are no material developments in 2023 in regards to the cancellation of the structural separation between Bezeq and DBS.

The balance of DBS losses for tax purposes, as of December 31, 2022, amounts to approximately NIS 5.3 billion. See Note 7.6 below regarding deferred taxes that were not recognized for transferrable losses.

7.2.3. Pelephone has final tax assessments up to and including the year 2018.

7.2.4. Bezeq International has final tax assessments up to and including the year 2019.

7.2.5. DBS has final tax assessments up to and including the year 2016.

7.2.6. Bezeq Online has final tax assessments up to and including the year 2017.

7.3. Income tax expenses

	Year ended December 31		
	2022	**2021**	**2020**
	NIS millions	**NIS millions**	**NIS millions**
Current tax expenses			
Expenses for the current year	**293**	289	273
Adjustments for previous years	**-**	14	50
Total current tax expenses	**293**	303	323
Deferred tax expenses			
Creating and reversing other temporary differences	**43**	42	48
Exercise (creation) of deferred taxes for losses for tax purposes from the sale of a subsidiary	**-**	37	(37)
Total deferred tax expenses	**43**	79	11
Income tax expenses	**336**	382	334

7.4. Adjustment between the theoretical tax on the profit before income taxes and the tax expenses

	Year ended December 31		
	2022	**2022**	**2022**
	NIS millions	**NIS millions**	**NIS millions**
Profit (loss) before income taxes	**1,227**	1,378	1,234
Statutory tax rate	**23%**	23%	23%
Income taxes according to the statutory tax rate	**282**	317	284
Impairment of assets for which no deferred tax assets were created	**-**	-	47
Expenses that are not recognized for tax and other purposes, as well as losses for which deferred taxes were not incurred, net	**54**	65	16
Creation of deferred taxes for losses for tax purposes from the sale of a subsidiary	**-**	-	(37)
Write-off of tax provision for previous years	**-**	-	(7)
Write-off of a tax asset due to failure to observe future profits	**-**	-	31
Income tax expenses	**336**	382	334

7.5. Recognized deferred tax assets and liabilities and the changes therein

	Deferred tax assets for employee benefit plans	Deferred tax liabilities for PP&E and intangible assets	Tax asset for a loss for tax purposes from the sale of a subsidiary	Other deferred taxes	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2021	261	(538)	37	58	(182)
Changes imputed to income:					
Creation and reversal of temporary differences	(11)	(9)	(37)	(22)	(79)
Changes imputed to other comprehensive income	1	-	-	(12)	(11)
Balance as of December 31, 2021	251	(547)	-	24	(272)
Changes imputed to income:					
Creation and reversal of temporary differences	**(23)**	**11**	-	**(31)**	**(43)**
Changes imputed to other comprehensive income	**(6)**	**-**	**-**	**2**	**(4)**
Balance as of December 31, 2022	**222**	**(536)**	-	**(5)**	**(319)**

Book value	**December 31**	**December 31**
	2022	**2021**
	NIS millions	**NIS millions**
Deferred tax assets	**-**	24
Deferred tax liabilities	**(319)**	(296)
Balance as of	**(319)**	(272)

7.6. Unrecognized deferred tax assets and liabilities

Bezeq received approval from the Tax Authority to utilize losses carried forward for tax purposes when merging with DBS. The approval is conditioned, among other things, on receiving approval from the Ministry of Communications to cancel the structural separation between the two companies. The validity of the approval requires that it 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 of the date of the statements, no deferred taxes were recognized in respect of the losses of DBS transferred for tax purposes in the amount of approximately NIS 5.2 billion, and no deferred taxes were recognized in respect of a loss from the impairment of assets in DBS and Bezeq International (see Note 10), since their exercise is not expected according to the Group's estimate as of the date of the statements.

In addition, in the calculation of the deferred taxes, the taxes that would apply in the event of the exercise of the investment in subsidiaries were not recognized, since the Group intends and has the ability to hold these investments. Also, no deferred taxes were recognized for the distribution of profits in these subsidiaries since the inter-company dividends are not subject to tax. Also, the Company does not create deferred taxes for its transferred losses.

8. Leases

As part of the lease agreements, the Group mainly leases cellular communication sites, buildings (including offices, warehouses, communication rooms and sales points), and vehicles.

8.1. Right-of-use assets

	Communication sites	**Structures**	**Vehicles**	**Total**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
Cost				
Balance as of January 1, 2021	1,190	1,095	325	2,610
Additions*	155	149	126	430
Subtractions for terminated or canceled agreements	(83)	(50)	(120)	(253)
Balance as of December 31, 2021	1,262	1,194	331	2,787
Additions*	**111**	**90**	**107**	**308**
Subtractions for terminated or	**(85)**	**(17)**	**(46)**	**(148)**
Balance as of December 31, 2022	**1,288**	**1,267**	**392**	**2,947**
Amortizations and impairment losses				
Balance as of January 1, 2021	415	218	173	806
Amortization for the year	168	106	118	392
Subtractions for terminated or canceled agreements	(68)	(27)	(118)	(213)
Changes in agreements and others	(5)	1	(23)	(27)
Impairment loss	-	-	1	1
Balance as of December 31, 2021	510	298	151	959
Amortization for the year	**156**	**111**	**129**	**396**
Subtractions for terminated or canceled agreements	**(73)**	**(15)**	**(44)**	**(132)**
Changes in agreements and others	**(8)**	**(1)**	**(11)**	**(20)**
Impairment loss	-	-	**(2)**	**(2)**
Balance as of December 31, 2021	**585**	**393**	**223**	**1,201**
Book value				
As of January 1, 2021	775	877	152	1,804
As of December 31, 2021	752	896	180	1,828
As of December 31, 2022	**703**	**874**	**169**	**1,746**

* Additions for new agreements and changes to existing agreements.

8.2. Lease liabilities

	Communication sites	Structures	Vehicles	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2021	833	895	179	1,907
Additions*	162	145	150	457
Subtractions	(14)	(24)	(2)	(40)
Financing expenses for lease obligations	17	21	2	40
Lease payments	(164)	(102)	(121)	(387)
Balance as of December 31, 2021	834	935	208	1,977
Additions*	**118**	**93**	**115**	**326**
Subtractions	**(16)**	**(2)**	**-**	**(18)**
Financing expenses for lease obligations	**17**	**24**	**2**	**43**
Lease payments	**(169)**	**(124)**	**(127)**	**(420)**
Balance as of December 31, 2022	**784**	**926**	**198**	**1,908**
Book value as of December 31, 2021				
Current maturities of lease liabilities	250	113	103	466
Long-term lease liabilities	584	822	105	1,511
Balance as of December 31, 2021	834	935	208	1,977
Book value as of December 31, 2022				
Current maturities of lease liabilities	**225**	**110**	**121**	**456**
Long-term lease liabilities	**559**	**816**	**77**	**1,452**
Total balance as of December 31, 2021	**784**	**926**	**198**	**1,908**

* Additions for new agreements and changes to existing agreements.

8.3. Analysis of due dates for the Group's lease obligations (including principal and interest to be paid)

Expected repayment dates	December 31, 2021
	NIS millions
Up to 1 year	**496**
1-5 years	**880**
Over 5 years	**785**
Total	**2,161**

8.4. Options for ending or extending a lease

In most of its leases, the Group assumed that it was reasonably certain that the extension option contained in the agreements would be used, and therefore there were no material obligations for leases that were not presented in the statements. Most lease agreements include an option to cancel the agreement with advance notice and/or payment of a fine as stipulated in the agreements. The Group assumed that it was reasonably certain that the cancellation options would not be exercised.

8.5. Information regarding material lease agreements that have not yet been included in the measurement of the lease assets and liabilities

On October 7, 2021, a hosting services agreement was signed between Bezeq International and ServerFarm IIF Bnei Zion Limited Partnership (hereinafter: "ServerFarm"), according to which ServerFarm will provide Bezeq International with hosting services in a server farm facility established by it. The server farm is expected to be used to provide hosting services to business customers. The delivery date is divided into two phases, the first phase is expected to be delivered in March 2023, and the second phase is expected to be delivered in March 2024. The term of the agreement is 15 years, and there are options for extension until 2047. The nominal cost of the agreement (without the option period) is approximately NIS 227 million.

9. PP&E

	Land and structures	Landline and international network equipment (switching, transmission, power)	Cables and landline and international network communication infrastructure	Cellular network	Equipment and infrastructure for multi-channel television	Subscriber equipment	Office equipment, computers and vehicles	Total
	NIS millions							
Cost								
Balance as of 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
Subtractions	(126)	(185)	(29)	(2)	(301)	(336)	(66)	(1,045)
Transfer from assets held for sale	21	-	-	-	-	-	-	21
Balance as of 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**
Subtractions	**(11)**	**(429)**	**(22)**	**(2)**	**(200)**	**(380)**	**(316)**	**(1,360)**
Balance as of December 31, 2022	**1,314**	**2,739**	**12,753**	**3,552**	**1,333**	**1,811**	**581**	**24,083**
Depreciation and impairment losses								
Balance as of 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
Subtractions	(39)	(185)	(29)	(1)	(301)	(317)	(65)	(937)
Impairment (cancellation of impairment)	13	9	(1)	-	77	8	17	123
Transfer from assets held for sale	20	-	-	-	-	-	-	20
Balance as of 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**
Subtractions	**(3)**	**(429)**	**(22)**	**(1)**	**(192)**	**(373)**	**(320)**	**(1,340)**
Impairment (cancellation of impairment) (see Note 10)	**13**	**5**	**(5)**	**-**	**60**	**19**	**13**	**105**
Balance as of December 31, 2022	**1,059**	**1,462**	**9,470**	**2,931**	**1,229**	**1,008**	**382**	**17,541**
Book value								
As of January 1, 2021	304	1,265	2,800	681	103	782	196	6,131
As of December 31, 2021	259	1,275	3,045	639	96	809	189	6,312
As of 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 determined based on a valuation at the end of each quarter. The value of the remainder stands at a total of approximately NIS 234 million as of December 31, 2022 and approximately NIS 237 million as of December 31, 2021.

9.2. The Group companies examined the duration of the PP&E within the framework of depreciation committees in order to determine the estimated duration of their equipment. Following the findings of the depreciation committees, immaterial changes were made to the estimated duration of certain assets. The aforementioned change had no material effect on the Group's depreciation expenses.

9.3. Most of the real estate assets used by Bezeq are under a discounted lease from the Israel Lands Authority starting in 1993 for a period of 49 years, with an option to extend for another 49 years. The lease rights are amortized over the lease term.

9.4. On September 14, 2020, Bezeq's Board of Directors approved the launch of a plan to deploy the fiber network. Following the decision of the Board of Directors, Bezeq began deploying fiber to buildings, including the deployment of vertical equipment in buildings, and on March 14, 2021 announced the launch of services to its customers over the fiber network. It should be noted that the connection of customers will be done gradually.

On May 25, 2021, Bezeq's Board of Directors approved Bezeq's fiber deployment plan and its submission to the Ministry of Communications in accordance with the Communications Law. As part of the plan, Bezeq is expected to deploy and operate an ultra-fast fiber network that will cover approximately 76% of the Israel’s population (according to Bezeq, approximately 80% of households).

On May 31, 2021, Bezeq submitted to the Ministry of Communications the list of statistical areas in which it chose to deploy as stated, and on June 15, 2021, Bezeq received an amendment to the Bezeq license regarding the determination of advanced network deployment obligations ("the amendment to the license").

On October 3, 2022, the Minister of Communications approved Bezeq's request to allow it to deploy an advanced network and provide Bezeq service over it in statistical areas additional to the areas specified in the Bezeq license, and to amend the Bezeq license accordingly. This is a deployment in 151 additional areas, which include about 60,000 households. As detailed in the decision of the Minister of Communications, the rate of households in Bezeq's deployment areas is 82.5%, and this is an addition of approximately 2.3% to this rate, so that the updated rate of households in Bezeq's deployment areas will be approximately 84.7%.

The amendment to the license includes, among other things, the milestones for completing the network deployment within six years from the determined date (March 14, 2021). For this matter, see also Note 18.7 regarding the Group companies’ obligation to pay to the incentive fund.

9.5. In accordance with the Communications (Bezeq and Broadcasting) Decree (establishing an essential service provided by "Bezeq" the Israel Communications Company Ltd.), 1997-1997, the approval of the Prime Minister and the Minister of Communications is required for the transfer of rights in certain assets of Bezeq (among others, switches, cable network, transmission network and databases and information).

9.6. Regarding liens in connection with loans and credit, see Note 13. Regarding additional liens, see Note 19.

9.7. For contracts for the purchase of PP&E, see Note 18.

10. Intangible assets

	Goodwill	Computer software and licenses	Right to use cellular communication frequencies	Customer and brand relations	Others	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cost						
Balance as of January 1, 2021	3,069	2,582	566	7,479	81	13,777
Purchases or additions from self-development	-	237	-	-	-	237
Subtractions	-	(40)	-	-	-	(40)
Balance as of December 31, 2021	3,069	2,779	566	7,479	81	13,974
Purchases or additions from self-development	**9***	**229**	**-**	**-**	**7**	**245**
Subtractions	**-**	**(152)**	**-**	**-**	**-**	**(152)**
Balance as of December 31, 2022	**3,078**	**2,856**	**566**	**7,479**	**88**	**14,067**
Amortizations and impairment losses						
Balance as of January 1, 2021	1,510	2,229	331	6,358	81	10,509
Depreciation for the year	-	141	22	-	-	163
Subtractions	-	(40)	-	-	-	(40)
Impairment (see Notes 10.2, 10.4 and 10.5 below)	-	91	-	-	-	91
Balance as of December 31, 2021	1,510	2,421	353	6,358	81	10,723
Depreciation for the year	**-**	**137**	**21**	**-**	**-**	**158**
Subtractions	**-**	**(152)**	**-**	**-**	**-**	**(152)**
Impairment (see Notes 10.2, 10.4 and 10.5 below)	**-**	**87**	**-**	**-**	**-**	**87**
Balance as of December 31, 2022	**1,510**	**2,493**	**374**	**6,358**	**81**	**10,816**
Carrying amount						
As of January 1, 2021	1,559	353	235	1,121	-	3,268
As of December 31, 2021	1,559	358	213	1,121	-	3,251
As of December 31, 2022	**1,568**	**363**	**192**	**1,121**	**7**	**3,251**

* See Note 12.3.3.

10.1. Right to use cellular communication frequencies

In 2020, Pelephone won a cluster of frequencies as part of the tender for mobile radio telephone services with advanced bandwidths, at a total cost of NIS 88.2 million. The payment was made in September 2022. In September 2020, upon receiving the frequencies, Pelephone began to operate the frequencies. In addition, according to the tender rules, Pelephone won a 5G network deployment grant in the amount of NIS 74 million. The aforementioned grant was received in November 2022.

10.2. Impairment examination of cash generating units

10.2.1. For the purpose of testing for impairment, the goodwill was attributed to the Group's activity segments as follows:

	December 31, 2022	December 31, 2021
	NIS millions	NIS millions
Landline interior communication (Bezeq) (see Note 10.4)	**1,559**	1,559
Bezeq international services (see Note 12.3.3)	**9**	-
	1,568	1,559

10.2.2. The composition of the impairment loss recognized by the Group during the years 2020-2022:

In 2020, a loss (loss cancellation) recognized from the impairment of Pelephone’s and Bezeq International's assets resulting from a one-time update of forecasts for the coming years was classified in the income statement under the "Impairment loss" section. A loss from impairment of assets that resulted from the continuous adjustment of non-current assets (of DBS in 2020-2022 and Bezeq International in 2021-2022), to their fair value minus selling costs, was classified in the income statement under the same sections in which the current expenses were classified in respect of these assets, as detailed in Notes 10.5 and 10.6 below.

	2022	2021	2020
	NIS millions	NIS millions	NIS millions
Impairment loss in the Bezeq International services sector (see Note 10.6 below)	**-**	-	279
Cancellation of an impairment loss in respect of Walla	**-**	-	(14)
Cancellation of impairment loss in the cellular communications segment (see Note 10.3)	**-**	-	(257)
	-	-	8

10.3. Impairment examination of the cellular communications segment (Pelephone)

Due to the existence of an asset with an indefinite duration (a brand), the Company examined the recoverable amount of the cellular communication cash-generating unit as of December 31, 2021.

The value in use of a cellular communication cash-generating unit as of December 31, 2022 was calculated using the method of discounting future cash flows (DCF), based on the forecast of cash flows from the activity for a period of five years from the end of the current period, and with the addition of scrap value (representative year). The cash flow forecast is based, among other things, on Pelephone's performance in recent years and estimates regarding the expected trends in the cellular market in the coming years (level of competition, level of prices, regulation and technological developments).

A central assumption underlying the forecast is that the prevailing competition in the market will continue with high intensity in the short term, and that a stabilization and a certain increase in the price level will occur in the medium-long term. The income forecast is based on assumptions regarding the status of Pelephone subscribers, the average income per subscriber and the volume of end equipment sales. The forecast of expenses and investments is based, among other things, on assumptions regarding the status of Pelephone employees and the salaries expenses derived from them, while the rest of the operating expenses and the level of investments have been adjusted to the projected scope of Pelephone's activities.

The nominal cost of equity used in the valuation is 10% after tax (before tax 12.4%). In 2021 the discount rate is 9% after tax (before tax 11.1%). Also, a permanent growth rate of 1.5% was assumed (in 2021 - 1.5%).

The valuation is sensitive to changes in the permanent growth rate and the discount rate. Also, the valuation is sensitive to the net flow in the representative year in general, and to the assessment of the ARPU (average income per subscriber) level and the status of the subscribers at the end of the forecast range (and in the terminal year) in particular (a change of NIS 1 in ARPU throughout the forecast years results in a change in enterprise value in the amount of about NIS 318 million, a change of 100k subscribers throughout the years of the forecast (and in the terminal year) results in a change in the enterprise value in the amount of about NIS 498 million).

The valuation was conducted by an external valuator. Based on the valuation as explained above, Pelephone's recoverable amount amounted to approximately NIS 2,533 million, compared to the book value in the Company's books of approximately NIS 1,395 million. Therefore, the Company was not required to perform amortization for the impairment of the cellular communication cash-generating unit.

10.4. Impairment examination of landline interior communication goodwill (Bezeq)

The balance of goodwill attributed to the landline interior communication cash-generating unit is NIS 1,559 million. Therefore, the Company examined the recoverable amount of the landline interior communication cash-generating unit as of December 31, 2022.

The value in use for the Bezeq Group of the landline interior communication cash-generating unit is calculated using the discounting future cash flows (DCF) method, based on the forecast of cash flows from the activity for a period of five years from the end of the current period, and with the addition of scrap 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 landline market in the coming years (level of competition, retail and wholesale price levels, regulatory aspects and technological developments).

The main assumptions underlying the forecast are: a decrease in incomes from telephony (a result of a decrease in the number of lines, erosion in the consumption of call minutes per line, as well as the effect of the decision of the Ministry of Communications regarding the determination of maximum rates for the Company's retail telephony services), growth in incomes from Internet (supported by the growth of the market, the establishment of Internet services through the fiber network, and the elimination of the separation between broadband infrastructure service and Internet access service), erosion in incomes from data communication and transmission (due to an expected decrease in transmission incomes from ISP companies and despite an expected consistent growth in incomes from data communication services), and moderate growth in cloud and digital incomes. The operating, sales, marketing and investment expenses were adjusted to the scope of the sector's activity and included assumptions regarding the status of the company's employees and the wage and retirement expenses derived from them and assumptions regarding the rate of deployment of the fiber infrastructure.

The nominal cost of equity used in the valuation is 8% after tax (before tax 10.5%). In 2021 the discount rate is 7% after tax (before tax 8.3%). Also, a permanent growth rate of 1% was assumed (in 2021 - 1%).

The valuation was conducted by an external valuer. Based on the valuation as explained above, Bezeq's enterprise value amounted to approximately NIS 17,819 million, compared to the value in the company's books in the amount of NIS 10,550 million. therefore the Group was not required to make a reduction for the decrease in value of a cash-generating unit of the landline interior communications segment.

10.5. Impairment of the multi-channel TV segment (DBS)

At the end of 2022, DBS updated its forecasts for the following years, paying attention to the trends and changes in its operation environment. The value in use for Bezeq Group of the multi-channel TV cash-generating unit as of December 31, 2022 was calculated using the method of discounting future cash flows (DCF), based on the DBS cash flow forecast up to and including the year 2027, and with the addition of scrap value (representative year). The nominal capital cost used in the valuation is 10% (after and before tax) (in 2021 - 8.5%). Also, a permanent growth rate of 1% was assumed (in 2021 - 1%).

The cash flow forecast was based, among other things, on DBS's performance in recent years and assessments regarding the expected trends in the television market for the coming years, including the development of technology, consumer preferences, competitors and the level of competition, the level of prices and regulatory obligations.

A central 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 an IP product (television broadcasts via the Internet) over time due to the technological gap between satellite and IP and the customer experience and the lower operating and maintenance costs of IP. As a result, the multi-year forecast reflects a planned outline of a gradual migration process (from satellite transmission to distribution of broadcasts based on the Internet network) and accordingly, a gradual replacement of the satellite converters with IP converters, the upgrading of the transmission infrastructure, the construction of a support system for customer service, and the adjustment of the content contracts for OTT (Over The Top) transmissions. As stated above, the forecast period reflects the period of transition from satellite transmission to the distribution of broadcasts based on the Internet until the satellite is completely removed. These circumstances, along with an expectation of a high level of competition throughout the entire forecast period and a relatively rigid expense structure, led to an expectation of operating losses and negative cash flows in some of the forecast years.

On June 30, 2022, DBS launched the ISP activity, an activity focused on offering integrated TV and fiber internet packages to its customers. Accordingly, throughout the years of the forecast, a positive contribution to incomes from the sale of combined TV and Internet packages is expected.

Based on the valuation, which was performed by an external valuator, as of December 31, 2022, the value of DBS's activities is negative and lower than the book value as well as the fair value of its assets and liabilities, net.

In light of the negative value of the activity as determined in the valuation as of 12.31.2022, DBS has reduced its assets up to the net fair value of these assets.

Therefore, in 2022, the group recognized an impairment loss in the amount of approximately NIS 275 million. The impairment loss was attributed to PP&E, broadcast rights, intangible assets, advance expenses and rights-of-use of leased assets, as detailed below, and is included in the Depreciation, amortization and impairment expenses item, as well as in the General and operating expenses section of the income statement.

The following are details regarding the value of DBS activities and the fair value of the assets and liabilities, net, as determined by an external valuator and recognized impairment losses:

	DBS enterprise value (according to the DCF method)	**Fair value of DBS assets and liabilities, net**	**Book value of DBS assets and liabilities, net before recognition of impairment**	**Impairment loss**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
As of December 31, 2022 and for the period of three months that ended on that date	**(103)**	**(88)**	**(18)**	**(70)**
As of September 30, 2022 and for the period of three months that ended on that date (unaudited)	(149)	(81)	(20)	(61)
As of June 30, 2022 and for the period of three months that ended on that date (unaudited)	(152)	(115)	(36)	(79)
As of March 31, 2022 and for the period of three months that ended on that date (unaudited)	(282)	(125)	(60)	(65)
Total impairment recognized in 2022				**(275)**
As of December 31, 2021 and for the year that ended on that date	(271)	(109)		(288)

The following is a breakdown of the allocation of impairment loss to DBS assets:

	2022	2021	2020
	NIS millions	**NIS millions**	**NIS millions**
Broadcast rights - minus used rights *	**149**	146	170
PP&E **	**76**	91	112
Intangible assets **	**45**	48	29
Other receivables (advance expenses) *	**3**	4	13
Rights-of-use of leased properties **	**2**	(1)	-
Total impairment recognized in the year	**275**	288	324

* The expense was presented as part of General and operating expenses
** The expense was presented as part of depreciation, amortization and impairment expenses

It should be noted that the valuation of DBS's value in use is sensitive to the net cash flow in the representative year in general, and to the assessment of the ARPU level (average income per subscriber) and the status of subscribers at the end of the forecast range in particular. A change of NIS 1 in ARPU throughout the years of the forecast (and the terminal year) results in a change in the enterprise value in the amount of approximately NIS 79 million, and a change of 5k subscribers throughout the years of the forecast (and in the terminal year) results in a change in the enterprise value in the amount of approximately NIS 115 million.

The following is information regarding the manner in which the Group determined the fair value (at level 3) of DBS's assets in which the impairment occurred as detailed above:

Broadcast rights - the fair value of the broadcast rights is calculated taking into account legal restrictions on their sale and based on the stage of their production, probability of sale, and expected rate of return on investment.

PP&E - the fair value of the PP&E items that can be sold to a market participant (mainly converters) was based on the estimate of the amount for which they can be sold on the day of the valuation and after deducting the costs that will be required to carry out the sale.

Intangible assets - No substantial fair value was assigned to DBS's intangible assets, since most of the software and licenses of DBS were uniquely adapted to DBS and therefore have no substantial value in a transaction between a willing buyer and a willing seller.

Rights of use in leased assets - the fair value of right-of-use assets is affected by the ability to lease the asset subject to the lease to a third party, the lease fees for the asset in the market and the exit fines in the lease contract.

Other receivables (advance expenses) - no substantial fair value was attributed to the advance expenses of DBS for the maintenance of its systems, since most of the maintenance agreements were uniquely adapted to DBS and therefore have no substantial value in a transaction between a willing buyer and a willing seller.

10.6. Impairment of the Bezeq International services segment (Internet, international communication, network endpoint, and ICT solutions)

At the end of 2022, Bezeq International updated its forecasts for the following years, paying attention to the trends and changes in its operating environment. The value-in-use for Bezeq Group of the Bezeq international services cash-generating unit, calculated as of December 31, 2022 using the method of discounting future cash flows (DCF), based on the forecast of cash flows from operations for a period of five years from the end of 2021, and with the addition of scrap value (representative year). The nominal cost of equity used in the valuation is 10.3% (after and before tax) (8.5% in 2021). Also, a permanent growth rate of 3% was assumed (1% in 2021).

The cash flow forecast was based, among other things, on Bezeq International's performance in recent years and assessments regarding the expected trends in the markets in which it operates in the coming years (the level of competition, the level of prices, regulation and technological developments).

The income forecast is based on assumptions according to which Bezeq International's Internet subscriber base, as well as its incomes from these subscribers, will be significantly affected as a result of the impact of the Ministry of Communications' decision on the cancellation of the separation between broadband infrastructure service and Internet access service (ISP), as detailed in Note 12.3 below, including assumptions regarding subscribers who do not use ISP services, assumptions regarding Bezeq international activity in the international communication market and assessments regarding its development in the field of communication services for businesses which includes public cloud activity, and assumptions regarding the field of international communication activity.

Operating, sales, marketing and investment expenses were adjusted to the scope of the segment’s activity, including assumptions regarding the extent of the decrease in the number of Bezeq International employees and the salaries expenses derived from them, as well as assumptions regarding the development of traffic costs in the Internet segment (retail and wholesale rates and the development of the field of Internet television broadcasting in general, and the expected migration of DBS from TV broadcasts via satellite to TV broadcasts via the Internet in particular).

These assumptions, and especially the expected significant changes in Bezeq International's Internet activity, were expressed in the expectation of operating losses and negative cash flows in the coming years. The nominal cost of capital used in the valuation is 10.3% (after tax) (in 2021 - 8.5%). Also, a permanent growth rate of 3% was assumed (in 2021 - 1%).

Below are details regarding the value of Bezeq International's activities and the fair value of the assets and liabilities, net, as determined by an external valuator and recognized impairment losses:

	Bezeq International enterprise value (according to the DCF method)	Fair value of Bezeq International assets and liabilities, net	Book value of Bezeq International assets and liabilities, net before recognition of impairment	Impairment loss
	NIS millions	NIS millions	NIS millions	NIS millions
As of December 31, 2022 and for the period of three months that ended on that date	**(166)**	**(22)**	**2**	**(24)**
As of September 30, 2022 and for the period of three months that ended on that date (unaudited)	(684)	44	69	(25)
As of June 30, 2022 and for the period of three months that ended on that date (unaudited)	(692)	(2)	19	(21)
As of March 31, 2022 and for the period of three months that ended on that date (unaudited)	(174)	(15)	19	(34)
Total impairment recognized in 2022				**(104)**
As of December 31, 2021 and for the year that ended on that date	(196)	(70)		(122)

The valuation is sensitive to the net flow in the representative year in general, and to the intensity of changes in the field of internet activity in particular (subscribers, ARPU, and traffic costs).

The valuation was conducted by an external valuator. Based on the valuation as explained above, Bezeq International's activity value as of December 31, 2022 amounted to a negative amount of approximately NIS 166 million (as of December 31, 2021 a total negative activity value of NIS 196 million). In light of the negative enterprise value, the value of Bezeq International's non-current assets as of December 31, 2022 was determined to be the fair values minus exercise costs or zero, whichever is higher. The fair value of Bezeq International's assets minus exercise costs as of December 31, 2022 is negative in the amount of approximately NIS 22 million. Accordingly, the Group recognized in 2022 an impairment loss in the amount of approximately NIS 104 million.

Below is a breakdown of the allocation of the total loss from the impairment in Bezeq International's assets:

	2022	2021	2020
	NIS millions	NIS millions	NIS millions
PP&E and intangible assets	**71	**75	148
Short- and long-term advance expenses	*21	*28	18
Long-term advance expenses for capacities	**12	**17	110
Rights-of-use of leased vehicle assets	**-	**2	3
Total impairment recognized in the year	104	122	***279

* The expense was presented as part of General and operating expenses

** The expense was presented as part of depreciation, amortization and impairment expenses
*** Presented as part of the "Impairment loss" item of the 2020 income statement

The following is information regarding the manner in which the group determined the fair value (at level 3) of the assets minus realization costs:

PP&E - the fair value of the PP&E items that can be sold to a market participant was based on the cost approach in which the cost of replacing with new equipment is taken into account, minus the costs of physical wear and tear and technological obsolescence, minus the costs that will be required to carry out the sale.

Intangible assets - no substantial fair value was attributed to intangible assets, since most of Bezeq International's software and licenses were uniquely adapted to Bezeq International, and therefore have no substantial value in a transaction between a willing buyer and a willing seller.

International capacity - in light of the nature of the signed agreements, which do not allow these rights to be assigned except to a subsidiary or a sister company of Bezeq International, which are not considered a market participant (third party) for the purpose of calculating fair value according to international accounting standard IFRS 13, these rights have no fair value.

Short-term and long-term advance expenses - no substantial fair value was attributed to the upfront expenses for the maintenance of Bezeq International's systems, since most of the maintenance agreements were uniquely adapted to Bezeq International, and therefore have no substantial 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 subject to the lease to a third party, the lease fees for the asset in the market and the exit fines in the lease contract.

11. Deferred expenses and non-current investments

	December 31, 2022	December 31, 2021
	NIS millions	NIS millions
Subscriber acquisition asset, net (see Note 11.1 below)	**156**	151
Investment in long-term bank deposits	**27**	80
Deferred expenses (see Note 11.2 below)	**13**	18
Bank deposit used to provide loans to Bezeq employees (see Note 11.3 below)	**33**	36
Derivative instruments	**29**	16
Investments in investees treated according to the balance sheet value method	**-**	5
	258	306

11.1. The following is a breakdown of subscriber acquisition assets:

	Subscriber acquisition assets
	NIS millions
Cost	
Balance as of January 1, 2021	477
Additions	131
Subtractions	(129)
Balance as of December 31, 2021	479
Additions	**127**
Subtractions	**(234)**
Balance as of December 31, 2022	**372**
Depreciation and impairment losses	
Balance as of January 1, 2021	312
Depreciation	145
Subtractions	(129)
Balance as of December 31, 2021	328
Depreciation	**122**
Subtractions	**(234)**
Balance as of December 31, 2022	**216**
Book value	
As of January 1, 2021	165
As of December 31, 2021	151
As of December 31, 2022	**156**

11.2. The balance of deferred expenses as of December 31, 2022 is presented minus an impairment loss. See Note 10.6 regarding the impairment of assets in Bezeq International.

11.3. Bank deposit for providing loans to Bezeq employees without a repayment date.

12. Investees

12.1. Consolidated companies

12.1.1. The place of incorporation of the companies directly held by the Company is Israel. The following is a breakdown of the companies consolidated by the company and the company's rights in the share capital of the consolidated companies as of December 31, 2022:

Bezeq the Israel Telecommunications Corp. Ltd.	26.81%
Companies consolidated by Bezeq:	
Pelephone Communications Ltd	100%
Bezeq International Ltd. (see Note 12.3 below)	100%
DBS Satellite Services (1998) Ltd. (see Note 12.2 below)	100%
Bezeq Online Ltd.	100%

12.1.2. As of October 11, 2021, all Bezeq shares held by the Company are directly held by the Company, after on that day all Bezeq shares held by B Communications (SP2) Ltd. (a company fully owned and controlled by B Communications) were transferred to the direct holding of the company (SP1) Ltd. which is fully owned and controlled by the Company). After the transfer of Bezeq shares to the Company, the companies B Communications (SP2) Ltd. and B Communications (SP1) Ltd. were closed.

12.1.3. **Structural change in Bezeq's subsidiaries**

Following on from previous decisions made by Bezeq and its subsidiaries, Bezeq International and DBS ("Bezeq's subsidiaries"), regarding a plan for a structural change in the framework of which the private activity of Bezeq International was supposed to merge with and into DBS, and the ICT activity of Bezeq International to spin off into a new company wholly owned by Bezeq ("the merger/spin-off plan"), on March 16, 2022, the Bezeq Board of Directors decided, following the decisions made that day by the boards of Bezeq's subsidiaries, to cancel the merger/spin-off plan and to approve an alternative outline, according to which activity will be reduced Bezeq International's ISP in the private segment following the cancellation of the separation between broadband infrastructure service and Internet access service (ISP), and ISP activity will be established in DBS for the purpose of selling "triple" packages to customers ("the Alternative Outline"), while aiming to achieve, as much as possible, the strategic, business and economic purposes that underpinned the decision to promote the structural change, which were, among other things, adapting the activity to the structure of the industry and the changing regulation, focusing on increasing incomes and growth, and increasing operational synergy and efficiency.

According to this alternative outline, Bezeq expects that the business objectives that were the basis of the spin-off/merger plan will be achieved, as DBS is expected to become a "triple" sales arm that combines fiber and television, and at the end of the move, Bezeq International will become a growth-oriented ICT company. Also, in this Alternative Outline lies the potential for a significant reduction in Bezeq International's expenses and investments in the ISP field at the same time as an accelerated reduction in this activity.

The subsidiary Bezeq International started implementing the Alternative Outline, and the subsidiary DBS started selling integrated ("triple") packages that include Bezeq fiber and television. In addition, an agreement was formed regarding the voluntary retirement of employees, which would allow a reduction in expenses.

12.2. DBS Satellite Services (1998) Ltd

12.2.1. DBS is a wholly owned (100%) subsidiary of Bezeq. Bezeq consolidates the statements of DBS as of March 23, 2015.

Bezeq has an assessment agreement and taxation decision with the Tax Authority regarding financing income, owner loans, DBS losses and merger (see also Note 7.2)..

12.2.2. As of December 31, 2022, DBS has accumulated a loss balance of NIS 8,237 million since its establishment, a deficit in equity of NIS 32 million, and a working equity deficit of NIS 199 million. Also, as of December 31 2022, DBS has off-balance sheet commitments in the cumulative amount of approximately NIS 834 million for the purchase of space segments, content, fixed assets and other assets up to and including the year 2026 (see Note 18).

Based on the valuation conducted as of December 31, 2022, the total value of DBS's activity is a negative value in the amount of approximately NIS 103 million (compared to a negative activity value of NIS 271 million as of December 31, 2021) (see Note 10.5), which results, among other things, from DBS forecasts to continue accumulating operating losses in 2023 and beyond.

In March 2023, Bezeq's Board of Directors approved a credit facility or investment in DBS equity in the amount of NIS 40 million, for a period of 15 months, starting on January 1, 2023 and ending on March 31, 2024, instead of previous commitments, the last of which was given in November 2022. It should be noted that during the year 2022, DBS did not make any use of the credit facilities provided by Bezeq.

DBS's Management estimates that the funding sources at its disposal, which include, among other things, the continuation of the existing policy of a working equity deficit and the credit framework and investments in equity from Bezeq will satisfy the needs of DBS operations until December 31, 2023.

12.2.3. See Note 10.5 regarding the impairment of assets recognized by DBS as part of the statements as of December 31, 2022.

12.3. Bezeq International Ltd.

12.3.1. <u>Eliminating the separation between a broadband infrastructure service and an Internet access service (ISP):</u>

On June 20, 2021, a decision was made by the Minister of Communications regarding the cancellation of the separation between a broadband infrastructure service and an Internet access service (ISP), including in relation to private customers. According to the decision, starting from the determined date, the restriction on infrastructure owners offering Internet access service to private customers will be lifted. Also, it is no longer possible to sell services in a split format, but customers who receive service in a split/semi-split configuration will be able to continue to consume Internet services in this way. It should be noted that the cancellation of the aforementioned separation is expected to reduce the phenomenon of subscribers who do not use ISP services, as was also stated in the publication of the Ministry of Communications.

The move, which is expected to damage Bezeq International's results, was taken into account in the cash flow forecast which was used to examine the impairment as described in Note 10.6 above.

12.3.2. See Note 10.6 below regarding the impairment of assets recognized by Bezeq International within the statements for December 31, 2022.

12.3.3. In February 2022, Bezeq International acquired 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 Bezeq International's Board of Directors.

12.4. The Company's control over Bezeq

The Company holds the control permit in Bezeq and controls Bezeq based on two facts: 1) The Company holds significantly more voting rights than any other shareholder while the rest of Bezeq's holdings are very dispersed. 2) Israeli law and regulation require obtaining government approval for any entity that wishes to increase its holding to over 5% in Bezeq or wishes to take actions together with another shareholder for the purpose of appointing a director in Bezeq or in order to influence the making of current operational decisions in Bezeq. Through these limitations and through the Company's representatives on Bezeq's Board of Directors, the regulatory regime guarantees that no individual or entity will interfere in the control of Bezeq, except for the holder of the control permit.

12.5. Purchase of additional Bezeq shares by the Company

On December 28, 2022, the Company purchased 2,530,000 ordinary shares of the Bezeq subsidiary. The Company purchased shares as mentioned in exchange for payment of a total amount of approximately NIS 15 million and at an average price of NIS 5.95 per share. After the aforementioned purchase, the Company owns 26.81% of the issued share capital and voting rights in the subsidiary.

12.6. Dividend distribution by Bezeq

12.6.1. <u>Bezeq’s dividend distribution policy</u>

On March 13, 2023, Bezeq’s Board of Directors decided to update Bezeq's dividend policy so that Bezeq will distribute every six months 60% of the semi-annual profit (after tax) according to its consolidated statements starting with the next distribution (for the second half of 2022), this in view of the improvement trend in the business results, and the continued decrease in the scope of its debt, and in accordance with its forecasts regarding its business results for the coming years.

Also, Bezeq will strive to update its dividend policy to the distribution of 70% of the semi-annual profit (after tax) according to its consolidated financial statements, subject to maintaining its credit rating in the AA group.

The approval of Bezeq's dividend policy does not oblige Bezeq to distribute a dividend to Bezeq's shareholders, and each specific distribution will be examined on its own merits in accordance with the conditions of implementation of the dividend distribution policy as stated above. In addition, the approval of the aforementioned policy does not prevent Bezeq’s Board of Directors from periodically reviewing the dividend distribution policy for Bezeq shareholders, taking into account, among other things, the provisions of the law, Bezeq's business situation, its plans, and its equity structure, and while maintaining a balance between ensuring Bezeq's financial strength and stability, including its debt level and credit rating, and continuing to unlock value to Bezeq's shareholders through regular dividend distribution.

Bezeq's Board of Directors considers it important to maintain the balance between ensuring Bezeq's financial strength and stability, while maintaining a rating in Bezeq's current rating group [AA] over time, and continuing to unlock value to its shareholders through regular dividend distribution.

Bezeq's Board of Directors was presented, among other things, with analysis and results of professional work, Bezeq's and Bezeq Group's forecasts, as well as sensitivity analyzes for unexpected adverse events in Bezeq's and Bezeq Group's business. After the Bezeq Board of Directors examined all of the above, the Board of Directors determined that this decision reflects the correct balance between these needs as described above.

12.6.2. Dividends distribution

A. On April 28, 2022, the general assembly of Bezeq's shareholders approved (following the recommendation of Bezeq’s Board of Directors of March 22, 2022) the distribution of a cash dividend to Bezeq's shareholders in the total amount of NIS 240 million (which, as of the day determining the distribution, is NIS 0.0867823 per share). The dividend was paid on May 16, 2022. The Company's share of the aforementioned dividend is approximately NIS 64 million.

B. On September 14, 2022, the general assembly of Bezeq's shareholders (following the recommendation of Bezeq’s Board of Directors of August 9, 2022) approved the distribution of a cash dividend to Bezeq's shareholders in a total amount of NIS 294 million (which, as of the day determining the distribution, is 0. NIS 1063081 per share). The dividend was paid on October 3, 2022. The Company's share of the aforementioned dividend is approximately NIS 78 million.

C. On March 13, 2023, Bezeq's Board of Directors decided to recommend to the general assembly of Bezeq shareholders to distribute a cash dividend to Bezeq shareholders in a total basket of NIS 246 million. As of the date of approval of the financial statements, the aforementioned dividend has not yet been approved by the Bezeq general assembly. The Company’s share in the aforementioned dividend (subject to the approval of the general assembly of Bezeq's shareholders) is approximately NIS 66 million

12.7. Non-controlling interests

The following table shows data regarding the investees in the Group, including adjustments to fair value made on the day of purchase with the exception of goodwill, the non-controlling interests are material to the Group:

	December 31						
	Percentage of ownership held by the non-controlling interests	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets	Book value of the non-controlling interests
	%	NIS millions					
2022	**73.19**	**3,464**	**10,988**	**3,534**	**8,512**	**2,406**	**1,842**
2021	73.28	4,138	10,837	3,773	9,323	1,878	1,454

	Year ended December 31					
	Income	Net profit	Other profit (loss)	Comprehensive income	Profit attributed to non-controlling interests	Comprehensive income attributed to non-controlling interests
	NIS millions					
2022	**8,986**	**1,000**	**50**	**1,050**	**733**	**770**
2021	8,821	1,182	36	1,218	867	893
2020	8,723	1,008	(12)	996	742	734

					Year ended December 31
	:ash flow rom current operations	:ash flow rom investing activities	:ash flow rom financing activities (without lividend to non-controlling interests)	)ividend to non-controlling interests	'otal increase decrease) in ash and cash equivalent
					NIS millions
2022	**3,503**	**(1,585)**	**(1,758)**	**392**	**(232)**
2021	2,839	(1,646)	(1,060)	-	133
2020	3,220	(839)	(1,941)	-	440

13. Debentures, loans and credit

13.1. Composition

	December 31, 2022	December 31, 2021
	NIS millions	NIS millions
Current liabilities		
Current debenture liabilities	**835**	897
Current loan liabilities	**86**	83
	921	980
Non-current liabilities		
Debentures	**6,121**	7,245
Loans	**2,136**	1,823
	8,257	9,068
Total debentures, loans and credit	**9,178**	10,048

13.2. Terms of Debentures and loans

	December 31, 2022		December 31, 2021		
	Book balance	Par value	Book balance	Par value	Interest rate range
	NIS millions	NIS millions	NIS millions	NIS millions	
Bank loans at Bezeq:					
Unlinked loans, bearing fixed interest	**707**	**706**	712	711	3.2% - 4.3%
Unlinked loans, bearing variable interest	**698**	**700**	300	300	Prime+ 0.11% - Prime+0.53%
Total banks loans at Bezeq	**1,405**	**1,406**	1,012	1,011	
Loans from financial institutions at Bezeq:					
Unlinked loans, bearing fixed interest	**817**	**817**	894	894	3.22%-4%
Total financial institutions loans of Bezeq	**817**	**817**	894	894	
Total loans in Bezeq	**2,222**	**2,223**	1,906	1,905	
Public debentures of the Company:					
Series C – unlinked, bearing fixed interest	**480**	**497**	951	1,010	3.85%
Series F – unlinked, bearing fixed interest	**1,425**	**1,472**	1,035	1,040	3.65%
Total public debentures of the Company	**1,905**	**1,969**	1,986	2,050	
Public debentures of Bezeq:					
Series 6 - linked to the consumer price index, bearing fixed interest *	**-**	**-**	540	500	3.7%
Series 7 - unlinked, bearing variable interest	**-**	**-**	36	36	Short-term loan for 1 year + 1.4%
Series 9 - unlinked, bearing fixed interest	**1,616**	**1,597**	2,176	2,145	3.65%
Series 10 - linked to the consumer price index, bearing fixed interest	**861**	**794**	912	882	2.2%
Series 11 - unlinked, bearing fixed interest	**838**	**835**	839	835	3.2%
Series 12 - linked to the consumer price index, bearing fixed interest	**1,330**	**1,269**	1,257	1,269	1.7%
Series 13 - unlinked, bearing fixed interest	**198**	**200**	198	200	2.79%
Series 14 - linked to the consumer price index, bearing fixed interest	**208**	**200**	198	200	0.58%
Total public debentures of Bezeq	**5,051**	**4,895**	6,156	6,067	
Total debentures	**6,956**	**6,864**	8,142	8,117	
Total loans and debentures	**9,178**	**9,087**	10,048	10,022	

* On January 23, 2022, Bezeq Series 9 debentures were partially redeemed in the amount of approximately NIS 370 million par value. Also, on December 1, 2022, Bezeq Series 6 and Series 7 debentures were paid in final redemption.

13.3. Debentures issued by the Company

On July 6, 2021, the Company held a tender for the purchase of Series F debentures, in which approximately NIS 394 million were issued to institutional entities and the public for approximately NIS 394 million from Series F. The annual interest rate (unlinked) set in the tender is 3.65%. The interest for the series F debentures will be paid in two semi-annual payments, on May 31 and November 30 of each year, starting from November 2021 until November 2026. The debenture principal will be repaid in one payment on November 30, 2026. The proceeds of the net issuance of the series F debentures were used by the Company to make early repayments of its existing debentures as of that date as detailed below.

On July 19, 2021, the Company made a full early repayment of the Series D Debentures principal (plus accrued interest up to the maturity date) and a full early repayment of the Series E debenture principal (plus accrued interest up to the maturity date and an early repayment penalty as defined in the trust deed of the series E debentures). In addition, the Company made a partial early repayment of approximately NIS 226 million on the series C debentures (plus accrued interest up to the maturity date). After making the early repayments, series D and E were repaid in full and delisted from trading on the Securities Exchange in Tel Aviv.

On December 7, 2021, the Company issued to institutional entities and the public approximately NIS 485 million in series F debentures for approximately NIS 488 million in series F debentures. The proceeds of the net issuance of the F debentures were used by the Company to make a partial early repayment of approx. NIS 471 million in respect of its existing Series C debentures as of that date (in addition to accrued interest up to the maturity date and an early repayment penalty as defined in the trust deed of the Series C debentures).

On December 9, 2021, the Company held a private offering of approximately 161 million series F debentures for approximately NIS 161 million. The proceeds of the net issuance of the series F debentures were used by the Company to make a partial early repayment of approximately NIS 157 million on its existing Series C debentures as of that date (in addition to accrued interest up to the maturity date and an early repayment penalty as defined in the trust deed of the Series C debentures).

On January 10, 2022, the Company exchanged about 417 million par value Series C debentures in exchange for about 432 million par value Series F debentures.

On June 30, 2022, the Company made a partial early repayment of about 100 million par value Series C debentures plus accrued interest up to the vesting date (the payment to bondholders was paid on July 1, 2022).

In accordance with the terms of debentures series C and F, the company undertook to deposit semi-annual interest for the various bond series in an escrow account for the benefit of the bondholders. As of December 31, 2022, approximately NIS 36 million are deposited in the trust accounts for the benefit of the holders of Series 3 and 6 debentures.

As of December 31, 2022, the remaining par value of the Series C debentures is NIS 497 million and the remaining face value of the Series V debentures is NIS 1,472 million.

Below are the financial standards to which the Company committed in connection with the debenture series:

A. Debt-to-asset ratio (LTV):

The debt-to-asset ratio will be calculated for the first time 24 months after the date of the Searchlight-Forer transaction (December 2, 2019) and will not exceed the following thresholds for two consecutive quarters:

The ratio will not cross the 80% threshold until November 30, 2023 and also

The ratio will not cross the 75% threshold from December 1, 2023 until the last payment of the debenture principal.

As of December 31, 2022, the Company meets the debt-to-asset ratio.

B. Restrictions on dividend distribution:

The Company undertook not to distribute a dividend to its shareholders and/or to buy back its shares and/or make any other distribution as defined in the Israeli Companies Law, 5759-1999, unless all the conditions detailed below are met:

1. The Company is not in violation of any of the financial standards.

2. There is no ground for immediate payment when the decision to carry out the distribution is made, and no such ground exists as a result of this distribution.

3. The debt-to-asset ratio after the distribution shall not exceed 65% for Series C debentures and will not exceed 70% for Series V debentures.

C. Lien on Bezeq shares:

For Series C and F there is a *Pari-Passu* first-class lien on 728,373,713 Bezeq shares held by the Company.

D. Control of Bezeq:

The Company has committed to directly and/or indirectly hold at least 25% of the issued and paid-up share capital of Bezeq, unless regulatory approval is received in the form of a permit/authorization allowing to decrease the above-mentioned holdings.

E. Control of the Company

Searchlight and the Forer Family have committed to refrain from transferring control of the Company (directly or indirectly) to another entity that has not received all the required regulatory approvals in advance, should such approvals be required, at the relevant time.

13.4. Loans and debentures issued by Bezeq

The following is a breakdown of the conditions that Bezeq has committed to in relation to the loans received and the debentures issued:

13.4.1. In relation to Bezeq's total debt, accepted grounds for immediate repayment of the debentures and loans were included, including events of default, failure to pay, liquidation or receivership procedures, etc. A right to immediate repayment was also established in the event that a third-party lender demanded the immediate repayment of Bezeq’s debts towards him as a result of a default in an amount that exceeds the stipulated amount.

13.4.2. In addition, Bezeq has committed not to create additional liens on its assets unless the bondholders' consent is obtained in advance, in a special resolution, allowing Bezeq to create the lien in favor of the third party, or Bezeq will simultaneously create liens in favor of all lenders (negative lien). The lien includes exceptions, among other things, regarding the lien of assets that will be purchased or expanded by Bezeq, if the obligations for which the lien is secured were created for the purpose of purchasing or expanding said assets and regarding symbolic liens.

13.4.3. In relation to Bezeq's public debentures, to loans from banks whose balance as of December 31, 2022 is approximately NIS 1.4 billion, and to loans from financial institutions whose balance as of December 31, 2022 is approximately NIS 0.8 billion, Bezeq has committed that in the event that it commits to a party any obligation in connection with compliance with financial standards, Bezeq will also obligate the aforementioned lenders with the same obligation (subject to certain exceptions).

13.4.4. In relation to Bezeq's public debentures, as well as in relation to loans from financial institutions in the amount of approximately NIS 0.8 billion, a reason for immediate repayment was included in the event that the telecommunications segment ceases to be the Group's main field of activity.

13.4.5. In relation to Bezeq's public debentures, and in relation to loans from financial institutions in the amount of approximately NIS 0.8 billion, Bezeq has committed to the lenders to act so that, as far as it is within its control, such debentures will be monitored by Bezeq's rating from level one at least, as long as there are debentures in circulation from such series or loan balance, respectively.

13.4.6. In relation to debentures from Series 9-14, as well as in relation to loans from financial institutions in the amount of approximately NIS 0.8 billion, grounds for immediate repayment was included in the event of a change in control, as a result of which the controlling shareholders of Bezeq (as defined in the said agreements) would cease to have control over it and transfer control to party C (“the Transferee"), with the exception of: (1) transfer of control to the Transferee who received permission to control Bezeq in accordance with the provisions of the Communications Law and/or the Communications Order, or (2) transfer of control in which the Transferee holds control together with the controlling shareholders of Bezeq and on the condition that the proportion of the holdings of the controlling shareholders of Bezeq in Bezeq shares is not less than 50.01% of the total Bezeq shares held by the controlling shareholders who hold together, or (3) a change of control that will be approved by the meeting of bondholders / lenders.

13.4.7. In addition to Series 9-14 debentures, and in relation to loans from financial institutions amounting to approximately NIS 0.8 billion, grounds for immediate repayment of the debentures were included in the event that a "going concern" note is recorded in Bezeq's statements for a period of two consecutive quarters, in the event of a deterioration substantial in Bezeq's business compared to its situation at the time of issuance, and there is a tangible concern that Bezeq will not be able to repay the debentures/loans when due (as stated in Article 35T1(a)(1) of the Securities Law).

As of December 31, 2022 and the date of approval of the statements, Bezeq met all of its obligations as stated, there were no grounds for setting up credit for immediate repayment and no financial benchmarks were established as detailed above.

13.5. Transactions in liabilities arising from financing activities

	Debentures (including accrued interest)	Loans (including accrued interest)	Total
	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2021	8,185	2,117	10,302
Changes as a result of cash flows from financing activities			
Proceeds from issuing debentures and receiving loans, minus transaction costs	1,430	300	1,730
Repayment of debentures and loans	(1,572)	(500)	(2,072)
Interests paid	(265)	(68)	(333)
Total net cash used for financing activities	(407)	(268)	(675)
Financing expenses imputed to the income statement	387	63	450
Balance as of December 31, 2021	8,165	1,912	10,077
Changes as a result of cash flows from financing activities			
Proceeds from issuing debentures and receiving loans, minus transaction costs	**-**	**400**	**400**
Repayment of debentures and loans	**(1,333)**	**(83)**	**(1,416)**
Interests paid	**(240)**	**(67)**	**(307)**
Total net cash generated from (used for) financing activities	**(1,573)**	**250**	**(1,323)**
Financing expenses imputed to the income statement	**384**	**69**	**453**
Balance as of December 31, 2022	**6,976**	**2,231**	**9,207**

14. Trade payables

	December 31 , 2022	December 31 , 2021
	NIS millions	NIS millions
Suppliers		
Open debts and expenses payable*	**903**	955
Total suppliers	**903**	955
Liabilities to employees and other liabilities for wages and salaries	**367**	352
Deferred income	**171**	158
Liability to pay for frequencies**	**-**	87
Institutions	**92**	110
Derivate instruments	**1**	35
Accrued interest	**29**	29
Current tax liabilities	**12**	5
Others	**23**	24
Total current payables including derivatives	**695**	800
Total and current trade payables	**1,598**	1,755
Deferred income due to a government grant**	**53**	65
Deferred income	**76**	69
Others	**22**	8
Total non-current payables	**151**	142
Total current and non-current trade payables	**1,749**	1,897

* Of which the balance of suppliers who are related parties and interested parties as of December 31, 2022 is NIS 2 million (as of December 31, 2021 - NIS 4 million).

** See Notes 10.1 and 3.14 regarding frequency tender and government grant.

15. Provisions

	Customer lawsuits	Additional lawsuits	Dismantling and removing cellular sites and liability	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2022	**64**	**-**	**54**	**118**
Provisions created	**43**	**82**	**3**	**128**
Provisions exercised	**(20)**	**(7)**	**-**	**(27)**
Provisions cancelled	**-**	**-**	**(14)**	**(14)**
Balance as of December 31, 2022	**87**	**75**	**43**	**205**
Presented in the statement on the financial position as follows:				
Current provisions	**87**	**75**	**6**	**168**
Non-current provisions	**-**	**-**	**37**	**37**
	87	**75**	**43**	**205**

For details regarding lawsuits, see Note 17.

16. Employee benefits

Employee benefits include severance benefits, post-employment benefits, other long-term benefits, and short-term benefits. See also Note 26 regarding share-based compensation.

16.1. Composition of the liabilities for employee benefits

		2022	2021
	Note	NIS millions	NIS millions
Current liabilities for:			
Vacation		108	126
Sickness	16.4	114	150
Provision for early retirement plan at Bezeq	16.5.1	93	98
Provision for early retirement of employees transferred from working for the State at Bezeq	16.5.2	10	100
Provision for streamlining and early retirement plan at Pelephone, Bezeq International, and DBS	16.5.3-16.5.5	67	29
Current maturity of benefits for retirees	16.3.3	7	7
Total current liabilities for employee benefits		399	510
Non-current liabilities for:			
Liabilities for benefits to retirees	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 streamlining and early retirement plan 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
The following is the composition of the liability for severance pay:			
Liability for severance pay		**201**	223
Fair value of plan assets		**(149)**	(163)
		52	60

16.2. Defined deposit plans

Lability for benefits for employees of retirement age for their period of service in the Company and the consolidated companies and for the employees to whom Article 14 of the Severance Compensation Law, 5723-1963 ("Severance Compensation Law") applies, fully covered by current payments to pension funds and insurance companies.

	2022	2021	2020
	NIS millions	NIS millions	NIS millions
Deposits recognized as an expense for a defined deposit plan	**211**	218	221

For some of the employees, the Group has an obligation to complete severance compensation beyond the amount accumulated in the severance fund in the name of the employees (see Section 16.3.1 below).

16.3. Defined benefit plans

Liabilities regarding defined benefit plans in the Group include the following liabilities:

16.3.1. The liability for severance pay for the balance of the liability that is not covered by deposits and/or insurance policies in accordance with the existing employment agreements and the Law on Severance Pay. In respect of this part of the liability, there is a reserve deposited in the name of Bezeq Group companies in pension funds and insurance companies. The reserves in pension funds and insurance companies include linkage differences and accrued interest. Withdrawal of the reserves is conditional upon compliance with the provisions detailed in the Severance Compensation Law.

16.3.2. A liability according to the personal employment agreements of senior employees in the Bezeq Group to pay a benefit for early notice upon termination of the employee-employer relationship. In addition, Bezeq has a liability towards a number of senior employees who are entitled to early retirement conditions (pension and retirement grants) that do not depend on the existing retirement agreements for all employees.

16.3.3. Bezeq retirees receive benefits, apart from the pension payments, the main ones being a holiday present (adjacent to the exchange rate of the dollar), financing the maintenance of the pensioners' clubs and social activities. Bezeq's liability for these costs accrues during the work period. Bezeq includes in its statements the liabilities for the expected costs in the post-employment period.

16.4. Provision for sickness

The statements included a provision for redemption and exercise of sick days. The right to accrue sick days was taken into account for all employees of the Group, and the right to redeem sick days only for eligible employees in accordance with the conditions stipulated in the employment agreements. The provision was calculated on the basis of an actuarial calculation that includes the assumption of a positive accumulation of days for most employees and exercise of days using the "last in first out" (LIFO) method.

16.5. Benefits for early retirement and dismissal

16.5.1. In accordance with the collective agreement between Bezeq and the workers' organization and the new General Workers' Union of December 2006 and in accordance with amendment number 6 to the agreement of December 2020, Bezeq was entitled, at its discretion, to terminate the work of up to 50 permanent and veteran employees in each of the years 2026 - 2021. The right of Bezeq is cumulative over the years and this is in addition to the retirement quota of approximately 300 permanent employees remaining from the previous agreement, whose employment Bezeq can terminate at the end of the current agreement period.

Bezeq recognizes the expense for early retirement when Bezeq has made a clear commitment, with no actual possibility of cancellation, to dismiss employees before they reach the accepted retirement date, according to a defined plan. The collective agreement gives Bezeq the right to dismiss employees but does not create a clear commitment for Bezeq without a real possibility of cancellation. Therefore, the expenses for early retirement are recognized in Bezeq's books at the time the plan is approved.

On December 28, 2022, Bezeq's Board of Directors approved, as part of the implementation of Bezeq's streamlining plan, the retirement of approximately 80 permanent and veteran employees on an early retirement track at a total cost of up to approximately NIS 95 million. In light of the above, Bezeq recorded in its statements for Q4/2022 an expense of approximately NIS 92 million.

16.5.2. On December 16, 2018, an early retirement plan was approved, until the end of 2021, for all Bezeq employees who were transferred to the company from the Ministry of Communications (94 employees). The balance of the provision for the liability to retire the aforementioned employees as of December 31, 2022 is NIS 10 million and is due in 2023.

16.5.3. Labor relations at Pelephone are regulated by a collective agreement signed between Pelephone and the New General Workers' Histadrut - the Union of Cellular, Internet and High-Tech Workers (“the Histadrut") and the Pelephone Employees’ Committee. The agreement applies to all Pelephone employees, with the exception of senior managers and certain employees in pre-defined positions

On December 6, 2022, Pelephone signed a renewal of the existing collective agreement, which includes the provision of salary increases and bonuses, improvement of ancillary conditions, voluntary retirement and the settlement of labor disputes announced by the General Workers' Union and the employees’ representatives, while maintaining industrial peace during the period of validity of the agreement in the matters regulated therein, for the period starting From December 6, 2022 to December 31, 2025 ("the Agreement").

As part of the agreement, all open labor disputes were removed, with the exception of the issue of appointing a representative on the Pelephone Board of Directors on behalf of the employees, regarding which it was stipulated in the agreement that it will be discussed later.

In December 2022, the Group recognized one-time expenses totaling approximately NIS 32 million, these expenses include expenses for employee retirement as well as one-time signing bonuses.

16.5.4. On October 3, 2022, Bezeq International's Board of Directors approved the implementation of the agreements reached with the Histadrut and Bezeq International's employee representatives (in the framework of conducting negotiations to regulate the rights of employees) regarding a plan for the voluntary retirement of Bezeq International employees during the years 2022-2024 (hereinafter "Voluntary Retirement Plan").

Following the approval of the Voluntary Retirement Plan, on December 6, 2022, Bezeq International's Management, the Histadrut and the Employees’ Committee signed a new collective agreement for Bezeq International until the end of 2025.

In the agreement signed, Bezeq International’s Management and Employees’ Committee reached an understanding regarding the voluntary retirement processes and the granting of appropriate conditions to the retiring employees, including a 180% retirement bonus. In addition, it was agreed upon salary increases at a rate of 9% during the period of the agreement (3% each year), a commitment to conduct negotiations regarding the requirement of the employee representatives to appoint an employee representative on the Company's Board of Directors, increased participation in meals, the provision of a signing bonus and other rights. Estimated cost of the Voluntary Retirement Plan and the estimated cost of the agreement with the Employees’ Committee amount to approximately NIS 70 million and NIS 28 million, respectively. Of these amounts, the Group recorded expenses in its 2022 statements in the amount of approximately NIS 70 million.

16.5.5. DBS is bound by a collective agreement between itself and the National Workers' Histadrut and the employees’ committees at Bezeq. The balance of the provision for early retirement for this agreement as of December 31, 2022 is approximately NIS 14 million.

16.6. Actuarial assumptions

The main actuarial assumptions regarding defined benefit plans as of the reporting date are:

16.6.1. The mortality rates as well as future decreases in mortality rates are based on the rates published in the Pension Circular 2022-9-18 of the Capital Market Authority.

16.6.2. The departure rates were determined based on the past experience of Bezeq and the consolidated companies while distinguishing between the different employee populations and according to the years of seniority. Departure rates include a distinction between departures that grant entitlement to full severance pay and departures that do not grant full severance pay.

16.6.3. The (nominal) discount rate is based on the yield of high-quality linked corporate debentures with a duration similar to that of the gross liability.

The following are the main discount rates:

	December 31, 2022	**December 31, 2021**
	Average discount rate	**Average discount rate**
Severance pay	**5.2%**	3%
Retiree benefits	**5.2%**	3.3%

16.6.4. Assumptions regarding salary updates for the purpose of calculating the liabilities were made on the basis of Management's estimates while distinguishing between the groups of employees. The main assumptions (in nominal terms) regarding salary updates of main employee groups are:

	Annual salary increase assumption
Veteran permanent Bezeq employees	The calculation was based on individual assumptions regarding the expected salary increase for the years 2023 to 2026, resulting from the collective agreement signed in August 2015 and December 2020.
New permanent Bezeq employees	Average update of 5.8% for young employees gradually decreases to 2.7% at age 66.
Non-permanent Bezeq employees	6.4% for young employees gradually decreases to 0.1%, 2% (in real terms) for senior workers.
Employees of Pelephone, Bezeq International and DBS	The rates of salary increases were determined based on the collective agreements that were signed. The average annual salary increase rate is between 1% and 3%.

16.6.5. Detailed weighted average duration of liabilities for key post-employment benefits:

	December 31, 2022	December 31, 2021
	Years	Years
Severance pay	**11**	12
Retiree benefits	**14**	16

16.7. Sensitivity analysis for main actuarial assumptions

The following is the analysis of the possible impact of the changes in main actuarial assumptions on employee benefit liabilities. The calculation is made in relation to each discount separately, assuming that the other discounts remain unchanged.

	December 31, 2022	December 31, 2021
	NIS millions	NIS millions
Discount rate - 0.5% addition	**(20)**	(32)
Future salary increase rate - 0.5% addition	**22**	33
Employee turnover rate - 5% addition	**5**	(14)
Mortality rate assumption - 5% increase	**(2)**	(3)

17. Contingent liabilities

In the course of the current business, lawsuits have been filed against the Group companies or various lawsuits are pending against it (hereinafter in this section: "lawsuits").

In the opinion of the managements of the Group companies, which is based, among other things, on legal opinions regarding the possibility of legal claims, adequate provisions were included in the statements (as detailed in Note 15), where provisions were required, to cover the exposure as a result of the aforementioned lawsuits.

In the opinion of the managements of the Group companies, the amount of additional exposure (beyond the aforementioned provisions), as of December 31, 2022, due to lawsuits filed against the Group companies on various issues and the probability of their materialization is not expected, amounted to a total of about NIS 2.5 billion. In addition, there is additional exposure in the amount of approximately NIS 2.5 billion for claims whose chances cannot yet be assessed at this stage.

Also, motions were submitted against the Group companies to recognize the lawsuits as class actions that did not specify an exact claim amount in the lawsuit, in respect of which the Group has additional exposure beyond the above.

The additional exposure amounts in this note are nominal.

For updates regarding changes after the date of the report, see Section 17.3 below.

The following is a description of the contingent liabilities of the Group in effect as of December 31, 2022, classified according to groups with similar characteristics:

Lawsuits group	Lawsuits essence	Provision balance	Additional exposure amount	The exposure amount for claims whose chances cannot yet be assessed
		NIS millions		
Customer lawsuits	Mainly motions for approval of class actions (and actions on their behalf) concerning allegations of unlawful collection of funds and damage to the provision of services provided by the Group companies.	**87**	**1,809**	**671**
Enterprise and company claims	Lawsuits in which liability of the Group companies is claimed in connection with their operation and/or investments.	**75** (1)	**685** (1)	**1,808** (2)
Miscellaneous	Other lawsuits, including tort claims (with the exception of claims for which there is no dispute regarding the existence of insurance coverage), real estate, infrastructure, etc.	**75** (1)	**685** (1)	**1,808** (2)
Total lawsuits against the Company and the consolidated companies(3)		**162**	**2,520**	**2,483**

(1) Against the balance of the provision, an indemnity asset was recognized in the full amount of the provision in view of the existence of insurance coverage. The asset was presented under the "other receivables" item in the statement of financial position as of December 31, 2022, in accordance with the provisions of accounting standard IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The additional exposure was estimated at approximately NIS 612 million. After the date of the statements, the lawsuit ended as mentioned.

(2) The total includes two motions for approval of a class action with a total amount of approximately NIS 1.8 billion filed in June 2017 against the Company, Bezeq, officers of the Bezeq Group, as well as companies from the group formerly controlling the Company and Bezeq, regarding the transaction for the purchase of DBS shares by Bezeq from Eurocom DBS Ltd. According to the Court's decision, it is expected that a consolidated motion will be submitted to replace these two motions. The procedure is delayed due to the criminal procedure that is ongoing following the investigation by the Securities Authority (as described in Note 1.3) and at the request of the Attorney General at this stage, until July 20, 2023.

(3) In addition, see also Note 6.6.

After the date of the statements, a motion was submitted against the Bezeq Group companies for the approval of a class action without a financial assessment, as well as claims totaling NIS 40 million. As of the date of approval of the statements, it is not yet possible to assess the chances of the aforementioned claims. Also, see Note 17.1 (1) above.

18. Contracts

18.1. DBS is bound by agreements for the purchase of space segments (as detailed in Note 18.2 below), content and copyrights, until the end of 2026. The amounts of future contracts as of December 31, 2022 are as follows:

Year ended December 31	Space segments	Content and copyrights	Total
	NIS millions	NIS millions	NIS millions
2023	**88**	**223**	**311**
2024	**88**	**105**	**193**
2025	**67**	**21**	**88**
2026	**11**	**-**	**11**
	254	**349**	**603**

18.2. According to an agreement with Space Communications Ltd. (hereafter - "Space") from 2013, as amended (including an amendment from January 2023), DBS leases space segments in "Amos" series satellites (hereafter - "Space Agreement").

In accordance with the provisions of the Space Agreement, DBS leases space segments in the "Amos 3" satellites (the estimated end of its life is at the beginning of 2026), as well as in the "Amos 7" satellite, in which Space has the right to lease space segments according to an agreement between itself and the owner of the rights to this satellite, and which is leased to DBS until February 2025 (or until the end of its life, whichever comes first), when the lease in "Amos 7" starting in September 2024 is conditional on receiving the approval of the Ministry of Communications by Space.

Leased space segments - according to the Space Agreement, and subject to unavailability events, until the end of the "Amos 7" lease period, DBS will lease 12 space segments from Space, in accordance with the distribution between the relevant satellites established in the agreement according to the different periods, and then DBS will lease ten space segments from "Amos" 3". The agreement also regulates the provision of back-up sections for the leased space segments during the period of the agreement, under the conditions and limitations stipulated therein.

Early termination of the agreement - according to the Space Agreement, Bezeq is entitled to announce an early termination of the Space Agreement without cause, subject to a 12-month advance notice and payment for the lease in "Amos 7" plus partial payment of the balance of the lease in the space segments in "Amos 3".

18.3. The cellular infrastructure equipment in the UMTS/HSPA and LTE and 5G networks is manufactured by LM Ericsson Israel Ltd. ("Ericsson"), which serves as Pelephone's supplier for the deployment of the 4G (LTE) and 5G radio network. Also, Ericsson is a substantial provider of Pelephone in the field of microwave transmission. Pelephone has multi-year agreements for maintenance, support and software upgrades for the UMTS/HSPA network, as well as an agreement for the purchase of 4G (LTE) and 5G equipment with Ericsson, and in its opinion, it may depend on it in connection with network support and expansion. As of December 31, 2022, Bezeq has contracted with Ericsson for the purchase of end equipment and the receipt of aforementioned services for a total amount of approximately NIS 7 million.

18.4. In April 2021, Pelephone's new engagement agreement with International Distribution Apple ("Apple") for the purchase and distribution of iPhones entered into force, according to which Pelephone committed to purchase a minimum annual quantity of devices for three more years at the prices that will be in effect with the manufacturer at the time of the actual purchases.

18.5. For the purpose of its activities, Bezeq International usually acquires unlimited capacity usage rights (IRU) from service providers. During the Q1/2021, Bezeq International signed an agreement to extend the capacity usage periods until July 2030 with the provider. In respect of the rights of use, Bezeq International pays payments that are spread over annual payments throughout the period of use of the capacities. The remaining engagement according to the agreement as of December 31, 2022 is USD 5.9 million (in 2021 - USD 10.1 million).

18.6. The Bezeq Group companies have contracts for December 31, 2022 for the purchase of end equipment, PP&E, intangible assets and other assets in the amount of approximately NIS 403 million.

18.7. Further to what was stated in Note 9.4 above regarding the deployment of an optical fiber network by Bezeq, in accordance with the provisions of Article 14C of the Communications Law, with the amendment of the Bezeq license, the telecommunications companies including Bezeq and its subsidiaries Pelephone, DBS and Bezeq International are obligated to pay a rate of 0.5% of their annual income during the deployment period to the incentive fund. The incentive fund is managed by the Accountant General at the Ministry of Finance, for the benefit of encouraging the deployment of fiber while participating in the commission in statistical areas that are not included in the deployment areas chosen by Bezeq. The Minister of Communications with the consent of the Minister of Finance and the approval of the Economic Committee can change this rate.

18.8. For information regarding contracts with related parties, see Note 29.

19. Collateral, liens and guaranties

Bezeq Group's policy is to provide tender and performance guaranties and guarantees according to law. In addition, Bezeq provides, as needed, bank guarantees for bank obligations of consolidated companies.

19.1. Bezeq Group companies provided guaranties to the Ministry of Communications in connection with guaranteeing the terms of their licenses in a total amount of approximately NIS 131 million (of which approximately NIS 58 million are linked to the Consumer Price Index).

19.2. Bezeq Group companies provided bank guarantees to third parties in the total amount of approximately 218 million NIS (including a guarantee in the amount of approximately 120 million NIS for the Sakia complex. For details, see note 6.6).

19.3. Limitations on the creation of liens on the assets of Bezeq Group companies:

19.3.1. In accordance with the Bezeq's license, the license and any part of it cannot be transferred, pledged or foreclosed. Transfer, pledge or foreclosure of property from the license assets that were not expressly permitted in the license require the approval of the Minister who may, in special cases, permit the transfer of a license due to structural changes, if he is convinced that all the conditions that were met by the transferor are met by the owner of the transferred license. Also, to the extent that a third party is granted rights in the assets used for the purpose of providing Bezeq's services, Bezeq must ensure that a situation does not arise in which the exercise of the rights in said asset may harm the performance of Bezeq's obligations according to the license.

19.3.2. In accordance with Pelephone's mobile radio telephone license, Pelephone is not allowed to sell, lease, or mortgage any of the assets used for the execution of the license ("the license assets"), unless the consent of the Minister of Communications has been given, after he has assumed that the exercise of the rights by the third party will not cause harm to the provision of services according to the license, except:

A. A lien on any of the license's assets in favor of a bank operating legally in Israel, in order to obtain bank credit, provided that it has notified the Ministry of Communications of the lien it intends to register, according to which the lien agreement includes a clause guaranteeing that in any case the exercise of the rights by the bank will not cause any harm to the provision of services under the license.

B. Sale of equipment items when performing an upgrade procedure, including sale of equipment using the trade in method.

C. Sale, lease, encumbrance or transfer of the license assets to a cellular radio infrastructure licensee of which Pelephone is a customer.

19.3.3. In accordance with Bezeq International’s license, it is not allowed to sell, rent or mortgage any of the assets necessary to guarantee the licensee's services, unless the Minister of Communications has given his consent to this after he has assumed that the exercise of the rights by the third party will not cause damage to the provision of the services according to the license. Notwithstanding the foregoing, Bezeq International may pledge any of the license assets in favor of a bank operating legally in Israel, in order to obtain bank credit, provided that it gives advance notice of the pledge it intends to make, and the pledge agreement includes a clause guaranteeing that the exercise of the rights by the bank will not cause harm to the provision of services under the license.

19.3.4. In relation to the DBS broadcasting license, the Communications Law and the license provisions establish limitations in relation to the transfer, foreclosure and pledge of the license and license assets. The broadcasting license requires obtaining the approval of the Minister in relation to certain changes in the maintenance of means of control in DBS and imposes reporting obligations regarding the holders of the means of control; There are also certain limitations in relation to the license to perform uplink operations (transmission of transmissions from the DBS transmission center to the transmission satellite and performing related setup and operation operations).

19.4. As for the conditions the Group has committed to in connection with loans and credit, see Note 13.

20. Equity

20.1. Share capital

Ordinary shares NIS 0.1 par value each

	Ordinary shares	
	December 31, 2022	**December 31, 2021**
Registered share capital	**300,000,000**	300,000,000
Issued and paid up share capital	**116,335,793**	116,335,793
Treasury shares	**(9,080,317)**	(1,476,803)
Issued and paid up share capital, net	**107,255,476**	114,858,990

20.1.1. On March 31, 2021, the Company's general assembly approved the increase in the Company's registered share capital, so that after the registered equity increases as stated, the Company's registered equity will be NIS 30,000,000, divided into 300,000 ordinary shares of NIS 0.1 each, and an amendment of the Company’s Bylaws was approved accordingly.

20.1.2. On November 30, 2021, the Company's Board of Directors approved a self-purchase of its shares up to NIS 30 million. As part of the said purchase plan, the Company acquired in 2021 a total of 1,457,573 of its shares and in 2022 a total of 820,360 of its shares for NIS 30 million.

20.1.3. On March 23, 2022, the Company's Board of Directors approved another self-purchase of the Company's shares up to NIS 20 million. As part of the said purchase plan, the Company acquired a total of 1,349,829 of its shares for NIS 20 million.

20.1.4. On May 24, 2022, the Company's Board of Directors approved another self-purchase of the Company's shares of NIS 30 million.

20.1.5. On May 31, the Company purchased a total of 730,000 of its shares for about NIS 10 million in a transaction made off the stock exchange.

20.1.6. On August 9, 2022, the Company's Board of Directors approved a self-purchase plan of the Company's shares up to NIS 25 million.

20.1.7. On November 15, 2022, the Company's Board of Directors approved a self-purchase plan of the Company's shares up to NIS 25 million.

20.1.8. As of December 31, December 2022, Searchlight and the Forer family about 65.26% and 12.35%, respectively, of the Company's issued and paid-up share capital.

21. Incomes

	Year ended December 31		
	2022	**2021**	**2020**
	NIS millions	**NIS millions**	**NIS millions**
Landline domestic communication - Bezeq Fixed Lines			
Internet - infrastructure	**1,729**	1,562	1,537
Landline telephony	**762**	891	981
Data transmission and communication	**897**	844	785
Cloud and digital services	**331**	318	288
other services	**261**	230	222
	3,980	3,845	3,813
Cellular communication - Pelephone			
Cellular services and end equipment	**1,755**	1,606	1,550
Sale of end equipment	**604**	643	577
	2,359	2,249	2,127
Multi-channel TV - DBS	**1,277**	1,270	1,286
Internet services (ISP), international communication and network endpoint and ICT services - Bezeq International	**1,183**	1,186	1,217
Others	**187**	271	280
	8,986	8,821	8,723

21.1. Contract with the seller's customer over time

On December 21, 2022, Bezeq signed a long-term agreement with Partner Communications Ltd. ("Partner") for the provision of non-permanent right of use (IRU) service in the BSA fiber service (wholesale market) by Bezeq to Partner. In accordance with the agreement, Partner was granted a right of use a non-transferable and irrevocable right to provide service to its customers on 120,000 unspecified Bezeq fiber optic lines at a rate of 1 gigabyte download per line, for a period of 15 years starting on January 1, 2023 (the beginning of the right to use the lines will be done in phases for a period of up to five years).
The consideration for the provision of the service, which includes one-time payments and annual payments, is expected to reach a total amount of approximately NIS one billion (approximately NIS 574 million for one-time payments, annual maintenance fees at the rate of 4% of the one-time payments for the lines for which the right of use will be granted until that year, and with the addition of interest and/or linkage differences according to the terms of the agreement), with most of the consideration amount expected to be paid during the first 9 years of the agreement. In light of these conditions, a material financing component was identified in the terms of the agreement.

The agreement includes the option to increase the number of lines by up to 48 thousand additional lines under the same conditions, to upgrade rates as well as to extend the agreement period in two five-year option periods each with less lines than in the first agreement period. Increasing the content of the aforementioned 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 in a way that weighs the price of the regulatory line, starting from the sixth year of the agreement. In light of these conditions, a material financing component was identified in the terms of the agreement.

22. General and operating expenses

	Year ended December 31		
	2022	**2021**	**2020**
	NIS millions	**NIS millions**	**NIS millions**
Connectivity and payments to communication operators in Israel and abroad	**743**	717	776
End equipment and materials	**782**	803	747
Content costs	**567**	553	589
Marketing and general	**539**	546	471
Structure and site maintenance	**247**	238	246
Services and maintenance by subcontractors	**454**	348	303
Vehicle maintenance*	**64**	60	50
	3,396	3,265	3,182

* General and operating expenses are presented minus expenses charged in 2022 to investments in PP&E and intangible assets in the amount of NIS 51 million (approximately NIS 49 million in 2021 and approximately NIS 38 million in 2020).

23. Salaries

	Year ended December 31		
	2022	**2022**	**2020**
	NIS millions	**NIS millions**	**NIS millions**
Total salaries and related expenses	**2,395**	2,416	2,442
Share-based compensation	**12**	27	-
Minus salaries credited to investments in PP&E and intangible assets	**(530)**	(555)	(548)
	1,877	1,888	1,894

24. Other operating expenses (income), net

	Year ended December 31		
	2022	**2022**	**2020**
	NIS millions	**NIS millions**	**NIS millions**
Capital gain (mainly from the sale of real estate)	**(8)**	(175)	(18)
Receipts from settlement agreement	**-**	(5)	(9)
Expenses for termination of employee-employer relations in early retirement at Bezeq (see Note 16.5.1)	**78**	95	64
Provision for the grant for signing a collective agreement at Bezeq (see Note 16.5.1)	**-**	-	40
Expenses due to the termination of employer-employee relations with early retirement and a streamlining agreement at Pelephone, Bezeq International and DBS (see Notes 16.5.3 and 16.5.4)	**102**	37	9
Provision (cancellation of provision) for claims	**55**	(23)	11
Other income	**(7)**	(6)	(2)
Profit from the sale of an investee (see Note 12.4)	**-**	-	(22)
Other operating expenses (income), net	**220**	(77)	73

25. Financing expenses (income), net

	Year ended December 31		
	2022	**2022**	**2020**
	NIS millions	**NIS millions**	**NIS millions**
Interest expenses for financial liabilities	**309**	395	382
Financing expenses for employee benefits	**-**	7	8
Costs due to early repayment of loans and debentures (see Note 13)	**26**	34	65
Linkage and exchange rate differentials	**125**	49	23
Financing expenses for lease obligations	**43**	40	30
Other financing expenses	**19**	8	6
Change in fair value of financial assets measured at fair value through income	**8**	-	11
Total financing expenses	**530**	533	525
Income due to credit grossing in sales	**20**	28	30
Financing income for employee benefits *	**40**	-	-
Total financing income	**49**	16	15
Change in fair value of financial assets measured at fair value through income	**23**	11	6
Total financing income	**132**	55	51
Financing expenses, net	**398**	478	474

* Financing incomes recognized as a result of updating the discount rate according to which the liabilities for employee benefits are calculated as of December 31, 2022.

26. Share-based compensation

26.1. Terms of the Bezeq Group option plan

During the year 2021, Bezeq allocated 64 million options to officers, executives and senior employees in Bezeq and Bezeq's subsidiaries. The options were allocated to each offeree in three grants, each grant at the rate of one third of the total options allocated to the offeree. Each grant will become vested in four annual phases where a different exercise price is determined for each grant. The exercise of each option is subject to the fact that, after the vesting date of the option, the exercise price condition for the option has been met (the average of the closing prices of a Bezeq share in the period of at least 30 consecutive trading days on the stock exchange preceding the test date is equal to or higher than the price that is a condition for exercise).

During the year 2022, Bezeq allocated approximately 7 million additional options to officers, executives and senior employees at Bezeq and Bezeq's subsidiaries. The options were granted in 2 grants, each grant half of the total number of options for that offering. Each grant will mature in four annual tranches where a different exercise price is determined for each grant.

26.2. Transfers the in number of options in Bezeq Group

	Options	Options
	2022	2021
	Millions	Millions
Balance in circulation at the beginning of the period	**60**	-
Options granted during the year	**7**	62
Options forfeited during the year due to the departure of the bidders	**(10)**	(2)
Balance in circulation at the end of the period	**57**	60
Exercisable at the end of the period (subject to compliance with the share exercise price conditions)	***28**	15

* As of the date of approval of the financial statements, approximately 15 million options met the share price conditions and are exercisable.

26.3. Details regarding the measurement of the fair value of a share-based compensation plan in Bezeq Group

The fair value of the options granted during 2021 in Bezeq Group, which was estimated by an external valuator while applying the Monte Carlo model, is about NIS 46 million, according to the vesting period and the conditions of exercise as detailed above.

The fair value of the options granted during 2022 in Bezeq Group, which was estimated by an external valuator while applying the Monte Carlo model, is about NIS 13 million, according to the vesting period and the conditions of exercise as detailed above.

26.4. Salaries expenses recognized by Bezeq Group for share-based compensation

	Year ended December 31		
	2022	2022	2020
	NIS millions	NIS millions	NIS millions
Salaries expenses	**11**	27	-

26.5. Options granted to company officers

During the year 2022, the Company allocated 3,350,000 options exercisable into 3,350,000 ordinary shares of the Company to Company officers. The vesting period of the options granted to the Company's officers is 3 years.

Salaries expenses recognized by the Company for share-based compensation:

	Year ended December 31		
	2022	2022	2020
	NIS thousands	NIS thousands	NIS thousands
Salaries expenses	**520**	280	280

27. Profit per share

The calculation of the basic and diluted profit per share was based on the profit attributed to the ordinary shareholders and according to the weighted average number of ordinary shares included in the calculation as follows:

	2022	2021	2020
Net profit attributable to the Company's shareholders (NIS millions)	**158**	129	157
Weighted average of ordinary shares			
Balance as of January 1 (millions)	**115**	116	116
Effect of buyback of shares	**(4)**	-	-
Basic weighted average of ordinary shares as of December 31 (millions)	**111**	116	116
Effect of share-based compensation	**1**	-	-
Diluted weighted average of ordinary shares as of December 31 (millions)	**112**	116	116
Basic profit per share (NIS)	**1.42**	1.11	1.35
Diluted profit per share (NIS)	**1.41**	1.11	1.35

28. Segmental reporting

28.1. The Group operates in four different segments in the communications industry, in such a way 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 PP&E and infrastructures it owns (see also Note 21). The infrastructure of each company is used to provide its services. Some of the Group companies use infrastructure owned by other Group companies.

The main reporting format, according to business segments, is based on the administrative and internal reporting structure of the Group.

The business segments of Bezeq Group are as follows:

1. "Bezeq" the Israel Telecommunications Corp. Ltd. – landline interior communications;
2. Pelephone Communications Ltd. - cellular communications;
3. Bezeq International Ltd. - Internet, international communication and network endpoint services, and ICT solutions (information and communication systems) (hereinafter - "Bezeq International Services Sector");
4. DBS Satellite Services (1998) Ltd. - multi-channel TV.

The rest of the Group companies are presented in the "Others" section. Other activities include call center services for customers (Bezeq Online) and content services in the field of Internet (in 2020). These activities are not reported as reportable segments since they do not meet the quantitative thresholds in the reported years.

Inter-segment pricing is determined according to the price established in transactions in the normal course of business.

Results, assets and liabilities of a segment include items that can be directly allocated to the segment, as well as those that can be reasonably allocated.

The results of the multi-channel TV segment are presented excluding the total effect of asset impairment described in Note 10.5. This is in accordance with the manner in which the Group's main operational decision-maker evaluates the performance of the segments and makes decisions regarding the allocation of resources to said sectors.

The capital expenditure of a segment is the total cost incurred during the period for the purchase of PP&E and intangible assets.

28.2. Activity segments

	Year ended December 31, 2022						
	Landline interior communication	Cellular communication	Bezeq International services	Multichannel TV	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Income from externals	3,980	2,359	1,183	1,277	187	-	8,986
Inter-segmental income	326	40	56	-	6	(428)	-
Total income	4,306	2,399	1,239	1,277	193	(428)	8,986
Depreciation, reductions and impairments	1,005	532	134	274	4	(81)	1,868
Segment results - operating profit (loss).	1,460	193	(30)	(48)	6	44	1,625
Financial expenses	424	42	9	8	-	47	530
Financial income	(92)	(68)	(8)	(14)	-	50	(132)
Total financing expenses (income), net	332	(26)	1	(6)	-	97	398
Segment profit (loss) before income taxes	1,128	219	(31)	(42)	6	(53)	1,227
Income taxes	279	54	1	1	1	-	336
Segment results - net profit (loss).	849	165	(32)	(43)	5	(53)	891
Segment assets	9,020	4,080	751	1,249	90	(903)	14,287
Goodwill	-	-	9	-	-	1,559	1,568
Segment liabilities	10,465	1,563	570	469	32	860	13,959
Investments in PP&E, intangible assets and deferred expenses	1,156	289	122	189	10	-	1,766

* The results of the multi-channel TV segment are presented net of the overall impact of impairment recognized as of 2018. This is in accordance with how the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.4 regarding a summary of selected data from DBS's statements.

28.2. Activity segments (Cont.)

	Year ended December 31, 2021						
	Landline interior communication	Cellular communication	Bezeq International services	Multichannel TV	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Income from externals	3,845	2,249	1,186	1,270	271	-	8,821
Inter-segmental income	337	40	51	-	6	(434)	-
Total income	4,182	2,289	1,237	1,270	277	(434)	8,821
Depreciation, reductions and impairments	938	577	173	292	4	(95)	1,889
Segment results - operating profit (loss).	1,748	42	22	(41)	27	58	1,856
Financial expenses	357	23	5	4	-	144	533
Financial income	(15)	(65)	(3)	(3)	-	31	(55)
Total financing expenses (income), net	342	(42)	2	1	-	175	478
Segment profit (loss) after financing expenses, net	1,406	84	20	(42)	27	(117)	1,378
Share in profits (losses) of affiliates	-	-	-	-	-	-	-
Segment profit (loss) before income taxes	1,406	84	20	(42)	27	(117)	1,378
Income taxes	343	20	12	1	6	-	382
Segment results - net profit (loss).	1,063	64	8	(43)	21	(117)	996
Investment in affiliates	9,245	4,452	778	1,293	100	(874)	14,994
Segment assets	-	-	5	-	-	-	5
Goodwill	-	-	-	-	-	1,560	1,560
Segment liabilities	11,415	1,753	566	474	37	844	15,089
Investments in PP&E, intangible assets and deferred expenses	1,197	289	111	188	5	-	1,790

* The results of the multi-channel TV segment are presented net of the overall impact of impairment recognized as of 2018. This is in accordance with how the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.4 regarding a summary of selected data from DBS's statements.

28.2. Activity segments (Cont.)

	Year ended December 31, 2020						
	Landline interior communication	Cellular communication	Bezeq International services	Multichannel TV	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Income from externals	3,813	2,127	1,217	1,286	280	-	8,723
Inter-segmental income	346	59	54	1	6	(466)	-
Total income	4,159	2,186	1,271	1,287	286	(466)	8,723
Depreciation, reductions and impairments	877	599	149	310	14	(91)	1,858
Segment results - operating profit (loss).	1,705	(84)	(241)	(42)	44	326	1,708
Financial expenses	419	18	5	15	1	67	525
Financial income	(16)	(66)	(3)	(2)	-	36	(51)
Total financing expenses (income), net	403	(48)	2	13	1	103	474
Segment profit (loss) after financing expenses, net	1,302	(36)	(243)	(55)	43	223	1,234
Share in profits (losses) of affiliates	-	-	-	-	-	-	-
Segment profit (loss) before income taxes	1,302	(36)	(243)	(55)	43	223	1,234
Income taxes	262	(11)	32	2	4	45	334
Segment results - net profit (loss).	1,040	(25)	(275)	(57)	39	178	900
Investment in affiliates	8,471	4,371	781	1,365	96	(694)	14,390
Segment assets	-	-	4	-	-	-	4
Goodwill	-	-	-	-	-	1,559	1,559
Segment liabilities	11,764	1,742	580	505	42	893	15,526
Investments in PP&E, intangible assets and deferred expenses	975	437	123	165	12	-	1,712

* The results of the multi-channel TV segment are presented net of the overall impact of impairment recognized as of 2018. This is in accordance with how the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.4 regarding a summary of selected data from DBS's statements.

28.3. Adjustments for reporting segments of incomes, income, assets and liabilities

	Year ended December 31		
	2022	**2022**	**2020**
	NIS millions	**NIS millions**	**NIS millions**
Income			
Income from reporting segments	**9,221**	8,978	8,903
Income from other segments	**193**	277	286
Cancellation of incomes from inter-segmental sales	**(428)**	(434)	(466)
Consolidated income	**8,986**	8,821	8,723
Operating profit			
Operating profit for reporting segments	**1,575**	1,771	1,338
Financing expenses, net	**(398)**	(478)	(475)
Loss (loss write-off) from impairment of assets (see Note 10.2)	**-**	-	286
Adjustments for the multi-channel TV segment	**56**	72	81
Reducing cost overruns	**-**	-	(22)
Profit (loss) for activities classified in the Other and other adjustments category	**(6)**	13	26
Consolidated operating profit	**1,227**	1,378	1,234

	December 31, 2022	December 31, 2021
	NIS millions	**NIS millions**
Assets		
Assets of reporting segments	**15,109**	15,773
Assets associated with activities classified in the Other category	**90**	100
Goodwill not attributable to an activity segment	**1,559**	1,559
Minus loss from asset impairment (see note 10), inter-segment assets and other adjustments	**(2,128)**	(2,280)
Assets and cost overruns that are not attributed to a reporting segment	**1,225**	1,407
Consolidated assets	**15,855**	16,559
Liabilities		
Liabilities of reporting segments	**13,067**	14,208
Liabilities associated with activities classified in the Other category	**32**	37
Minus inter-segmental liabilities	**(1,311)**	(1,407)
Liabilities related to non-reporting segments	**2,171**	2,251
Consolidated liabilities	**13,959**	15,089

29. Transactions with interested parties and related parties

29.1. Identity of interested parties and related parties

The Company's interested parties and related parties as defined in the Securities Law and International Accounting Standard 24 regarding related parties are mainly Searchlight and TNR, their related parties affiliates, directors and key management personnel from the Company or Searchlight and TNR.

It should be noted that the transactions described below with interested parties and related parties do not include reference to what is stated in Note 1.3 regarding investigations by the Israel Securities Authority and the Israel Police or to their possible consequences.

29.2. Balances with interested parties and related parties

	As of December 31	
	2022	**2021**
	NIS millions	**NIS millions**
Trade receivables - affiliate	**-**	1
Related parties, net	**(1)**	(2)
Right-of-use assets	**2**	2
Current lease liability maturities	**(1)**	(1)
Non-current lease liabilities	**(2)**	(2)

29.3. Transactions with interested parties and related parties

	Year ended December 31		
	2022	**2021**	**2020**
	NIS millions	**NIS millions**	**NIS millions**
Income			
From related parties	**4**	10	12
From affiliates	-	1	2
Expenses			
To related parties	**24**	33	28
To affiliates	**-**	-	2
PP&E			
To related parties	**1**	-	-

29.3.1. Negligibility procedure of Bezeq Group

Bezeq's Audit Committee decided to adopt guidelines, standards and rules for the classification of a transaction by Bezeq or its consolidated company with officers in Bezeq or in which an officer of Bezeq has a personal interest (hereinafter - "transaction with an officer") and a transaction with a controlling shareholder of Bezeq or in which the controlling shareholder has a personal interest (hereinafter - "transaction with a controlling owner") as a negligible transaction.

The standards established in the procedure, as updated from time to time in accordance with its instructions, may be used by Bezeq, among other things, to classify a transaction as a negligible transaction as stipulated in Regulation 41(a3) of the Securities Regulations (Annual Financial Statements), 5770-

2010, and as a tool for examining the negligible nature of additional business relationships, such as: the existence of business relationships with a candidate for office as an external director or an independent director Negligible as stated in the Companies Regulations (matters not constituting an affiliation), 5767-2006 and as stated in Article 240(f) of the Companies Law, 5759-1999 (“the Companies Law").

Bezeq and its consolidated companies enter into transactions from time to time with Bezeq officers and those who control it, including transactions of the types and characteristics as detailed below:

1. Sale of communication services and products by Bezeq Group companies - including: various basic communication services (infrastructure, telephony, transmission and PRI) and hosting in server farms; provision of cellular services and value-added services and sale and upgrade of cellular end equipment; Internet access services, international telephony services, hosting services and data communication services; TV services.

2. Real estate lease, management and purchase agreements, including, among others: lease of areas used for communication facilities and warehouses.

3. Receiving consulting and training services for Bezeq Group companies or their employees.

4. Purchase of goods and services used by Bezeq Group companies in their activities, such as purchase of fuel and energy products, repair services, financial/banking services and more.

In the absence of special qualitative considerations arising from all the circumstances of the matter, a transaction will be considered a negligible transaction to the extent that all of the following parameters are met:

A. The transaction is not an unusual transaction (that is, a transaction made in the normal course of business, under market conditions and which may not materially affect Bezeq's profitability, its assets or liabilities, all in accordance with Bezeq's procedures).

B. The scope of the contract specified in it in Bezeq (solo, and not on a consolidated basis) (or in any of the subsidiaries) will not exceed NIS 10 million.

C. Bezeq is not required to report the transaction in an immediate report in accordance with Regulation 36 or Regulation 37a of the periodic report regulations or according to any other law.

D. The transaction does not include tenure and employment conditions (as defined in the Companies Law) of an interested party or a relative thereof, or does not constitute a contract as stated in the last part of Article 270(4) of the Companies Law (contract of a public company with its controlling shareholder or a relative thereof, directly or indirectly, including through a company under his control, regarding his receipt of services from the Company, and also if he is its officer - regarding the conditions of his tenure and employment, and if he is a Bezeq employee and is not its officer - regarding his employment in Bezeq).

As a general rule, each transaction will be examined separately for the purpose of examining its compliance with the conditions for classification as a negligible transaction as detailed above. Notwithstanding the above, separate transactions that are part of the same contract or continuous transactions or very similar transactions that are carried out frequently and repeatedly or with the same entity and with corporations under its control or transactions between which there is a dependency or condition, will be examined as one transaction on an annual basis for the purpose of their examination.

The Audit Committee may, from time to time and at its discretion, change the above parameters for classifying a negligible transaction.

In addition, the standards established by the Audit Committee and the Company's Board of Directors refer to the conditions under which a transaction will be considered an unusual transaction, as well as conditions under which a contribution by the Company or a subsidiary will not be considered an unusual transaction.

Transactions listed in Article 270 (4) of the Companies Law that are not considered negligible transactions

In the years 2020-2022 there were no such transactions.

For the transactions listed in Article 270(4) of the Companies Law concerning insurance and obligation to indemnify directors and officers of the Company, see Note 29.6 below.

29.4. Benefits for key managerial personnel in the Group

Benefits for the employment of key management personnel in the Group in 2020-2022 include:

	Year ended December 31		
	2022	**2021**	**2020**
	NIS thousands	**NIS thousands**	**NIS thousands**
Number of key management personnel *	**6**	5	6
Salaries **	**9,872**	8,163	8,246
Grant ***	**7,262**	7,780	4,995
Management fees for the former Chairman of the Bezeq Board of Directors	**-**	-	1,919
Share-based compensation	**6,197**	13,530	280
	23,331	30,713	15,440

* Key management personnel in the Group in the reporting year include the Chairman of the Company's Board of Directors, the Company's CEO, as well as the Chairman of Bezeq's Board of Directors, the former CEO of Bezeq, the current CEO of Bezeq as well as the current CEO of Pelephone, Bezeq International and DBS.

** In 2022, the changes in other provisions (included in the total salaries) mainly include provisions for advance notice to the current CEO of Pelephone, Bezeq International and DBS in the amount of approximately NIS 0.7 million.

In 2021, the changes in other provisions at Bezeq (included in the total salaries) mainly include provisions for vacation and sickness in the amount of approximately NIS 0.2 million.

In 2020, the changes in other allowances at Bezeq (included in the total salaries) mainly include an allowance for early notice and for a non-competition period for the Chairman of Bezeq's Board of Directors in the amount of approximately NIS 0.9 million.

*** The amount includes an annual discretionary grant approved by Bezeq's general asembly on April 28, 2022 for the year 2021.

For information on share-based compensation, see Note 26.

29.5. Benefits for directors of the company

	Year ended December 31		
	2022	**2021**	**2020**
	NIS thousands	**NIS thousands**	**NIS thousands**
Remuneration for the members of the Board of Directors *	**645**	635	712
Number of directors receiving remuneration **	**6**	6	6

* The directors' remuneration of the Company's CEO, who also served as a director of the Company until November 29, 2021, as well as the remuneration of the Chairman of the Company's Board of Directors, are presented in Section 29.4 above due to their being key management personnel.
** In 2021, a new director was appointed on behalf of the controlling shareholder of the Company, as well as a retired external director, a new external director was appointed by the general assembly on January 24, 2022.

29.6. Additional benefits for directors and officers in the Company

Date of the approval of the general assembly (after receiving the approval of the Company's Board of Directors), unless otherwise specified	Nature of transaction	Transaction amount
April 30, 2020	Certificate of the Company's engagement in a run-off insurance policy to cover the liability of directors and officers of the Company.	Liability limit of up to 10 million dollars per claim and in total for the entire insurance year, plus reasonable legal expenses. The total annual premium is about USD 300k. The amount of the deductible for the Company is up to USD 250k per case.
April 30, 2020	Amendment to the letter of commitment to indemnification and exemption for the directors and officers of the Company regarding the maximum amount of indemnification.	Up to 25% of the Company's equity according to the Company's latest reports published before the actual indemnity was granted or a total of USD 15 million, whichever is higher.
November 29, 2022 Approval of the Company's Board of Directors in accordance with Regulation 1b1 of the Facilitation Regulations	Certificate of the Company's engagement in an insurance policy to cover the liability of directors and officers in the Company and its subsidiaries, in accordance with the Company's remuneration policy for the period until December 1, 2023.	Liability limit of up to USD 20 million per claim and in total for the entire insurance year plus reasonable legal expenses. The total annual premium is approximately USD 494k. The amount of the deductible for the company is up to USD 150k in the case of claims outside the US and Canada, up to USD 250k in the case of claims in the US In Canada and up to USD 250k per case for securities claims in Israel.

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 (including currency risk, interest rate risk and inflation / Consumer Price Index risks).

In this note, quantitative and qualitative information is given regarding the Group's exposure to each of the above risks, an explanation of how the risks are managed and the measurement processes.

30.2. Framework for financial risk management

The comprehensive responsibility for establishing the group's financial risk management framework and overseeing it rests with the board of directors. The purpose of financial risk management in the group is to define and monitor the various risks on an ongoing basis and to determine the level of risk exposure that must be met and the possible effects resulting from this exposure in accordance with the assessments and expectations of the board of directors.

The Group's policy is to manage, according to rules established by the Board of Directors, the exposure resulting from fluctuations in foreign exchange rates, changes in interest rates and changes in the Consumer Price Index.

30.3. Credit risk

Management maintains ongoing monitoring of the Group's exposure to credit risks. Cash and investments in deposits and securities are deposited in highly rated b banks.

Trade and other receivables
The Group's Management regularly monitors customer debts and the financial statements include provisions for loan-loss that adequately reflect, according to Management's assessment, the loss grossing in debts whose collection doubtful. In addition, there is a wide spread of customer balances.

Investments in financial assets
To the extent that investments are made in securities, they are made in liquid, marketable and low-risk securities. Transactions involving derivatives are conducted with entities with a high credit rating.

As of the reporting date, there is no significant concentration of credit risks.

30.4. Liquidity risk

The Group's policy for managing its liquidity is to ensure, as far as possible, sufficient liquidity to fulfill its existing and expected obligations when they come due, in a normal business scenario and under extreme conditions, without causing it unwanted losses or damage to its goodwill. The cash balances held by the Group are mainly managed in liquid investment channels, subject to the needs of financing current activities and debt service. The Group regularly examines the existing and expected cash needs in the foreseeable range, even in the scenario of an unexpected deterioration in its business. These forecasts take into account, among other things, debt collection and circulation from banking and non-banking sources. According to the conclusions, an active activity is carried out to minimize the risk.

Regarding the terms of bonds issued by the group companies and loans received, see Note 13 above.

The Group has contractual obligations for purchases, PP&E, end equipment, and other current services. For more information regarding the contracts, see Note 18 on contracts.

The following are the contractual repayment dates of financial obligations that have actually been received up to December 31, 2022, including estimated interest payments (based on consumer price index data and interest known as of December 31, 2022):

	As of December 31, 2022						
	Book value	Contractual cash flow	H1/2023	H2/2023	2024	2025 to 2027	2028 onwards
	NIS millions						
Non-derivative financial liabilities							
Trade payables	**1,432**	**1,432**	**1,421**	**11**	**-**	**-**	**-**
Loans	**2,222**	**2,651**	**89**	**68**	**313**	**1,196**	**985**
Debentures	**6,956**	**7,755**	**87**	**921**	**1,496**	**3,446**	**1,805**
	10,611	**11,838**	**1,597**	**1,000**	**1,809**	**4,642**	**2,790**

	As of December 31, 2021						
	Book value	Contractual cash flow	H1/2022	H2/2022	2023	2024 to 2026	2027 onwards
	NIS millions						
Non-derivative financial liabilities							
Trade payables	1,566	1,566	1,542	24	-	-	-
Loans	1,906	2,194	85	50	141	1,042	876
Debentures	8,142	9,158	105	997	1,135	4,705	2,216
	11,614	12,918	1,732	1,071	1,276	5,747	3,092
Financial liabilities in respect of derivative instruments	35	35	6	29	-	-	-

30.5. Market risks

The purpose of market risk management is to manage and monitor the exposure to market risks within acceptable parameters to prevent significant exposures to market risks that will affect the Group's results, its obligations and its cash flow.

As part of the Group's exposure management policy, it was decided to determine a mix of debt exposure to interest and linkage as well as to reduce exposure to foreign exchange. Accordingly, during its normal business, the Group performs full or partial hedging operations and takes into account the effects of the exposure in its considerations in determining the type of loans it takes and in managing its investment portfolio .

30.5.1. Risk of exposure to Consumer Price Index (inflation) and foreign currency

Consumer Price Index risk (inflation)

Changes in the Consumer Price Index rate affect the Group's profitability and its future cash flows, mainly due to its index-linked obligations. As part of the implementation of a policy to reduce index exposure, the Group executes trades against the index. The hedging transactions are executed against the settlement schedules of the hedged debt. The Company applies hedge accounting to these forward contracts.

A significant portion of cash balances is invested in shekel deposits that are exposed to changes in real value as a result of changes in the Consumer Price Index.

Foreign currency risk

The Group is exposed to foreign currency risks mainly due to payments for the purchase of end equipment and PP&E denominated or linked in part to the dollar and the euro. In addition, the Group provides services to customers and receives services from suppliers around the world in foreign currency, mainly in dollars. The Group's policy is to reduce as much as possible purchase agreements in foreign currency, as well as to partially hedge the dollar exposure through forward contracts against the dollar and management of dollar deposits.

The following is a statement on the financial situation according to linkage bases as of December 31, 2022:

	As of December 31, 2022				
	Unlinked	Linked to price index	Foreign currency or linked to foreign currency (mainly dollars)	Non-monetary balances	Total balances
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets					
Cash and cash equivalents	733	-	21	-	754
investments	911	40	22	-	973
customers	1,395	-	45	-	1,440
Other receivables	174	75	-	40	289
Inventory	-	-	-	85	85
Total current assets	3,213	115	88	125	3,541
Non-current assets					
Trade receivables	314	140	6	-	460
Broadcast rights - minus rights used	-	-	-	57	57
Right-of-use assets	-	-	-	1,746	1,746
PP&E	-	-	-	6,542	6,542
Intangible assets	-	-	-	3,251	3,251
Deferred expenses and non-current investments	60	29	-	169	258
Total non-current assets	374	169	6	11,765	12,314
Total assets	3,587	284	94	11,890	15,855
Current liabilities					
Debentures, loans and credit	635	286	-	-	921
Current maturities of lease liabilities	17	439	-	-	456
Trade payables	1,217	16	193	172	1,598
Employee benefits	396	-	3	-	399
Provisions	168	-	-	-	168
Total current liabilities	2,433	741	196	172	3,542
Non-current liabilities					
Loans and debentures	6,127	2,130	-	-	8,257
Lease liabilities	87	1,362	3	-	1,452
Employee benefits	164	-	37	-	201
Derivatives and other liabilities	-	-	-	151	151
Deferred tax liabilities	-	-	-	319	319
Provisions	37	-	-	-	37
Total non-current liabilities	6,415	3,492	40	470	10,417
Total liabilities	8,848	4,233	236	642	13,959
Total disclosure in the statement of financial position	(5,261)	(3,949)	(142)	11,248	1,896
The scope of index and foreign currency risk hedging transactions is as follows:					
Forward contracts (see Note 30.6)	(1,004)	635	369	-	-

The following is a statement on the financial situation according to linkage bases as of December 31, 2021:

	As of December 31, 2021				
	Unlinked	Linked to price index	Foreign currency or linked to foreign currency (mainly dollars)	Non-monetary balances	Total balances
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets					
Cash and cash equivalents	967	-	31	-	998
investments	1,078	35	21	-	1,134
customers	1,833	15	11	-	1,859
Other receivables	131	112	-	37	280
Inventory	-	-	-	74	74
Total current assets	4,009	162	63	111	4,345
Non-current assets					
Trade receivables	254	179	-	-	433
Broadcast rights - minus rights used	-	-	-	60	60
Right-of-use assets	-	-	-	1,828	1,828
PP&E	-	-	-	6,312	6,312
Intangible assets	-	-	-	3,251	3,251
Deferred expenses and non-current investments	117	16	-	173	306
Deferred tax expenses	-	-	-	24	24
Total non-current assets	371	195	-	11,648	12,214
Total assets	4,380	357	63	11,759	16,559
Current liabilities					
Debentures, loans and credit	359	621	-	-	980
Current maturities of lease liabilities	6	460	-	-	466
Trade payables	1,317	44	240	154	1,755
Employee benefits	507	-	3	-	510
Provisions	69	-	-	-	69
Total current liabilities	2,258	1,125	243	154	3,780
Non-current liabilities					
Loans and debentures	6,773	2,295	-	-	9,068
Lease liabilities	23	1,488	-	-	1,511
Employee benefits	199	-	44	-	243
Derivatives and other liabilities	-	-	-	142	142
Deferred tax liabilities	-	-	-	296	296
Provisions	49	-	-	-	49
Total non-current liabilities	7,044	3,783	44	438	11,309
Total liabilities	9,302	4,908	287	592	15,089
Total disclosure in the statement of financial position	(4,922)	(4,551)	(224)	11,167	1,470
The scope of index and foreign currency risk hedging transactions is as follows:					
Forward contracts (see Note 30.6)	(1,096)	880	216	-	-

30.5.2. Data regarding the Consumer Price Index:

In 2022, the known Consumer Price Index increased by 5.3% (in 2021 an increase of 2.4% and in 2020 a decrease of 0.6%).

30.5.3. Sensitivity analyzes in relation to the change in the Consumer Price Index to the change in the dollar exchange rate

An increase/decrease of 1% in the Consumer Price Index at the time of the report would not have materially affected the net profit and equity.

An increase/decrease of 10% in the dollar exchange rate at the time of the report would not have materially affected the profit and equity.

30.5.4. Interest rate risk

As of December 31, 2022, the exposure to interest rate risk due to a commitment for debt instruments bearing variable interest is low.

A. Interest type
The following is a breakdown of the type of interest of the Group's interest-bearing financial instruments.

	Book value	
	2022	**2021**
	NIS millions	**NIS millions**
Fixed interest instruments		
Financial assets (mainly deposits and customers)	**1,673**	1,964
Financial liabilities (loans and debentures)	**(8,544)**	(9,712)
	(6,871)	(7,748)
Variable interest instruments		
Financial assets (loans and debentures)	**(698)**	(336)

B. Fair value sensitivity analysis regarding fixed interest instruments

The Group’s fixed interest assets and liabilities are not measured at fair value through income. Therefore, a change in interest rates on the reporting date will not have any effect on income.

C. Cash flow sensitivity analysis regarding instruments with variable interest rates

A 1% increase/decrease in interest rates at the reporting date would have had a negligible effect on profit and equity.

30.6. Hedging

30.6.1. Cash flow hedge accounting

Bezeq entered into forward contracts, as detailed in the table below, for the purpose of reducing exposure to changes in the Consumer Price Index for index-linked debentures. These transactions hedge a specific cash flow of a part of the debentures and are recognized in accounting as a cash flow hedge. The expiration date of these transactions corresponds to the disposal schedules of the bonds they were intended to protect. The fair value of the forward contracts is determined by using observable market data (level 2 in the fair value hierarchy).

			Nominal value	Fair value	Equity principal balance
Hedged item	**Repayment dates**	**Transactions**	**NIS millions**	**NIS millions**	**NIS millions**
As of December 31, 2022					
Debentures Series 10	**12.2023 to 12.2025**	**3**	**225**	**9**	**6**
Debentures Series 12	**6.2026 to 6.2030**	**6**	**310**	**22**	**14**
		9	**535**	**31**	**20**
As of December 31, 2021					
Debentures Series 6	12.2022	1	330	(29)	4
Debentures Series 10	12.2022 to 12.2025	4	300	3	9
Debentures Series 12	6.2026 to 6.2030	5	250	13	16
		10	880	(13)	29

30.6.2. Economic hedging

A. Bezeq is engaged in forward contracts in order to reduce exposure to changes in the dollar exchange rate. The net fair value of these transactions as of December 31, 2022 is an asset of approximately NIS 8 million (in 2021 - a liability of approximately NIS 4 million).

B. DBS is involved in forward contracts in order to reduce exposure to changes in the dollar exchange rate. The net fair value of these transactions as of December 31, 2022 is a liability of approximately NIS 4 million (as of December 31, 2022 - a liability of approximately 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 millions	**NIS millions**
Level 1 - Investment in marketable securities measured at fair value through income (see Note 30.7.2)	**8**	99
Level 2 – Forward contracts (see Note 30.7.3)	**42**	(19)

30.7.2. The fair value of tradable securities is determined with reference to their quoted suggested sale price at the close of trading, as of the reporting date (level 1).

30.7.3. The fair value of forward contracts on the Consumer Price Index or foreign currency is based on discounting the difference between the price stated in the forward contract and the price of the current forward contract for the remaining period of the contract until redemption, using an appropriate interest rate (level 2) . The evaluation is carried out under the assumption that a market participant takes into account the credit risks of the parties in the pricing of such contracts.

30.8. Financial instruments measured at fair value for disclosure purposes only

The table below details the differences between the book value and the fair value of financial liabilities.

The fair value of public debentures is determined according to their quoted purchase price at the close of trading, as of the reporting date (level 1).

The fair value of non-traded loans and debentures is measured on the basis of the present value of the future cash flows for the principal and interest component, discounted according to the market interest rate appropriate for similar obligations plus the required adjustments for risk premium and non-tradability as of the date of the statements (level 2).

	As of December 31, 2022			As of December 31, 2021		
	Book value (including accrued interest)	Fair value	Discount rate (weighted average)	Book value	Fair value	Discount rate (weighted average)
	NIS millions		%	NIS millions		%
Loans from banks and institutional bodies (unlinked)	**1,530**	**1,462**	**5.14**	1,612	1,713	1.93
Public debentures (index-linked)	**2,402**	**2,373**	**1.82**	2,913	3,249	(1.25)
Public debentures (unlinked)	**4,569**	**4,386**	**4.95**	5,215	5,543	1.76
	8,501	**8,221**		9,740	10,505	

30.9. Offsetting financial assets and financial liabilities

The Group has agreements with various communication companies for the supply and receipt of communication services. According to some agreements, each party has the right to offset the amounts that each party owes. The table below shows the book value of offset balances as presented in the statement of financial position:

	December 31, 2022	December 31, 2021
	NIS millions	**NIS millions**
Gross balance of trade and other receivables	**96**	97
Offset amounts	**(84)**	(87)
Balance of trade receivables presented in the statement of financial position	**12**	10
Gross supplier balance	**98**	104
Offset amounts	**(84)**	(87)
Balance of suppliers presented in the statement of financial position	**14**	17

31. Summary of selected data from the statements of Bezeq the Israel Telecommunications Corp. Ltd., Pelephone Communications Ltd., Bezeq International Ltd. and DBS Satellite Services (1998) Ltd.

31.1. Bezeq the Israel Telecommunications Corp. Ltd.

Data from the statement of financial position:

	December 31, 2022	December 31, 2021
	NIS millions	NIS millions
Current property	**2,086**	2,554
Non-current property	**10,002**	9,957
Total property	**12,088**	12,511
Current liabilities	**2,148**	2,393
Non-current liabilities	**8,317**	9,022
Total liabilities	**10,465**	11,415
Equity	**1,623**	1,096
Total liabilities and equity	**12,088**	12,511

Data from the statement of income:

	Year ended December 31		
	2022	2021	2020
	NIS millions	NIS millions	NIS millions
Income	**4,306**	4,182	4,159
Operating expenses			
Salaries	**970**	934	919
Depreciation and amortization	**1,005**	938	877
General and operating expenses	**759**	667	590
Other operating expenses (income), net	**112**	(105)	68
Total Operating expenses	**2,846**	2,434	2,454
Operating profit	**1,460**	1,748	1,705
Financing expenses (income)			
Financing expenses	**424**	357	419
Financing income	**(92)**	(15)	(16)
Financing expenses, net	**332**	342	403
Profit after financing expenses, net	**1,128**	1,406	1,302
Share in profits (losses) of investees, net	151	120	(244)
Profit before income taxes	**1,279**	1,526	1,058
Income taxes	**279**	343	262
Profit for the year	**1,000**	1,183	796

31.2. Pelephone Communications Ltd.

Data from the statement of financial position:

	December 31, 2022	December 31, 2021
	NIS millions	NIS millions
Current property	**865**	1,121
Non-current property	**3,215**	3,331
Total property	**4,080**	4,452
Current liabilities	**684**	837
Non-current liabilities	**879**	916
Total liabilities	**1,563**	1,753
Equity	**2,517**	2,699
Total liabilities and equity	**4,080**	4,452

Data from the statement of income:

	Year ended December 31		
	2022	**2021**	**2020**
	NIS millions	**NIS millions**	**NIS millions**
Income			
Income from services	**1,791**	1,642	1,591
Income from sale of end equipment	**608**	647	595
Total income from services and sales	**2,399**	2,289	2,186
Operating expenses			
General and 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)
Financing expenses (income)			
Financing expenses	**42**	23	18
Financing income	**(68)**	(65)	(66)
Financing income, net	**(26)**	(42)	(48)
Profit (loss) before income taxes	**219**	84	(36)
Income tax expenses (income)	**54**	20	(11)
Profit (loss) for the year	**165**	64	(25)

31.3. Bezeq International Ltd.

Data from the statement of financial position:

	December 31, 2022	December 31, 2021
	NIS millions	NIS millions
Current property	**396**	472
Non-current property	**364**	311
Total property	**760**	783
Current liabilities	**431**	409
Non-current liabilities	**139**	157
Total liabilities	**570**	566
Equity	**190**	217
Total liabilities and equity	**760**	783

Data from the statement of income:

	Year ended December 31		
	2022	**2021**	**2020**
	NIS millions	**NIS millions**	**NIS millions**
Income	**1,239**	1,237	1,271
Operating expenses			
Operating, general and depreciation expenses	**827**	799	802
Salaries	**237**	237	248
Depreciation, amortization and impairments	**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)
Financing expenses (income)			
Financing expenses	**9**	5	5
Financing income	**(8)**	(3)	(3)
Financing expenses, net	**1**	2	2
Profit (loss) before income taxes	**(31)**	20	(243)
Income tax	**1**	12	32
Profit (loss) for the year	**(32)**	8	(275)

31.4. DBS Satellite Services (1998) Ltd.

Data from the statement of financial position:

	December 31, 2022	December 31, 2021
	NIS millions	NIS millions
Current property	**196**	196
Non-current property	**241**	230
Total property	**437**	426
Current liabilities	**395**	394
Non-current liabilities	**74**	80
Total liabilities	**469**	474
Equity	**(32)**	(48)
Total liabilities and equity	**437**	426

Data from the statement of income:

	Year ended December 31		
	2022	**2021**	**2020**
	NIS millions	NIS millions	NIS millions
Income	**1,277**	1,270	1,287
Operating expenses			
Operating, general and depreciation expenses	**867**	835	857
Salaries	**200**	188	203
Depreciation, amortization and impairments	**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
Financing expenses (income)			
Financing expenses	**8**	4	15
Financing income	**(14)**	(3)	(2)
Financing expenses, net	**(6)**	1	13
Profit before income taxes	**14**	31	26
Income tax	**1**	1	2
Profit for the year	**13**	30	24

32. Material events during and after the reporting period

32.1. In December 2022, Bezeq signed an agreement to provide an indefeasible right of use service in the BSA fiber service to Partner. See Note 21.1 above.

32.2. See Note 12.6 above regarding the decision of Bezeq’s Board of Directors dated March 13, 2023 regarding the update of Bezeq's dividend distribution policy and the resolution of the Bezeq Board of Directors to recommend to the Bezeq general assembly on the distribution of a dividend.

Separate Financial Information for the Year Ended December 31, 2022

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Somekh Chaikin
KPMG Millennium Tower
17 HaArbaa Street P.O.B. 609
Tel Aviv 6100601
03 684 8000

To
Shareholders of B Communications Ltd.

Dear Sir / Madame,
Re: Special report of the auditors on separate financial information under Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We audited the separate financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of B. Communications Ltd. (hereinafter – "the Company") as of December 31, 2022 and 2021 and for each of the three years the last of which ended on December 31, 2022. The separate financial information is within the responsibility of the Company's Board of Directors and Management. It is our responsibility to provide an opinion on the separate financial information for said based on our review.

We conducted our audit in accordance with auditing standards accepted in Israel. According to these standards, we are required to plan and perform the audit in order to obtain a reasonable degree of assurance that the separate financial information is not materially misrepresented. An audit includes a sample examination of evidence supporting the amounts and details included in the separate financial information. An audit also includes an examination of the accounting rules applied in preparing the separate financial information and of the significant estimates made by the Company's Board of Directors and Management, as well as an assessment of the adequacy of the presentation of the separate financial information. We believe that our audit and the other auditors' reports provide an adequate basis for our opinion.

In our opinion, based on our audit, the separate financial information has been prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Without limiting our above opinion, we draw attention to what is stated in Note 1 which refers to Note 1.3 to the consolidated statements, regarding the investigation by the Securities Authority and the Israel Police of a suspicion of committing offenses under the Securities Law and the Penal Code concerning, *inter alia,* transactions related to the former controlling shareholder and the notice of the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of prosecuting the Company and holding a hearing for suspicions of the offense of bribery and the offense of reporting with the aim of misleading a reasonable investor, and what is stated in this note regarding the filing of indictments against the former controlling shareholder in the Company in various offenses, among other things, for offenses of bribery and causing misleading detail in immediate reporting, and regarding the filing of an indictment against the former controlling shareholder of the Company and former senior officers of Bezeq Group, which attributes to the defendants fraudulent receipt and reporting offenses under the Securities Law. Also, following the opening of the aforementioned investigation, a number of civil legal proceedings were opened against the Company, former officers of the Company as well as companies from the group that previously controlled the Company, including motions for the approval of class actions. As stated in the above note, at this stage the Company is unable to assess the effects of the investigations, their findings and results on the Company as well as on the statements and estimates used in the preparation of these reports, if any.

In addition, without limiting our above opinion, we draw attention to what is stated in Note 17 to the Company's consolidated statements regarding claims filed against Group companies, which cannot be estimated or for which the exposure cannot yet be calculated.

Somekh Chaikin
Certified Public Accountants

March 14, 2023

Separate Statement of Financial Position as of December 31,

	Note	2022 NIS millions	2021 NIS millions
Assets			
Cash and cash equivalents		**13**	25
Short-term investments and deposits	**3**	**63**	180
Other receivables		**1**	14
Total current assets		**77**	219
Long-term deposits		**27**	79
Investment in equity-accounted investee	**4**	**1,864**	1,724
Total non-current assets		**1,891**	1,803
Total assets		**1,968**	2,022
Liabilities			
Other payables	**5**	**9**	7
Total current liabilities		**9**	7
Debentures	**6**	**1,905**	1,999
Total non-current liabilities		**1,905**	1,999
Total liabilities		**1,914**	2,006
Shareholders' equity	**8**	**54**	16
Total liabilities and shareholders' equity		**1,968**	2,022

Darren Glatt Chairman of the Board of Directors	**Tomer Raved** CEO	**Itzik Tadmor** CFO

Date of approval of the financial statements: March 14, 2023

The notes attached to the financial information constitute an integral part thereof.

Income Statement for the year ended December 31

	Note	2022 NIS millions	2021 NIS millions	2020 NIS millions
Operating expenses				
Salaries		**5**	5	3
General and operating expenses		**7**	8	8
Total operating expenses		**12**	13	11
Operating loss		**(12)**	(13)	(11)
Financing expenses (income)	9			
Financing expenses		**106**	184	110
Financing income		**(9)**	(10)	(6)
Financing expenses, net		**97**	174	104
Loss after financing expenses, net		**(109)**	(187)	(115)
Share in profit of equity-accounted investee		**267**	316	265
Profit before tax		**158**	**129**	**150**
Income tax		**-**	-	7
Net profit for the year		**158**	129	157

Comprehensive income for the year ended December 31

	2022 NIS millions	2021 NIS millions	2020 NIS millions
Net profit for the year	**158**	129	157
Other comprehensive income (loss), net of tax	**13**	10	(3)
Total comprehensive income for the year	**171**	139	154

The notes attached to the financial information constitute an integral part thereof.

Cash Flows Statement

	2022	2021	2020
	NIS millions	NIS millions	NIS millions
Cash flows from current activity			
Net profit for the year	**158**	129	157
Adjustments to profit:			
Share in profit of equity-accounted investee	**(267)**	(316)	(265)
Financing expenses, net	**96**	174	106
Share-based compensation	**1**	-	-
Change in trade payables	**2**	-	(7)
Change in other receivables	**3**	10	(1)
Net cash used for current activities	**(9)**	(3)	(10)
Cash flows from investing activities			
Change in deposits and investments, net	**163**	66	(229)
Investment in an affiliate	**(15)**	-	(40)
Dividend received from subsidiary	**143**	-	-
Interest and dividend received in cash	**2**	1	2
Net cash generated from (used for) investing activities	**293**	67	(267)
Cash flows from financing activities			
Issuance of debentures	**-**	1,035	-
Repayment of debentures	**(100)**	(1,015)	-
Buyback of shares	**(121)**	(16)	-
Interest paid	**(75)**	(79)	(78)
Early repayment fees	**-**	(19)	-
Net compensation for the Horev claim	**-**	-	(3)
Net cash used for financing activities	**(296)**	(94)	(81)
Decrease in cash and cash equivalents	**(12)**	(30)	(358)
Cash and cash equivalents at the beginning of the period	**25**	55	413
Cash and cash equivalents at the end of the period	**13**	25	55

The notes attached to the financial information constitute an integral part thereof

1. General

The following are financial data from the Group's consolidated statements as of December 31, 2022 (hereinafter - "Consolidated Statements"), which are published as part of the periodic reports, attributed to the company itself (hereinafter - "Separate Financial Information"), presented in accordance with Regulation 9C (hereinafter - "the Regulation") and the tenth schedule (hereinafter – “the Tenth Schedule") to the Securities Regulations (Periodic and Immediate Reporting),5730-1970 regarding the separate financial information of the corporation.

The separate financial information should be read together with the Consolidated Statements.
In this separate financial information -

"The Company" - "B Communications Ltd."

"Included Company", "consolidated company", "the Group", "Investee", "related party": as these terms are defined in the Group’s 2022 Consolidated Statements.

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

2. Explanation of the main accounting policies applied in the separate financial information

The accounting policy rules detailed in the Consolidated Statements were consistently applied to all periods presented in the separate financial information by the Company, including the manner in which the financial data was classified within the Consolidated Statements with the changes required by the following:

2.1. Presentation of financial data

The data on the financial position, income, comprehensive income, and cash flows include information contained in the Consolidated Statements and attributed to the Company itself. The investment balances and the results of the operations of investees are handled according to the balance sheet value method. Cash flows in respect of current activity, investment activity, and financing activity in respect of transactions with investees are shown separately on the net, within the relevant activity according to the essence of the transaction.

2.2. New standards not yet adopted

Regarding new standards that have not yet been adopted, see Note 3.20 to the Consolidated Statements.

3. Short-term investments and deposits

	December 31, 2022	December 31, 2021
	NIS millions	NIS millions
Investments in marketable securities	**8**	99
Short-term deposits (1)	**55**	81
	63	180

(1) The deposits are due until May 2023.

4. Consolidated companies

Consolidated companies directly held by the Company:

	Company rights in equity		Investment in consolidated company (according to balance sheet value method) as of	
	December 31, 2022	December 31, 2022	December 31, 2022	December 31, 2021
	%	%	NIS millions	NIS millions
Bezeq	**26.81%**	26.72%	**1,864**	1,724
			1,864	1,724

4.1. As of October 11, 2021, all Bezeq shares held by the Company are directly held by the Company, after on that day all Bezeq shares held by B Communications (SP2) Ltd. (a company fully owned and controlled by B Communications) were transferred to the direct holding of B Communications (SP1) Ltd. which is fully owned and controlled by the Company). After the transfer of Bezeq shares to the Company, the companies B Communications (SP2) Ltd. and B Communications (SP1) Ltd. were closed.

4.2. On December 28, 2022, the Company purchased 2,530,000 ordinary shares of the subsidiary Bezeq. The Company purchased shares as mentioned in exchange for payment of a total amount of approximately NIS 15 million and at an average price of NIS 5.95 per share. After the aforementioned purchase, the Company held 26.81% of the issued share capital and voting rights in the subsidiary (before the acquisition, the Company's holding rate was 26.72%).

4.3. <u>Bezeq’s dividend distribution policy</u>

On March 13, 2023, Bezeq’s Board of Directors decided to update Bezeq's dividend policy so that Bezeq will distribute every six months 60% of the semi-annual profit (after tax), according to its consolidated statements, starting with the next distribution (for the second half of 2022), this is in view of the improvement trend in the business results, and the continued decrease in the scope of its debt, and in accordance with its forecasts regarding its business results for the coming years.

In addition, Bezeq will strive to update its dividend policy to the distribution of 70% of the semi-annual profit (after tax) according to its consolidated financial statements, subject to maintaining its credit rating in the AA group.

The approval of Bezeq's dividend policy does not oblige Bezeq to distribute a dividend to Bezeq's shareholders, and each specific distribution will be examined individually in accordance with the conditions of implementation of the dividend distribution policy as stated above. In addition, the approval of the aforementioned policy does not prevent Bezeq's Board of Directors from periodically reviewing the dividend distribution policy to Bezeq shareholders, taking into account, among other things, the provisions of the law, Bezeq's business situation and its plans and its equity structure, and while maintaining a balance between ensuring Bezeq's financial strength and stability, including its debt level and credit rating, and continuing to bring value to Bezeq's shareholders through regular dividend distribution.

Bezeq's Board of Directors considers it important to maintain the balance between ensuring Bezeq's financial strength and stability, while maintaining a rating in Bezeq's current rating group [AA] over time, and continuing to unlock value to its shareholders through regular dividend distribution.

Bezeq's Board of Directors was presented, among other things, with analysis and results of professional work, Bezeq's and Bezeq Group's forecasts, as well as sensitivity analyzes for unexpected adverse events in Bezeq's and Bezeq Group's businesses. After Bezeq's Board of Directors examined all of the above, the Board of Directors determined that this decision reflects the correct balance between these needs as described above.

4.4. Dividend distribution by Bezeq

A. On April 28, 2022, the general assembly of Bezeq's shareholders approved (following the recommendation of the Bezeq's Board of Directors of March 22, 2022) the distribution of a cash dividend to Bezeq's shareholders in the total amount of NIS 240 million (which, as of the day determining the distribution, constitutes NIS 0.0867823 per share). The dividend was paid on May 16, 2022. The Company's share of the aforementioned dividend is approximately NIS 64 million.

B. On September 14, 2022, the general assembly of Bezeq's shareholders (following the recommendation of the Bezeq Board of Directors of August 9, 2022) approved the distribution of a cash dividend to Bezeq's shareholders in a total amount of 294 million NIS (which, as of the day determining the distribution, is 0.1063081 NIS per share). The dividend was paid on October 3, 2022. The Company's share of the aforementioned dividend is approximately NIS 78 million.

C. On March 13, 2023, Bezeq's Board of Directors decided to recommend to the general assembly of Bezeq shareholders to distribute a cash dividend to Bezeq shareholders in a total basket of NIS 246 million. As of the date of approval of the financial statements, the aforementioned dividend has not yet been approved by the Bezeq general assembly. The Company's share in the aforementioned dividend (subject to the approval of the general assembly of Bezeq's shareholders) is approximately NIS 66 million.

5. Trade payables

	December 31, 2022	**December 31, 2021**
	NIS millions	**NIS millions**
Other payables	**3**	1
Interest payable	**6**	6
	9	7

Debentures

	December 31, 2022		December 31, 2021	
	Carrying amount	Par value	Carrying amount	Par value
	NIS millions	NIS millions	NIS millions	NIS millions
Debentures issued to the public:				
Series C	**479**	**497**	951	1,010
Series F	**1,425**	**1,472**	1,035	1,040
Total debentures	**1,905**	**1,969**	1,986	2,050

5.1. On July 6, 2021, the Company held a tender for the purchase of Series F debentures, in which approximately NIS 394 million par value were issued to institutional entities and the public for approximately NIS 394 million in Series F. The annual interest rate (non-linked) set in the tender is 3.65%. The interest for the series F debentures will be paid in two semi-annual payments on May 31 and November 30 of each year, starting from November 2021 until November 2026. The debenture principal will be repaid in one payment on November 30, 2026. The proceeds of the net issuance of the series F debentures were used by the Company to make early repayments of its existing debentures as of that date as detailed below.

5.2. On July 19, 2021, the Company made a full early repayment of the Series D debenture principal (plus accrued interest up to the maturity date) and a full early repayment of the Series E debenture principal (plus accrued interest up to the maturity date and an early repayment penalty as defined in the trust deed of the series E debentures). In addition, the Company made a partial early repayment of approximately NIS 226 million par value on the series C debentures (plus accrued interest until the maturity date). After making the early repayments, series D and E were repaid in full and delisted from trading on the Tel Aviv securities exchange.

5.3. On December 7, 2021, the Company issued to institutional entities and the public approximately NIS 485 million in series F debentures for approximately NIS 488 million par value in series F debentures. The proceeds of the net issuance of the series F debentures were used by the Company to make a partial early repayment of approx. NIS 471 million par value in respect of its existing Series C debentures at that date (in addition to accrued interest up to the maturity date and an early repayment penalty as defined in the trust deed of the Series C debentures).

5.4. On December 9, 2021, the Company held a private offering of approximately NIS 161 million par value in series F debentures for approximately NIS 161 million. The proceeds of the net issuance of the series F debentures were used by the Company to make a partial early repayment of approximately NIS 157 million par value in its existing Series C debentures as of that date (in addition to accrued interest up to the maturity date and an early repayment penalty as defined in the trust deed of the Series C debentures).

5.5. On January 10, 2022, the Company made an exchange of approximately NIS 417 million par value in series C debentures in exchange for approximately NIS 432 million par value in series F debentures.

5.6. On June 30, 2022, the Company made a partial early repayment of approximately NIS 100 million par value in Series C debentures (plus accrued interest up to the maturity date).

5.7. During the third quarter of 2022, B Communications 2 Limited Partnership transferred to the Company the balance of the Company's Series C debentures, which were held by it in the amount of approximately NIS 10 million. After the debentures were transferred to the Company, the said debentures were withdrawn from the Stock Exchange clearinghouse and delisted from the trading cycle.

5.8. For more details, see Note 13 to the Consolidated Statements.

6. Contingent liabilities

6.1. In June 2017, two motions for approval of a class action totaling NIS 1.8 billion were filed against the Company, Bezeq, Group officers, as well as companies from the former controlling group of the Company and Bezeq regarding the DBS shares transaction by Bezeq from Eurocom. In accordance with a Court decision, a consolidated motion is expected to replace these two motions. 17.2 In the company's united financial statements. According to the Company's legal adviser, at this preliminary stage, the chance of approval of the motion cannot be estimated.

6.2. See also Note 17 to the Company's Consolidated Financial Statements.

7. Shareholders' equity

Ordinary shares of NIS 0.1 par value

	Ordinary shares	
	December 31, 2022	**December 31, 2021**
Registered share capital	**300,000,000**	300,000,000
Issued and paid-up share capital	**116,335,793**	116,335,793
Treasury shares	**(9,080,317)**	(1,476,803)
Issued and paid-up share capital, net	**107,255,476**	114,858,990

7.1. On March 31, 2021, the Company's general assembly approved the increase in the Company's registered share capital, so that after the registered equity increases as stated, the Company's registered equity will be NIS 30,000,000, divided into 300,000 ordinary shares of NIS 0.1 each, and an amendment of the Company's Bylaws was approved accordingly.

7.2. On November 30, 2021, the Company's Board of Directors approved a self-purchase of its shares up to NIS 30 million. As part of the said purchase plan, the Company acquired in 2021 a total of 1,457,573 of its shares and in 2022 a total of 820,360 of its shares for NIS 30 million.

7.3. On March 23, 2022, the Company's Board of Directors approved another self-purchase of the Company's shares up to NIS 20 million. As part of the said purchase plan, the Company acquired a total of 1,349,829 of its shares for NIS 20 million.

7.4. On May 24, 2022, the Company's Board of Directors approved another self-purchase of the Company's shares of NIS 30 million.

7.5. On May 31, the Company purchased a total of 730,000 of its shares for about NIS 10 million in a transaction made off the stock exchange.

7.6. On August 9, 2022, the Company's Board of Directors approved a self-purchase plan of the Company's shares up to NIS 25 million.

7.7. On November 15, 2022, the Company's Board of Directors approved a self-purchase plan of the Company's shares up to NIS 25 million.

7.8. As of December 31, 2022, Searchlight and the Forer family held 65.26% and 12.35%, respectively, of the Company's issued and paid-up share capital.

8. Financing expenses

	Year ended December 31	Year ended December 31	Year ended December 31
	2022	**2021**	**2020**
	NIS millions	**NIS millions**	**NIS millions**
Interest expenses	**98**	165	110
Change in fair value of financial assets measured at fair value through income	**8**	-	-
Early repayment fees	**-**	19	-
Total financing expenses	**106**	184	110
Profits from investments in marketable securities and bank deposits	**2**	10	6
Income from debenture exchange	**7**	-	-
Total financing income	**9**	10	6
Financing expenses. Net	**97**	174	104

9. Income Tax

The Company has final tax assessments until 2018.

10. Share-based compensation

During the year 2022, the Company allocated 3,350,000 options exercisable into 3,350,000 ordinary Company shares to Company officers. The vesting period of the options granted to the Company's officers is 3 years.

Salaries expenses recognized by the Company for share-based compensation:

	Year ended December 31		
	2022	**2021**	**2020**
	NIS thousands	**NIS thousands**	**NIS thousands**
Salaries expenses	520	280	280

11. Liquidity risk

The following are the forecasted repayment dates of financial liabilities, including interest payment estimate (based on the interest data know as of December 31, 2022):

	December 31, 2022					
	Carrying amount	Contractual cash flow	Q1/2023	Q2/2023	2024	2025-2026
	NIS millions					
Non-derivative financial commitments						
Trade and other payables	**9**	**9**	**9**	**-**	**-**	**-**
Debentures	**1,905**	**2,216**	**31**	**36**	**570**	**1,579**
Total	**1,914**	**2,225**	**40**	**36**	**570**	**1,579**

12. Events during and after the reporting period

12.1. Regarding the investigation by the Securities Authority and the police, see Note 1.3 to the Consolidated Financial Statements.

12.2. For information on the topic of the epidemic - the outbreak of COVID-19, see Note 1.4 to the Consolidated Financial Statements.

12.3. Regarding the impairment loss in respect of the companies Bezeq International and DBS, the goodwill impairment test at Bezeq Landline and the asset impairment test at Pelephone, see Note 10 to the Consolidated Statements.

12.4. See Note 12.1.2 to the Consolidated Financial Statements regarding structural change in subsidiaries.

12.5. For information regarding the retirement of employees in the Bezeq Group, see Note 16.5 to the Consolidated Financial Statements.

12.6. For information regarding the decision of the Bezeq Board of Directors dated March 13, 2023 regarding the update of Bezeq's dividend distribution policy and the decision of the Bezeq Board of Directors to recommend to the Bezeq General Meeting on the distribution of a dividend, see Note 12.6 to the Consolidated Financial Statements.

12.7. For information regarding material events during and after the reporting period, see Note 32 to the Consolidated Financial Statements.

Chapter IV

Additional Details about the Corporation and Corporate Governance Questionnaire

for the Period ended December 31, 2022

Regulation 10a: Condensed statements of consolidated quarterly income for each of the quarters in the reported year

See Section 1.3 of the Board of Directors' report attached in the second part of this report.

Regulation 10c: Use of proceeds from securities

During the reporting period, security proceeds were not used. For details about the issuance of debentures (series 6) of the Company against debentures (series C) of the Company, as part of an exchange purchase offer, see Regulation 20 below.

Regulation 11: List of investments in subsidiaries as of the date of the statement of the financial position

Company Name	Name of holder	Share type	Number of shares held	Total par value	Rate of holding of the issued capital and voting rights	Rate of holding of the right to appoint directors	Value in the Company's separate financial statement (NIS millions)
Bezeq the Israel Telecommunication Corporation Ltd. ("Bezeq")	The Company	Ordinary NIS 1 par value	741,483,713	741,483,713	26.80%	26.80%	1,864

Regulation 12: Changes in investments in subsidiaries during the reported period

On December 28, 2022, the Company purchased 2,350,000 ordinary shares of Bezeq, in transactions during trading on the stock exchange, in exchange for payment of a total amount of approximately NIS 15 million and at an average price of NIS 5.95 per Bezeq share..

Regulation 13: Revenue of subsidiaries and revenue of the corporation therefrom as of the date of the statement of financial position (NIS millions)

Company name	Profit for the period	Comprehensive profit for the period	Dividend	Management fee	Interest received
Bezeq	1,000	1,050	534	-	-

Regulation 20: Trading on the stock exchange

To the best of the Company's knowledge, during the reporting period, there was no cessation of trading in the Company's securities listed for trading.

In January 2022, the Company published a shelf offer report in the form of a full exchange purchase offer, in which the Company approached the holders of the Company's debentures (series C) with an offer to purchase up to NIS 1,023,652,972 par value of the debentures (series C) (which constituted approx. - 100% of the total par value of the debentures (series C) in circulation as of the date of the shelf offer report), in exchange for the Company's debentures (series F). The exchange purchase offer was accepted by holders of NIS 417,016,080 par value debentures (series C), which accounted for approximately 40.7% of the total debentures (series C) in circulation as of the date of the shelf offer report. In accordance with the response of the holders of the debentures (series C) as stated, the Company allocated a total of NIS 431,611,642 par value debentures (series F). The exchange of the debentures (series C) of the Company, which have a short interest rate In relation to the Company's debentures (series F), allows the Company greater flexibility in managing its free cash flow. For the avoidance of doubt, the exchange purchase offer did not result from a debt arrangement due to financial difficulties, as this term is defined in the Securities Regulations (Periodic and Immediate Reporting), 5730-1970 For more details, see immediate reports published by the Company on January 5, 2022 and January 16, 2022 (Ref:: 2022-01-002824 and 2022-01-007119, respectively), which are included in this report by way of reference.

Regulation 21: Remuneration for related parties and senior officers

The following is a breakdown of the remuneration paid by the Company, or paid by the companies under its control (including commitments to provide remuneration), during the year 2022: (1) to each of the five holders of the highest remunerations among the senior office holders in the Company or in the companies under its control, and which were given to them in connection with their office in the Company or in a company under its control , whether the payments were made by the Company or by a company under its control or whether by another; and (2) rewards for the three senior officers with the highest remunerations in the Company itself, which were given to them in connection with their office in the Company.

Details of remunerated persons					Remuneration (NIS thousands)				Total (NIS thousands)	Section below
Name	Position	Sex	Job volume	Holding rate in the corporation equity	Salary[1]	Bonus[2]	Share-based payment	Other	Total	
Tomer Raved	CEO	Male	Full-time	-	1,456	1,172	510	343[3]	3,481	A
Itzik Tadmor	CFO	Male	Full-time	-	695	198	10	-	903	B
Ilan Chaikin	Internal auditor	Male	Full-time	-	61	-	-	-	61	C
Gil Sharon	Bezeq Chariman	Male	Full-time	-	2,712	2,041[4]	2,427	-	7,180	D
Ran Guron	Bezeq CEO	Male	Full-time	-	2,711	2,591	1,820	-	7,122	E
Directors	Director	-	Full-time	-	720	-	-	-	720	F

The group did not pay any of the office bearers listed in the table above payments for the year 2022 which were not listed in the aforementioned table and which were not recognized in the statements for the reporting year.

<u>The following is a breakdown of the terms of engagement with the stakeholders and officers listed in the table above:</u>

a. <u>Tomer Raved</u>

Mr. Raved has served as the Company's CEO since January 2020, and also served as a director in the Company from January 2020 to November 2021, and as a director in Bezeq starting in May 2020. According to the employment agreement with him, which was approved at the Company's general assembly on February 13, 2020, Mr. Raved is entitled to an annual salary according to the cost of an employee from an employer of NIS 1.4 million including social and related benefits as accepted by the company and in accordance with the company's compensation policy (recovery

[1] Regarding senior executives at Bezeq, wage amounts include the cost of wages (employer cost) and the ancillary wage components, including benefits and social conditions, such as coverage of telephone expenses, a personal vehicle of the type customary in the Group (cost of leasing or depreciation expenses and reimbursement of expenses instead of using a company vehicle), study fund (for some of the managers), deposit in a pension fund and deposits due to termination of employee-employer relationship (for employees subject to Article 14 of the Compensation Law), reimbursement of expenses and quota of vacation days, sick and annual convalescence as customary, expenses for holiday gift to employee (grossing amount), fees for membership in professional organizations paid for the employee (outside the employee's occupation) and also, to the extent that a loan was made to the employee - the value of the grossing benefit in the interest that the loan bears.

[2] Regarding senior executives at Bezeq , the bonus amounts listed in the table are as recognized in the 2022 statements and include a performance-dependant bonus as well as special bonuses (for details regarding each of the officers see details in sections D-E after the table below), all in accordance with Bezeq's remuneration policy. The performance-dependent bonus that appears in the table is for the year 2022 (but not yet paid to senior executives as of the date of the report) and includes a contingent portion that will be paid in practice to the aforementioned Bezeq officers according to the distribution described in the notes to the table. During 2022, bonuses were paid to the above officers for 2021, the amount of which [including a contingent portion not paid in practice in 2022, but paid in practice in 2023 (if any) is included in the corresponding table in Bezeq's annual statements for 2021 (as published on March 23, 2022).

[3] This amount reflects a grant given to Mr. Tomer Raved, the Company's CEO for the year 2020 and for the year 2021.

[4] The amount of Mr. Sharon's grant component included in the table, includes an annual discretionary grant approved by Bezeq's general meeting on April 28, 2022 to the Chairman of the Board of Directors for the year 2021. For more details, see the general meeting summons report dated March 23, 2022, as amended on April 14 2022, which is hereby incorporated by reference. Since the grant was approved after the approval of the 2021 statements, it is included in the 2022 statements, and accordingly, included in the table above.

fees, training fund, pension, sick pay, vacation days, mobile phone, business expenses and national insurance, excluding car expenses).

In addition, in respect of his office as a director in Bezeq, Mr. Raved is entitled to an annual remuneration and a participation fee in the amount determined by an external expert in accordance with the Remuneration Regulations, as they will be from time to time and in accordance with Bezeq's classification at the relevant time.

In addition, Mr. Raved is entitled to be included in the liability insurance for directors and officers and for indemnification as is customary in the Company, as are all other officers in the Company.

As of the date of the report, Mr. Raved was granted 5,927,362 unlisted options, exercisable into the Company's shares, which as of the date of publication fo this report, amount to approximately 2.23% of the issued and paid-up share equity of the Company, fully diluted. It should be noted that out of the total options held by Mr. Raved, a total of 2,677,362 unlisted options were allocated as part of a previous allocation ("**the Previous Allocation**"), and Mr. Raved signed an irrevocable commitment according to which he undertakes not to exercise the options allocated to him as part of the Previous Allocation. For more details about the terms of the remaining options, see the meeting notice published by the Company on June 22, 2022 (Ref.: 2022-01-077395), which is included in this report by way of reference ("**the Option Allocation Notice**").

The employment agreement with Mr. Raved can be terminated by the Company with up to 6 months notice. Mr. Raved may terminate his employment at any time with 30 days notice.

b. Itzik Tadmor

As of January 2019, Mr. Tadmor is employed as the Company's CFO. Mr. Tadmor served as the Company's Principal Financial Officer from May 2015 until January 2019. According to the employment agreement with him, Mr. Tadmor is entitled to a gross monthly salary of NIS 46 thousand and social and ancillary benefits as customary (vacation days, executive insurance, study fund, etc.). In accordance with the employment agreement with him, if he continues to work for the Company until December 2023, he will be entitled to a retention bonus. Mr. Tadmor is also entitled to liability insurance for directors and officers and indemnification as is customary in the Company, as are all other officers in the Company. The employment agreement with Mr. Tadmor can be terminated by the Company with 3 months notice. Mr. Tadmor may terminate his employment at any time with 3 months notice.

In July 2022, Mr. Tadmor was granted 100,000 unlisted options exercisable into the company's shares, which, as of the publication date of this report, constitute approximately 0.09% of the company's fully diluted issued and paid-up share equity. For more details about the terms of the granted options, see the call for the allocation of options, as defined above.

c. Ilan Chaikin

Ilan Chaikin is employed as the internal auditor of the Company. Mr. Chaikin is entitled to a fee at a rate of NIS 240 per hour plus VAT. During 2022, Mr. Chaikin's fee amounted to approximately NIS 60k. For further details, see Section 2.5 of the Company's Board of Directors' report as of December 31, 2022, in Chapter B of the periodic report.

d. Gil Sharon

Employed as a director and Chairman of the Bezeq Board of Directors, as well as as the Chairman of the Bezeq Boards of Directors of all subsidiaries in Bezeq Group as of August 27, 2020, within the framework of a personal employment agreement dated December 10, 2020 as updated on May 17, 2022 (in this section: "**the Employment Agreement**"), and as part of this, he provides the services as follows: (1) Navigating Bezeq and outlining its strategic operation, while implementing the strategy determined by Bezeq's Board of Directors; (2) Promoting Bezeq and its development and

(3) Performing, among other things, the duties assigned to him in accordance with the powers of the Chairman of the Board of Directors and his duties, in accordance with the provisions of any law, including Bezeq's Bylaws and procedures, as will be updated from time to time. His total monthly salary (gross) amounts to a total of about NIS 170k. The contract is for an unlimited period, with the right for each party to bring it to an end at any time and for any reason with a notice of 3 months in advance by any of the parties. Also, 12,000,000 options were granted to Mr. Gil Sharon. For additional details regarding the terms of office and employment of Mr. Gil Sharon as Chairman of the Bezeq Board of Directors, see the general assembly convening report as published on December 12, 2020, which is hereby referenced, and for additional details regarding the terms of said options, see the corrective report regarding the outline for granting options to employees and the material private offer report dated May 9, 2022. The fair value of the options at the time of their grant (calculated according to the Monte Carlo model) is approximately NIS 9.3 million.

Mr. Sharon's bonus targets for 2022[5] as Chairman of the Board of Directors were determined in advance by the Bezeq Board of Directors in December 2021 and included: Group-adjusted EBITDA[6] target weighing 50% in the bonus calculation; Group-adjusted net profit target weighing 25%; and a Group-adjusted free cash flow (FCF) target weighing 25%. The compliance rate of the Chairman of the Board of Directors in the set of bonus targets for 2022 was 120.25%. The threshold condition for receiving the bonus was that the Group-adjusted EBITDA results for 2022 (NIS 3,404.8 million) did not decrease by more than 40% of the Group-adjusted EBITDA results In 2021 (NIS 3,319.1 million) - this condition has been met. The ceiling of the performance-dependent grant to the Chairman of the Board of Directors is limited in accordance with the provisions of Bezeq's remuneration policy at up to 75% of the annual base salary (9 salaries). Accordingly, the bonus that will be awarded to the Chairman of the Board of Directors for the year 2022 is 75% of the annual salary. It should be noted that, for the purpose of calculating the achievement of the targets for the year 2022, the event of reducing the telephony rates that was not included in the Bezeq budget for the year 2022 was not taken into account, in accordance with the remuneration policy and in accordance with the approval of the Board of Directors from December 2021. Mr. Gil Sharon will be entitled to 40% of the remuneration for meeting the Group-adjusted EBITDA target in 2022 only in 2024 (after the date of approval of the financial statements for 2023) and only if the minimum Group-adjusted EBITDA target established in relation to the 2023 budget year is achieved .

It should be noted that after the year of the report, Bezeq's Board of Directors approved on March 13, 2023, after the approval of Bezeq's Remuneration Committee on March 1, 2023, payment of a special grant in the amount of 3 monthly salaries to Mr. Gil Sharon for the year 2022 (in this section: "**the Grant**"), And this is subject to the approval of the annual general meeting of Bezeq's shareholders, which is to be held on April 20, 2023. For more details about the grant as well as about a proposed amendment to Bezeq's remuneration policy, see the general assembly convening report which is published together with this report and is hereby incorporated by reference ("**Annual General Assembly Convening Report**").

e. <u>Ran Guron</u>

Mr. Guron was employed as the CEO of the three material subsidiaries of the Bezeq Group: Pelephone, Bezeq International and DBS (hereafter in this section, jointly: "**the Subsidiaries**") until June 18, 2022, and as of June 19, 2022 he is employed as CEO Bezeq, as part of a personal

[5] In accordance with the amendment of the remuneration policy and the terms of office and employment of the Chairman of the Board of Directors, as approved by the general assembly on April 28, 2022 (for more details, see the general assembly convening report of March 23, 2022, as amended on April 14, 2022, which is hereby incorporated by way of reference).

[6] See Footnote 6 above.

employment agreement dated May 8, 2022 (in this section: "**the Employment Agreement**"). As of January 1, 2019, the total (gross) monthly salary of Mr. Guron amounts to approximately NIS 153k , linked to the Consumer Price Index. The contract is for an unlimited period, with the right of either party to terminate it at any time with 6 months in advance by any of the parties. Also, 12,000,000 options were granted to Mr. Gil Sharon. For additional details regarding the terms of office and employment of Mr. Gil Sharon as Chairman of the Bezeq Board of Directors, see the general assembly convening report as published on December 12, 2020, which is hereby referenced, and for additional details regarding the terms of said options, see the corrective report regarding the outline for granting options to employees and the material private offer report dated May 9, 2022. The fair value of the options at the time of their grant (calculated according to the Monte Carlo model) is approximately NIS 9.3 million.

Mr. Guron's bonus targets for 2022 in his position as CEO of the subsidiaries were determined in advance by the Bezeq Board of Directors in December 2021, after approval by the Bezeq Remuneration Committee, and included: an aggregate adjusted EBITDA[7] target for the subsidiaries that weighs 60% in the bonus calculation; Adjusted EBITDA target less aggregate CAPEX for the subsidiaries (CAPEX in flow terms) which weighs 10%; Adjusted EBITDA target by company - a combined target[8] with a weight of 15%; The evaluation target for the Chairman of the Board of Directors to address the essential weakness in Bezeq International, which weighs 5%; and the manager evaluation target, which weighs 10%. The threshold condition for receiving the bonus was that the results of the aggregate adjusted EBITDA for the subsidiaries for the year 2022 (NIS 883 million), did not fall by more than 40% of the aggregate adjusted EBITDA results for the subsidiaries in 2021 (NIS 799 million) - this condition has been met.

Mr. Guron's bonus targets for 2022 in his role as Bezeq CEO were set in advance by the Bezeq Board of Directors, for the previous Bezeq CEO, in December 2021, and were applied to Mr. Guron at the time of approval of the terms of his office and employment by the Bezeq Board of Directors in May 2022, and included: Adjusted EBITDA[9] target for Bezeq (solo) whose weight is 50% in the bonus calculation; Bezeq's after-tax profit target (Solo) is coordinated with a weight of 20%; Adjusted free flow target (FCF) for Bezeq (Solo) that has a weight of 20%; and a manager evaluation goal that weighs 10%. The threshold condition for receiving the bonus was that the adjusted EBITDA results for 2022 (NIS 2,534.8 million) did not decrease by more than 40% of the adjusted EBITDA results for 2021 (NIS 2,512.1 million) - this condition was met.

The Bezeq CEO's rate of compliance with the set of bonus targets for 2022 for his office as Bezeq CEO was approximately 109.5%, and his rate of compliance with the set of bonus targets for 2022 for his office as CEO of the subsidiaries was approximately 121.4%. Accordingly, the bonus that will be awarded to the CEO To Bezeq both for meeting the targets as the CEO of the subsidiaries and as the CEO of Bezeq for the year 2022 is calculated in proportion to his term of office in 2022 in each of the subsidiaries and amounts to approximately 115% of the annual salary. It should be noted that, for the purpose of calculating the achievement of targets for the year 2022, the event of the reduction of telephony rates in Bezeq, which was not included in the Bezeq budget for 2022, was not taken into account, in accordance with the remuneration policy and in accordance with the approval of the Board of Directors dated December 2021, as well as the thickening of the investment budget that was updated in accordance with the decision of the Board of Directors adopted during the year 2022 to increase the Company's fiber deployment target for this year. Mr. Ran Guron will be entitled to 40% of the remuneration for meeting the adjusted EBITDA target for Bezeq (solo) in 2022 only in 2024 (after the date of approval of the 2023 statements) and only if the minimum adjusted EBITDA target for Bezeq (solo) determined in relation to for the budget year

[7] Adjusted EBITDA for the purposes of determining the remuneration - calculated as EBITDA minus other operating expenses/revenue (net), losses/gains from impairment/increase in value (including losses from continuous depreciation), the effects of the application of the international financial reporting standard IFRS16 "Leases" and expenses for share-based payments.

[8] Pelephone 56%, DBS 29%, Bezeq International 15%.

[9] Adjusted free flow (FCF) - calculated as cash generated from current operations, minus cash for the purchase/sale of property, plant and equipment and intangible assets (net), and minus leasing payments

2023. It should be noted that Bezeq's Remuneration Committee, at its meeting on March 1, 2023, decided to release to Mr. Ran Guron, in accordance with the Company's remuneration policy, the conditional remuneration from the performance-contingent grant for serving as CEO of the subsidiaries in 2022, together with the payment of the bonus for the entire year 2022. On March 1, 2023, March 9, 2023 and March 13, 2023, the Remuneration Committee, the Boards of Directors of Bezeq's Subsidiaries and the Bezeq Board of Directors, respectively, approved a retirement bonus for the CEO of Bezeq, in the amount of 3 monthly salaries, for the end of his office in his position for approximately 6.5 years as CEO of the subsidiaries, while as part of his office, the CEO of Bezeq (in his capacity as CEO of the subsidiaries) brought the subsidiaries to good results despite increasing competition in all areas of activity of the Subsidiaries, onerous regulation and the challenging period of the Corona crisis. In his capacity as CEO of the Subsidiaries, the Company's CEO completed complex projects and led significant organizational changes and processes

f. Directors

Each director (including the Chairman of the Board of Directors) is entitled to an annual remuneration and a participation remuneration for each meeting, in the maximum amount, in accordance with the Company's classification under to the Remuneration Regulations. Directors with financial accounting expertise, as this term is defined in the Companies Regulations (Terms and Tests for a Director with Accounting and Financial Expertise and for a Director with Professional Competence), 5765-2005 are entitled to external expert director annual remuneration, as stated in the Remuneration Regulations. In addition, the directors are entitled to be included in the arrangement for liability insurance of directors and officers and indemnification as is customary in the Company, as are all other officers in the Company. In 2022, remuneration was paid to the directors of the Company in accordance with the Remuneration Regulations in the amount of NIS 720k.

Regulation 21a: The controlling shareholder in the corporation

On December 2, 2019, a debt settlement was completed between the Company and its bondholders, under which Searchlight II BZQ LP and a corporation controlled by the Forer family (TNR Investments Ltd.) acquired control of the Company (and consequently, Bezeq). The company owns Bezeq Directly. In this regard, see also Bezeq's immediate report dated December 2, 2019 regarding the Company's announcement of the completion of the said transaction, as well as Bezeq's immediate reports dated January 2, 2020 regarding holdings of stakeholders and those who became stakeholders in the corporation.

As of the date of completion of the debt settlement as aforesaid, the controlling owners of the Company are 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, which is held by a number of individuals including Eric Zinterhofer, Erol Uzumeri and Oliver Harmaann, with the latter being among the only ones to receive the Company's control permit from the Ministry of Communications. TNR is fully owned and controlled by Mr. David Forer (50%) and Mrs. Michal Forer (50%). Searchlight and TNR are considered controlling shareholders in the Company by virtue of a control permit dated November 11, 2019 and by virtue of a voting agreement between them which confers on them a cumulative holding, as of the date of this report, of approximately 72% of the voting rights in the Company.

To the best of the Company's knowledge, the shareholders' agreement between Searchlight and TNR includes, among other things, a provision according to which as long as the holdings of an "Israeli entity" in Bezeq's controlling shareholder are required, Searchlight will grant TNR power of attorney in respect of the amount of shares that will allow TNR to vote at the general meetings of the Company, an amount of shares equal to: (a) the amount of shares held by TNR on the effective date of the meeting, or (b) the amount of shares reflecting 19% of the issued capital and voting rights in the Company on the effective date of the meeting, whichever is highest. To the best of the Company's knowledge, the shareholders' agreement includes additional provisions, including a commitment by Searchlight to refrain from voting for the approval of certain issues without the consent of TNR.

For details regarding the control permit, see Section 1.1.4 in Chapter A of the periodic report.

Regulation 22: Transactions with the controlling shareholder

For details, to the best of the Company's knowledge, regarding any transaction with the controlling shareholder in the Company, or such that the controlling shareholder in the Company has a personal interest in the approval thereof, which the Company, the companies controlled thereby or related thereto entered into in the reporting year or after to the end of the reporting year and until the date of submission of this report, or it is still valid at the date of the report, as well as for details regarding Bezeq's neglibility procedure, see Note 29 to the statements.

Regulation 24: Holdings of related parties and senior executives

For details regarding the status of the holdings of interested parties in the Company, see an immediate report dated January 5, 2023 (Ref.: 2023-01-002602), which is included in this report by way of reference.

Regulation 24a: Registered capital, issued capital and convertible securities

For details regarding the registered equity, the issued equity and the convertible securities of the Company, see immediate report dated July 11, 2022 (Ref.: 2022-01-087361) included in this report by way of reference.

Regulation 24b: Register of shareholders

For the Company's shareholder register, see immediate report dated July 11, 2022 (Ref.: 2022-01-087361), included in this report by way of reference.

Regulation 25a: Registered address of the corporation

Address: 144 Menachem Begin St., Tel Aviv
Phone: 03-6796101 Fax: 03-6796111
Email: tomer@bcomm.co.il

Regulation 26: The directors of the corporation

Last name and first name	Darren Glatt, Chairman	Phil Bacal	Ran Forer	Efrat Duvdevani	Ajit V. Pai	Efrat Makov	Stephen Joseph
ID number	549871770 (foreign passport)	HP037044 (foreign passport)	066522772	23824873	536841734 (Foreign passport)	023044365	551988678 (foreign passport)
Date of birth	November 18, 1975	September 13, 1985	September 2, 1984	JUNE 10, 1968	January 10, 1973	June 17, 1968	April 10, 1980
Address for the service of court documents	144 Menachem Begin Road, Tel Aviv (at B. Communications)	144 Menachem Begin Road, Tel Aviv (at B. Communications)	2 Haysur St., Ramat Hasharon	48 Hanasi Ben Zvi St., Herzliya	144 Menachem Begin Road, Tel Aviv (at B. Communications)	118 HaTamar Road, Moshav Ben Shemen, 73115	144 Menachem Begin Road, Tel Aviv (at B. Communications)
Citizenship	American	Canadian	Israeli	Israeli	American	Israeli	British
Education	BACCY, George Washington University MBA, Harvard Business School	MBA Richard Ivey School of Business at the University of Western Ontario.	Degree in Law, IDC Herzliya, B.A. in Management, IDC Herzliya,LL.M. Commercial Law (cum laude), Tel Aviv University, M.Sc. General Management, Stanford University, Semester in Law at	Degree in International Relations and English, The Hebrew University; Degree in Public Policy - Management and Finance, Tel Aviv University	BA, Social Studies, Harvard University; J.D Law Studies, University of Chicago Law School	B.A. In Economics and Accounting from Tel Aviv University.	BSc in Business and Financial Economics from Leeds University, KPMG.

			Berkeley University				
Occupation for the past five years	Partner in the Searchlight Capital Partners and head of investments in infrastructure, communications, media and technology. Director in Bezeq, All Points Broadband (Chairman), MediaMath (Chairman), Adams Outdoor Advertising. Previously, he was also a director at the following companies: Rackspace, Charter Communication, Ocean Outdoor, 160over90, MediaMath, Charter Communications,	Partner in Searchlight Capital Partners. Director in Roots, Care Advantage Deputy Director, Bezeq	VP of Business Development at the Neopharm Group, Business Development Manager at Celgene Corporation.	CEO of the Peres Center for Peace and Innovation.	Partner in Searchlight Capital Partners. Chairman of the FCC FCC Commissioner	Jewelry Designer (Independent Business). Director in the following companies: BioLight Life Sciences Ltd (2011-2020); Anchiano Therapeutics Ltd (2018-2020); Kamada Ltd (2018-2019); iSPAC 1 Ltd (2021-present); Allot Ltd (2021-present); Ceragon Ltd (2022-present).	CFO and VP of Operations at Ocean Outdoor Group (LSE: OOUT). Outdoor media and advertising company.

	PatientPoint, Veritable Maritime						
Serves as a director in other corporations	Bezeq, All Points Broadband, MediaMath,Adams Outdoor Advertising	Roots Corporation, Care Advantage	Bezeq, LessTests	Future Initiatives, Special Olympics.			Scp Acquisition Topco Limited, Scp Acquisition Midco Limited, Scp Acquisition Bidco Limited, Ocean Topo Limited, Ocean Bidco Limited, Ocean Outdoor UK Limited, Signature Outdoor Limited, Mediaco Outdoor Limited, Forrest Outdoor Media Limited, Forrest Media (Holdings) Limited, Forrest Media Limited, DKTD Media B.V, Ngage Media B.V, Interbest B.v, Global Agencies Stockholm AB, Gudfar& son AB, Visual Art & Global Agencies Sweden AB,

							Visual Art International Holding AB, Visual Art Sweden AB, Visual Art Sweden Holding AB, Visual Art Denmark City Reklame A/S, Visual Art Norway AS.
Has accounting and financial expertise	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Is the director an employee of the corporation, of its subsidiary, of its affiliated company or of a stakeholder therein	Yes, see details of occupation in the last five years.	Yes, see details of occupation in the last five years.	Yes, the director serves as VP of Business Development of the Neopharm Group, whose controlling shareholders, David and Michal Forer, are also controlling shareholders of TNR Investments Ltd., which owns the joint controlling interest in the Company.	No	Yes, see details of occupation in the last five years.	No	No

Is the director a family member of another stakeholder in the corporation	No	No	Yes, the director serves as VP of Business Development and officer in Neopharm Group, of which his parents, David and Michal Forer, are the controlling shareholders and TNR Investments Ltd., which owns the joint controlling interest in the Company.	No	No	No	No
Membership in a committee or committees of the Board of Directors	No	No	No	The Committee for the Examination of Financial Statements; The Audit Committee; Remuneration Committee;	No	The Committee for the Examination of Financial Statements; The Audit Committee; Remuneration Committee;	The Committee for the Examination of Financial Statements; The Audit Committee; Remuneration Committee;
Is this member of the Board of Directors an outside director	No	No	No	Yes	No	Yes	No

Does the Company see the director as an independent director	No	No	No	Yes	No	Yes	Yes

Regulation 26 A: Senior officers

Name of senior officer	Itzik Tadmor	Dudu Mizrahi	Ilan Chaikin
Role in the Company, subsidiary, affiliate or related party	Chief Financial Officer	CEO of the Company	Internal Auditor
Date of birth	February 14, 1981	April 18, 1985	November 21, 1954
Education	BA in Accounting and Economics from Tel Aviv University. MBA in Business Administration from Tel Aviv University.	Double major in Law and Economics from the Tel Aviv University; MBA - Stern School of Business	Bachelor's degree in Economics and Accounting, Tel Aviv University.
Main occupations in the last 5 years and a list of the corporations in which he serves as a director	CFO of B Communications Ltd. and Internet Gold Lines - Gold Ltd.	The Company's CEO and director in Bezeq. Director and Vice President of the Telecom and Technology Group at RBC Investment Bank in New York.	Managing partner at CPA Chaikin Cohen Rubin & Co.
Is he a related party in the Company or a family member of another senior official or of another related party in the Company	No	No	No

Regulation 27: Independent authorized signatory

The Company's CEO, Mr. Tomer Raved, is an independent signatory authorized by the Company, as this is term defined in the law.

Without derogating from the above, for the purpose of making money transfers in any amount from the Company's accounts in banks, the signatures of Mr. Tomer Raved, the Company's CEO, and Mr. Itzik Tadmor, the Company's CFO, are required.

Regulation 27: The accountant of the corporation

Somekh Chaikin, CPA
Address: 17 HaArbaa St.,, KPMG Millennium Tower, Tel Aviv 6473917
Tel: 03-6848000

Regulation 28: Amendment of the Company's Articles of Association

In the reporting year, no changes were made to the company's Articles of Association.

Regulation 29 (a): The recommendations and decisions of the directors before the general meeting and their decisions that do not require the approval of a general meeting in matters specified in Regulation 29(a)

A. On March 23, 2022, the Company's Board of Directors approved a self-purchase plan of the Company's shares in the amount of up to NIS 20 million, which will begin on March 27, 2022 and end at: (1) purchase in the amount of 20 million NIS; or (2) the end of the trading day on May 12, 2022, whichever is earlier. As of the date of the report, in accordance with the aforementioned purchase plan, the Company purchased shares in a total amount of approximately NIS 20 million. For more details, see the Company's report dated March 24, 2022 (Ref.: 2022-01-029175), included in this report by way of reference.

B. On May 24, 2022, the Company's Board of Directors approved a self-purchase plan of the Company's shares in the amount of up to NIS 30 million, which will begin on May 26, 2022 and end: (1) purchase in the amount NIS of 30 million; or (2) the end of the trading day on August 4, 2022, whichever is earlier. As of the date of the report, in accordance with the aforementioned purchase plan, the Company purchased shares in a total amount of approximately NIS 30 million. For more details, see the Company's report dated May 24, 2022 (Ref.: 2022-01-063631), included in this report by way of reference.

C. On June 8, 2022, the Company's Board of Directors approved a partial early redemption of the Company's deben tures (series C), as detailed in an immediate report dated June 12, 2022 (Ref.: 2022-01-072097), which is included in this report by reference.

D. On August 9, 2022, the Company's Board of Directors approved a self-purchase plan of the Company's shares in the amount of up to NIS 25 million, which will begin on August 11, 2022 and end: (1) purchase in the amount of NIS 25 million; or (2) the end of the trading day on November 1, 2022, whichever is earlier. As of the date of the report, in accordance with the aforementioned purchase plan, the Company purchased shares in a total amount of approximately NIS 25 million. For more details, see the Company's report dated August 10, 2022 (Ref.: 2022-01-101353), included in this report by way of reference.

E. On November 15, 2022, the Company's Board of Directors approved a self-purchase plan of the Company's shares in the amount of up to NIS 25 million, which will begin on November 17, 2022 and end at: (1) purchase in the amount of NIS 25 million; or (2) the end of the trading day on March 1, 2023, whichever is earlier. As of the date of the report, in accordance with the aforementioned purchase plan, the Company purchased shares in a total amount of approximately NIS 25 million. For more details, see the Company's report dated November 16, 2022 (Ref.: 2022-01-110256), which is included in this report by way of reference.

Regulation 29 (b): Resolutions of the general assembly that were not adopted in accordance with the recommendations of the directors in the matters listed in Sub-regulation (a) above

During the reporting year, resolutions were not adopted at the Company's general assembly that were not in accordance with the recommendations of the Board of Directors in the matters detailed in Regulation 29(a).

Regulation 29 (c): Resolutions of a special general assembly

a. Approval of the initial appointment of Mrs. Efrat Duvdevani, as an external director of the Company for a first term of three years, and provision of letters of commitment for indemnification and a letter of exemption from liability for Mrs. Dovdevani (January 24, 2022). For more details, see immediate reports published by the Company on December 22, 2021 and January 24, 2022 (Ref.: 2021-01-112810 and 2022-01-010014, respectively), which are included in this report by way of reference;

b. Approval of the adoption of a new remuneration policy for the Company (April 27, 2022). For more details, see immediate reports published by the Company on March 24, 2022 and April 27, 2022 (Ref.: 2022-01-029214 and 2022-01-051748, respectively), which are included in this report by way of reference;

c. Approval of the allocation of 100,000 unregistered options to Mr. Itzik Tadmor, the Company's CFO, as part of the terms of his office and employment and as an exception to the Company's remuneration policy and disapproval of the allocation of 2,677,362 unregistered options to Mr. Tomer Raved, the company's CEO (June 29, 2022). , that on May 19, 2022 and May 24, 2022, the remuneration committee and the Company's Board of Directors, respectively, approved the allocation of the aforementioned options to Mr. Raved, in accordance with the provisions of Article 272(c1)(1)(c) of the Companies Law. For more details, see immediate reports published by the Company on June 22, 2022, June 29, 2022 and July 7, 2022 (Ref.: 2022-01-077395, 2022-01-081253 and 2022-01-086419, respectively), which are included in the report It's on the way of reference;

d. Approval of the re-appointment of Mrs. Efrat Makov, as an external director of the Company for a second term of three years (October 18, 2022). For more details, see immediate reports published by the Company on September 13, 2022 and October 18, 2022 (Ref.: 2022-01-094674 and 2022-01-103272, respectively), which are included in this report by way of reference.

Regulation 29A (4): Exemption, insurance or obligation to indemnify officers

For details regarding exemption, insurance or indemnification obligation for officers, See Note 29.6 to the statements.

March 14, 2023	______________________________
Date	B Communications Ltd.

Name and role of signatories:

Tomer Raved, CEO
Darren Glatt, Chairman of the Board of Directors

CORPORATE GOVERNANCE QUESTIONNAIRE [1]

BOARD OF DIRECTORS INDEPENDENCE				
			Correct	**Incorrect**
1.		In each reporting year, two or more external directors served in the corporation. This question can be answered "Correct" if the period of time in which two external directors did not serve does not exceed 90 days, as stated in Article 363A (b) (10) of the Companies Law, but any answer (Correct / Incorrect) must state the period of time (days) in which the corporation did not have two or more external directors in the reporting year (including a term of office approved retrospectively, while separating between the various external directors): Director A: 0. Director B: 0. The number of external directors serving in the corporation as of the date of publication of this questionnaire: 2.	√	

[1] Published as part of legislative proposals to improve the statements on March 16, 2014.

2.		The rate[2] of independent directors[3] serving in the corporation as of the publication of this questionnaire: 3/7. The rate of independent directors determined In the Articles of Association[4] of the corporation[5]: _______. ☒ Irrelevant (not provided for in the Articles of Association).	______	______
3.		In the reporting year, an examination was conducted with the external directors (and the independent directors) and it was found that in the reporting year they complied with the provision of Article 240 (b) and (f) of the Companies Law regarding the lack of affiliation of the external (and independent) directors serving in the corporation and they meet the conditions required for serving as an external (or independent) director.	√	
4.		All directors who served in the corporation during the reporting year are not subordinated[6] to the CEO, directly or indirectly (except for a director who is an employee representative, if the corporation has employee representation). If you answered "Incorrect" (namely, the director is subordinated to the CEO as mentioned) – indicate the rate of directors that do not meet the aforesaid limitation: _____.	√	

[2]In this questionnaire, "rate" - a certain number out of the total. For example 3/8.
[3] Including "external directors" as defined in the Companies Law.
[4] For the purposes of this question - "Articles of Association" including according to a specific legal provision applicable to the corporation (for example in a banking corporation - the directives of the Supervisor of Banks).
[5] A bond company is not required to answer this section.
[6] For the purposes of this question - the very office of a director of a holding corporation controlled by the corporation will not be considered "subordinate", on the other hand, the office of a director of a corporation serving as an officer (other than a director) and / or an employee of the corporation controlled by the corporation will be considered "subordinate".

5.		All the directors who announced the existence of a personal interest in approving a transaction on the agenda of the meeting, did not attend the discussion and did not participate in such vote (except for discussion and / or voting in the circumstances under Article 278 (b) of the Companies Law): If Your answer is "Incorrect"- Was it for the purpose of presenting a particular subject thereby in accordance with the provisions of Article 278 (a): ? Yes ? No (mark x in the appropriate box). Indicate the rate of meetings at which such directors were present at the discussion and / or participated in the vote, except in the circumstances as stated in paragraph a: _____.	√	
6.		The controlling shareholder (including his relative and / or someone on his behalf), who is not a director or other senior officer in the corporation, was not present at the board meetings held in the reporting year. If your answer is "incorrect" (i.e., a controlling shareholder and / or relative and / or someone on his behalf who is not a board member and / or a senior official in the corporation was present at such board meetings) - indicate the following details regarding the presence of any additional person at board meetings: Identity: _____. Position in the corporation (if any): _____.	√	

		Details of the affiliation to the controlling shareholder (if the person present is not the controlling shareholder himself): _____. Was it for the purpose of presenting a certain subject thereby: ⍰Yes ⍰No (mark x in the appropriate box) The rate of presence[7] thereof in meetings of the Board of Directors that took place in the reporting year for the purpose of presenting a certain subject thereby: _____, Other presence: _____ ⍰Irrelevant (there is no controlling shareholder in the corporation).		

QUALIFICATIONS AND SKILLS OF THE DIRECTORS				
			Correct	**Incorrect**
7.		There are no provisions in the corporation's articles of association that restrict the possibility of immediately terminating the office of all directors in the corporation, who are not external directors (in this matter - determination by a simple majority is not considered a restriction)[8]. If Your answer is "incorrect" (namely, there is a restriction as mentioned) indicate -	√	

[7] While separating between the controlling shareholder, his relative and / or someone on his behalf.

[8] A bond company is not required to comply with this section.

		A.	The period of time stipulated in the articles of association for the term of office of a director:		
		B.	The required majority set forth in the articles of association for the termination of office of the directors:		
		C.	A statutory quorum set forth in the articles of association at the general meeting for the purpose for the termination of office of the directors:		
		D.	The majority required to amend these provisions in the articles of association:		
8.		The corporation prepared a training program for new directors, in the field of the corporation's business and in the field of law applicable to the corporation and the directors, and also arranged a follow-up program for the training of incumbent directors, adapted, among other things, to the director's position in the corporation. If your answer is "correct" - indicate whether the program was implemented in the reporting year: ☒ Yes ☐ No (there is to mark x In the box Appropriate)		√	
9.		A.	The corporation has a required minimum number of directors on the Board of Directors who must have accounting and financial expertise. If your answer is "correct" – indicate the minimum number determined:		√

		B.	Number of directors who served in the corporation during the reporting year With accounting and financial expertise[9]: 7. With Professional qualifications[10]: 0. In the event of changes in the number of directors as stated in the reporting year, indicate the lowest number (except in a time period of 60 days of change) of directors of any type who served in the reporting year.	__________	__________
10.		A.	Throughout the reporting year, the Board of Directors included members of both sexes. If your answer is "incorrect" – indicate the period of time (days) in which the aforesaid did not exist: _____. This question can be answered "correct" if the period of time in which directors of both sexes did not serve does not exceed 60 days, however in any answer (correct / incorrect), indicate the period of time (days) in which directors of both sexes did not serve: _____.	√	

[9] After the evaluation of the Board of Directors, in accordance with the provisions of the Companies Regulations (conditions and tests for a director with accounting and financial expertise and for a director with professional Qualification), 5765-2005.
[10] See Footnote 9.

		B.	The number of directors of any sex serving on the corporation's Board of Directors as of the date of publication of this questionnaire: Men: 5, women: 2.	______	______

	BOARD MEETINGS (AND CONVENING A GENERAL MEETING)					
					Correct	**Incorrect**
11.		A.		Number of board meetings held during each quarter of the reporting year: First quarter (2022): 4 Second quarter: 4 Third quarter: 4 Fourth quarter: 3	______	______
		B.		Next to each of the names of the directors who served in the corporation during the reporting year, indicate the rate[11] of participation in the meetings of the Board of Directors (in this paragraph - including the meetings of the committees of the Board of Directors of which he is a member, and as indicated	______	______

[11] See H.S. 2.

				below) that took place during the reporting year (and with reference to term of office): See note at the end of the questionnaire. (Add lines according to the number of directors).						
			Director’s name	Rate of his participation in the meetings of the **Board of Directors**	Rate of his participation in meetings of the Audit Committee 12	Rate of his participation in meetings of the **Committee for Examining the financial statements** 13	Rate of his participation in meetings of the **Remuneration Committee** 14	Rate of his participation in meetings of other **Board of Directors** committees in which he is a member (indicate the name of the committee)		
			Darren Glatt	100%						
			Phil Bacal	100%						

[12] Regarding the company director in this committee.

[13] Regarding the company director in this committee.

[14] Regarding the company director in this committee.

			Ran Forer	93%						
			Stephen Joseph	93%	100%	100%	100%			
			Michael Clare	100%	100%	100%	100%			
			Efrat Makov	100%	100%	100%	100%			
			Ajit Pai	100%						
12.				In the reporting year, the Board of Directors held at least one discussion regarding the management of the corporation's business by the CEO and his subordinates, without their presence, and they were given an opportunity to express their position.					√	

SEPARATION BETWEEN THE FUNCTIONS OF THE CEO AND THE CHAIRMAN OF THE BOARD				
			Correct	**Incorrect**
13.		Throughout the reporting year, a chairman of the board served in the corporation. This question can be answered "correct" if the period of time in which a chairman of the board did not serve in the corporation does not exceed 60 days as stated in Article 363A (2) of the Companies Law, but in any answer (correct / incorrect), indicate the period (days) in which a chairman of the board did not serve in the corporation as aforesaid: [__].	√	
14.		Throughout the reporting year, a CEO served in the corporation. This question can be answered "correct" if the period of time in which a CEO did not serve in the corporation does not exceed 60 days as stated in Article 363A (2) of the Companies Law, but in any answer (correct / incorrect), indicate the period (days) in which a CEO did not serve in the corporation as aforesaid: [__].	√	
15.		In a corporation in which the chairman of the board also serves as the CEO of the corporation and / or exercises his powers, the duplication of office is approved in accordance with the provisions of Article 121 (c) of the Companies Law[15]. ☒ Irrelevant (if there is no such dual office in the corporation).		

[15] In a bond company - approval in accordance with Article 121 (d) of the Companies Law.

16.		The CEO Is not a relative of the chairman of the Board of Directors. If your answer is "incorrect" (i.e., the CEO is a relative of the chairman of the board)-		√	
		A.	Indicate the family relation between the parties: _____.	_____	_____
		B.	The office was approved in accordance with Article 121 (c) of the Companies Law[16]: ☐ Yes ☐ No *(mark x in the appropriate box)*	_____	_____
17.		A controlling shareholder or his relative does not serve as CEO or senior executive officer in the corporation, except as a director. ☐ Irrelevant (the corporation has no controlling shareholder).		√	

[16] In a bond company - approval in accordance with Article 121 (d) of the Companies Law.

AUDIT COMMITTEE

				Correct	Incorrect
18.		In the reporting year, on the Audit Committee <u>did not serve</u> -		_____	_____
		A.	A controlling shareholder or his relative. □ Irrelevant (the corporation has no controlling shareholder).	√	
		B.	Chairman of the Board of Directors.	√	
		C.	A director employed by the corporation or by the controlling shareholder of the corporation or by a corporation under his control.	√	
		D.	A director who regularly provides services to the corporation or controlling shareholder of the corporation or corporation under its control.	√	
		E.	A director whose main livelihood depends on the controlling shareholder. □ Irrelevant (the corporation has no controlling shareholder).	√	
19.		A person who is not allowed to be a member of the Audit Committee, including a controlling shareholder or his relative, was not present at the reporting year at the meetings of the Audit Committee, except in accordance with the provisions of Article 115 (e) of the Companies Law.		√	

20.		A legal quorum for discussion and decision-making at all Audit Committee meetings held in the reporting year was a majority of committee members, with the majority present being independent directors and at least one of them being an external director. If your answer is "incorrect" - indicate the rate of meetings in which the said requirement was not met: _____.	√	
21.	In the year of the report, the Audit Committee held at least one meeting in the presence of the internal auditor and the auditor and without the presence of officers of the corporation who are not members of the committee, regarding deficiencies in the business management of the corporation.		√	
22.	All meetings of the Audit Committee attended by those who are not allowed to be members of the committee, were with the approval of the committee chairman and / or at the request of the committee (regarding the legal advisor and the corporation secretary who is not a controlling shareholder or his relative).		√	
23.	In the reporting year, arrangements were established by the Audit Committee regarding the manner in which the corporation's employees' complaints were handled in connection with deficiencies in the conduct of its business and regarding the protection to be given to the employees who complained as aforesaid.		√	

24.	The Audit Committee (and / or the Committee for the Examination of the Financial Statements) was of the opinion that the scope of the auditor's work and his fees in relation to the financial statements in the reporting year were adequate for carrying out proper audit and review work.	√	

FUNCTIONS OF THE COMMITTEE FOR EXAMINING THE FINANCIAL STATEMENTS (HEREINAFTER - THE COMMITTEE) IN ITS PRELIMINARY WORK FOR THE APPROVAL OF THE FINANCIAL STATEMENTS				
			Correct	**Incorrect**
25.	A.	Indicate the period of time (in days) determined by the Board of Directors as a reasonable time to submit the Committee's recommendations prior to the discussion of the Board of Directors for approval of the financial statements: 3 days when approving the periodic statements and 2 days when approving the quarterly statements.	_____	_____
	B.	The number of days that have actually elapsed between the date of the transfer of the recommendations to the Board of Directors and the date of the Board of Directors' discussion: First quarter statements (year 2022): 5 days. Second quarter statements: 5 days. Third quarter statements: 2 days.	_____	_____

		Annual statements: 1 days.		
	C.	The number of days that have elapsed between the date of submission of the draft financial statements to the directors and the date of the discussion of the Board of Directors of the approval of the financial statements: First quarter statements (year 2020): 5 days. Second quarter statement: 8 days. Third quarter statements: 8 days. Annual statements: 5 days.		
26.	The corporation's auditor attended all meetings of the Committee and the Board of Directors, at which the corporation's financial statements relating to the periods included in the reporting year were discussed. If your answer is "incorrect", indicate the participation rate: _______		√	
27.	In the Committee, all the conditions listed below were met throughout the reporting year until the publication of the annual statements:		_____	_____
	A.	The number of its members was not less than three (at the time of the discussion in the Committee and the approval of the statements as aforesaid).	√	

	B.	It complied with all the conditions set out in Article 115 (b) and (c) of the Companies Law (regarding the office of members of the Audit Committee).	√	
	C.	The chairman of the Committee is an external director.	√	
	D.	All its members are directors and most of its members are independent directors.	√	
	E.	All its members have the ability to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	√	
	F.	Committee members gave a statement prior to their appointments.	√	
	G.	The legal quorum for discussion and decision-making in the Committee was the majority of its members, provided that the majority of those present were independent directors, including at least one external director. .	√	
	If your answer is "incorrect" regarding one or more of the subsections of this question, indicate in relation to which statements (periodic / quarterly) the said condition was not met and the condition that was not met.		_____	_____

REMUNERATION COMMITTEE

				Correct	Incorrect
28.		The committee consisted of, in the reporting year, at least three members and the external directors constituted a majority (at the time of the committee's deliberations). ☐ Irrelevant (No discussion took place).		√	
29.		The terms of office and employment of all members of the Remuneration Committee in the reporting year are in accordance with the Companies Regulations (Rules regarding Remuneration and Expenses for an External Director), 5769-2000.		√	
30.		In the reporting year, on the Remuneration Committee did not serve -		_____	_____
		A.	The controlling shareholder or his relative ☐ Irrelevant (the corporation has no controlling shareholder).	√	
		B.	Chairman of the Board of Directors.	√	

		C.	A director employed by the corporation or by the controlling shareholder of the corporation or by a corporation under his control.	√	
		D.	A director who regularly provides services to the corporation or to the controlling shareholder of the corporation or to a corporation under his control.	√	
		E.	A director whose main livelihood depends on the controlling shareholder. ☐ Irrelevant (the corporation has no controlling shareholder).	√	
31.		The controlling shareholder or his relative were not present in the reporting year at the meetings of the Remuneration Committee, unless the chairman of the committee determined that either of them was required to present a particular subject.		√	
32.	The Remuneration Committee and the Board of Directors did not exercise their authority under Articles 267A (c), 272 (c) (3) and 272 (c1) (1) (c) to approve a transaction or remuneration policy, despite the opposition of the general meeting. If your answer is "incorrect" indicate - Type of transaction approved as stated: ______ The number of times their authority was used in the reporting year: ______			√	

INTERNAL AUDITOR			
		Correct	**Incorrect**
33.	The Chairman of the Board of Directors or the CEO of the corporation is the organizational supervisor of the internal auditor of the corporation.	√	
34.	The Chairman of the Board of Directors or the Audit Committee approved the work plan in the reporting year. In addition, indicate the audit topics that the Internal Auditor dealt with in the reporting year: Implementation of the supervision procedure by the internal auditor and debt management. (mark x in the appropriate box).	√	
35.	Scope of employment of the internal auditor in the corporation in the reporting year (in hours[17]): 200 hours.	_____	_____
	In the reporting year, a discussion took place (in the Audit Committee or on the Board of Directors) of the Internal Auditor's findings.	√	

[17] Including working hours invested in investee corporations and audits outside Israel, and as appropriate, both by the Company's internal auditor and by the internal auditors of the Company's subsidiaries.

36.	The internal auditor is not a stakeholder in the corporation, a relative of such, an auditor or anyone on his behalf, nor does he maintain material business relationships with the corporation, its controlling shareholder, or a relative or corporations under their control.	√	

STAKEHOLDER TRANSACTIONS

		Correct	Incorrect
37.	The controlling shareholder or his relative (including a company under his control) is not employed by the corporation or provides it with management services. If your answer is "incorrect" (namely, the controlling shareholder or his relative is employed by the corporation or provides it with management services) indicate - - Number of relatives (including the controlling shareholder) employed by the corporation (including companies under their control and / or through management companies): - Have the employment agreements and / or the management services as aforesaid been approved by the organs established by law: ☐ Yes ☐ No	√	

	(mark x in the appropriate box) ? Irrelevant (In a corporation nothing husband control). ______.		
38.	To the best of the corporation's knowledge, the controlling shareholder has no other business in the corporation's field of activity (in one or more fields). See note at the end of the questionnaire. If your answer is "incorrect" - indicate whether an arrangement has been established to delimit activities between the corporation and its controlling shareholder. ? Yes ? No (there is to mark x In the box Appropriate) ? No relevant (the corporation has no controlling shareholder).	√	

Closing notes to the questionnaire:

1. **Meetings of the Board of Directors (and convening a general assembly)**
   Section 11B - It should be noted that in the column on the participation rate in meetings of additional board committees, the reference is to permanent board committees only and does not include non-permanent committees established on an ad hoc basis for certain issues. It should be noted that in the number of meetings of the Board of Directors and its committees, the meetings held during the reporting year were taken into account, with reference to the term of office of each of the directors on the board and in each of the committees, as the case may be.

2. **Stakeholder transactions**
   Section 38 - Searchlight Group, which owns the company, has holdings in many communications companies around the world (mainly in the United States). As stated in section 1.8 of Chapter A of this report, Bezeq Group's strategy as of this date is to focus on the local market in Israel only.

Chairman of the Board of Directors: ___________

Chairman of the Audit Committee: ___________

Chairman of the Committee for Examining the Financial Statements: ___________

Chapter E

Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure

for the Year ended December 31, 2022

(1) Report on the internal control over financial reporting and disclosure:

Annual report on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 9b(a) a of the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

Management, under the supervision of the Board of Directors of B Communications Ltd. (hereinafter - "**the Corporation**" or "**the Company**"), is responsible for determining and maintaining adequate internal control over the financial reporting and disclosure in the Corporation.

For this purpose, the members of Management are:

1. Tomer Raved, CEO;
2. Itzik Tadmor, CFO;

In addition to the said members of Management, serving in the Company are:

1. Ilan Chaikin, Internal Auditor;
2. Lital Aharoni, Controller;

Internal control over financial reporting and disclosure includes controls and procedures existing in the Corporation, designed by or under the supervision of the CFO and CEO in the field of finance, or by the person actually performing the said functions, supervised by the Corporation's Board of Directors, which are intended to provide a reasonable degree of assurance regarding 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 Corporation is required to disclose in reports it publishes under the provisions is collected, processed, summarized and reported on the date and in the format as prescribed by law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information the disclosure of which by the Corporation is required, is accumulated and transmitted to the Corporation's Management, including the CEO and senior executives in the field of finance or to those actually performing the said functions, in order to enable decisions with regard to the disclosure requirement to be made at the appropriate time.

Due to its structural limitations, internal control over financial reporting and disclosure is not intended to provide absolute assurance that misrepresentation or omission of information in the statements will be avoided or discovered.

Management, under the supervision of the Board of Directors, performed an examination and evaluation of the internal control over financial reporting and disclosure in the corporation and its effectiveness;

The assessment of the effectiveness of the internal control over the financial reporting and disclosure carried out by Management under the supervision of the Board of Directors included:

1. Mapping and identifying the relevant business units, accounts and processes that the Corporation considers very essential for financial reporting and disclosure;
2. Examining and updating the reporting and disclosure risks;
3. Updating the documentation of the controls that respond to the risks that have been identified, as well as the documentation of new controls;
4. Testing and evaluating the effectiveness of the aforementioned controls;
5. Overall assessment of the effectiveness of internal control.

The model for assessing the effectiveness of internal control over financial reporting and disclosure was based on the following components:

1. Controls at the organization level (Entity Level Controls), including controls on the process of editing and closing the reports and general controls of information systems (ITGC);
2. Controls over cash and debt management process;
3. The process of editing and closing the reports;

Based on the evaluation of the effectiveness performed by Management under the supervision of the board of directors as detailed above, the Board of Directors and the Corporation's Management came to the conclusion that the internal control over the financial reporting and disclosure in the Corporation as of December 31, 2022 is effective.

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Regarding the investigations by the Israel Securities Authority and the Israel Police, as detailed in Section 1.1.7 of the chapter describing the Corporation's business in this periodic report, the Corporation does not have complete information regarding these investigations, plans, materials and evidence in the possession of the law authorities in this case. (Although in January 2021, Bezeq received the core of the investigation material in connection with Case 4000 following Bezeq’s summons for a hearing on this matter, as detailed in Section 1.1.7.2 of the chapter describing the corporation's business). Accordingly, the Corporation is still unable to assess the effects of the investigations, findings and results on the Corporation, as well as the financial statements and estimates used in the preparation of these reports, if any.

(1) Executive statements:

(a) Statement of the CEO pursuant to Regulation 9b(d)(1) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

I, Tomer Raved, declare that:

(1) I examined the annual report of B Communications Ltd. (hereinafter – the "Corporation") for year 2022 (hereinafter - "the Statements");

(2) To my knowledge, the Statements do not include any misrepresentation of a material fact and do not lack a presentation of a material fact necessary so that the presentations included in them, in light of the circumstances in which those representations were included, will not be misleading with respect to the reporting period;

(3) To my knowledge, the financial statements and other financial information contained in the Statements adequately reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the statements relate;

(4) I revealed to the Corporation's Auditor, the Board of Directors, the Audit Committee and the committee for examining the Corporation's financial statements, based on my most recent assessment of the internal control over financial reporting and disclosure:

(A) Any significant deficiencies and material vulnerabilities in the determination or exercise of internal control over the financial reporting and disclosure that are likely to adversely affect the Corporation's ability to collect, process, summarize or report financial information in a manner that casts doubt on the financial reporting reliability and preparation of financial statements; and-

(B) Any fraud, whether material or immaterial, involving the CEO or his subordinates directly or involving other employees who have a significant role in the internal control over financial reporting and disclosure;

(5) I, alone or with others in the Corporation:

(A) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my attention by others in the Corporation and its subsidiaries, in particular during the preparation period of the Reports; -

(B) Have established controls and procedures, or verified the determination and existence of controls and procedures under my supervision, designed to reasonably ensure 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) I evaluated the effectiveness of the internal control over financial reporting and disclosure, and presented in this report the conclusions of the Board of Directors and Management regarding the effectiveness of the aforementioned internal control as of the date of the Statements.

Nothing in the foregoing shall derogate from my liability or the liability of any other person, under any law.

Date: March 14, 2023

Tomer Raved, CEO

(b) Statement of the most senior officer in the field of finance pursuant to Regulation 9b(d)(2) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

I, Itzik Tadmor, declare that:

(1) I examined the statements and the other financial information contained in the statements of B Communications Ltd. (hereinafter – “the Corporation") for the year 2022 (hereinafter – “the Statements");

(2) To the best of my knowledge, the Statements and the other financial information contained in the Statements do not include any misrepresentation of a material fact and do not lack a presentation of a material fact necessary so that the presentations included in them, in light of the circumstances in which those representations were included, will not be misleading with respect to the reporting period;

(3) To the best of my knowledge, the Statements and the other financial information contained in the Statements adequately reflect, in all material respects, the financial position, results of operations and cash flows of the corporation for the dates and periods to which the Statements relate;

(4) I revealed to the Corporation's Auditor, the Board of Directors, the Audit Committee and the committee for examining the Corporation's financial statements, based on my most recent assessment of the internal control over financial reporting and disclosure:

(A) Any significant deficiencies and material vulnerabitlies in the determination or exercise of internal control over financial reporting and disclosure as it relates to Statements and other financial information contained in the Statements that are likely to adversely affect a Corporation's ability to collect, process, summarize or report financial information In such a way as to cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; And –

(B) Any fraud, whether material or immaterial, involving the CEO or his subordinates directly or involving other employees who have a significant role in the internal control over financial reporting and disclosure;

(5) I, alone or with others in the Corporation:

(A) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my attention by others in the Corporation and its subsidiaries, in particular during the preparation period of the Statements; And -

(B) Have established controls and procedures, or verified the determination and existence of controls and procedures under my supervision, designed to reasonably ensure 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; And -

(C) I evaluated the effectiveness of the internal control over financial reporting and disclosure, insofar as it relates to the Statements and the other financial information contained in the Statements as of the date of the Statements; My conclusions regarding my evaluation as mentioned were brought before the Board of Directors and Management and are included in this Report.

Nothing in the foregoing shall derogate from my liability or the liability of any other person, under any law.

Date: March 14, 2023

____

Itzik Tadmor, CFO