B Communications Ltd.

2023 Annual Report

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Chapter A

Description of the Corporation's Business

2023 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

1.1.1. 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.

1.1.2. 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 27.19% of Bezeq's issued and paid-up equity.

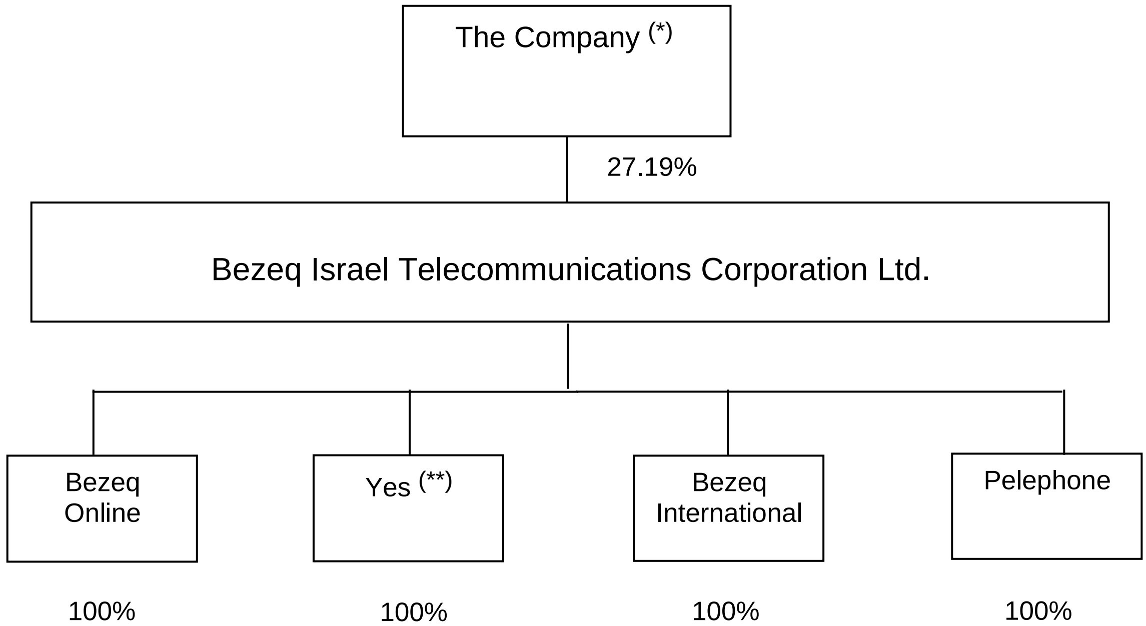
For further details regarding the control of the Company and the control permit in connection with the Company's holding in Bezeq shares, see Section **שגיאה! מקור ההפניה לא נמצא.** below.

1.1.3. 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 12, 2023):



(*) Regarding the Company and the control of Bezeq - see Sections 1.1.1, 1.1.2 and **שגיאה! מקור ההפניה לא נמצא.** in this chapter.

(**) On April 23, 2023, the name of Yes was changed from DBS Satellite Services (1998) Ltd. to Yes Television and Communications Services Ltd.

1.1.4. <u>Control of the Company</u>

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 78.78% 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 assemblies 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.

The control permit

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].

Preconditions set out in the Control Permits

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

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, the intended amendment in the Communications Order applicable to Bezeq has been approved by the Government on March 5, 2023.

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 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 assembly 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 19, 2023, an amendment to the Communications Order (Bezeq and Broadcasting) (Determining an essential service provided by "Bezeq", the Israel Telecommunications Corporation Ltd.), (Amendment), 5783-2023 ("**Amendment to the Order**") was published in the records and entered into force, which allows a 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 have control. The Amendment to the Order includes 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.

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, Yes, And Bezeq Online) were transferred to the Board of Directors.

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 Yes (in this Section: “**the subsidiaries**") regarding a structural change plan in which Bezeq International's private activities were to merge with and into Yes, and the spin-off of Bezeq International’s ICT activities into a new company wholly

[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.

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 Yes 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, Yes 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, instead of the provisions of the said license, the provisions of a general permit apply on Yes’s ISP activity.

<u>Buyback plan of the Company's shares</u>

For details about the buyback plan of the Company's shares, which was approved by the Company's Board of Directors on August 8, 2023, see Regulation 29(a) of the additional details report chapter in 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 Law, 5737-1977 ("**Penal Law**"), in respect of transactions related to the previous controlling shareholder in the Company and former Chairman of Bezeq's Board of Directors, Shaul Elovich ("**Elovtich**") regarding the purchase of Yes shares[5] and the provision of satellite communication services to Yes (“**the Yes Case**”), the Ministry of Communications' dealings with Bezeq, as well as the suspicions of the 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 ("**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.

Further to the notice of the Tel Aviv District Attorney's Office (Taxation and Economy) dated December 23, 2020 regarding their consideration of the

[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.

prosecution of Bezeq and its summons to a hearing in Case 4000 regarding suspicions of the offense of bribery (an offense under Article 291 of the Penal Law, 5737-1977 ("**Penal Law**"), along 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) along with Section 23 of the Penal Law, on February 1, 2024, an agreement was signed between the State of Israel (through the Tel Aviv District Attorney's Office (Taxation and Economy)) and Bezeq for a conditional termination of proceedings under the conditions in accordance with Point B of Chapter 91 of the Securities Law ("**the Settlement**").

In accordance with the Settlement, the State of Israel will not file an indictment in Bezeq's case in connection with any of the suspicions investigated in the investigation file, and this is subject to the suspect fulfilling its obligations according to the settlement as follows: (1) payment of an amount in the amount of NIS 800 thousand; (2) refraining from all A statement that is knowingly inconsistent with or contradicts the Settlement and the facts that Bezeq admitted as part of the Settlement.

As part of the Settlement, the State of Israel also informed Bezeq that it had decided to close the investigation file regarding the Walla company (a company that was fully owned by Bezeq at the times relevant to the suspicions and received a similar notice regarding the consideration of filing an indictment against it for suspicions of the offense of bribery).

As part of the Settlement, Bezeq admitted the facts detailed in the settlement and these are:

A. In the relevant period, between the years 2012 and 2016, Shaul Elovich ("**Elovich**") was the controlling shareholder of the Bezeq Group. Walla, which during the relevant period was a wholly owned subsidiary of Bezeq, operated the "Walla NEWS!" website.

B. Elovich and other Bezeq representatives worked with the Director General of the Ministry of Communications Shlomo Filber to promote the issue of cancelling the structural separation in the Bezeq Group.

C. On December 22, 2016, Shlomo Filber ("**Filber**") sent Bezeq a letter titled "Cancellation of the structural separation obligation in the Bezeq Group", which was drafted by him in coordination with Bezeq representatives, with the knowledge of Elovich and the CEO of Bezeq at that time, Stella Handler ("**Handler**")[6]. The letter included a misleading detail, according to which the fact regarding the obligation to hold a hearing prior to the cancellation of the corporate separation in Bezeq was omitted, and a misleading representation was made, according to which both the cancellation of the corporate separation and the cancellation of the structural separation are in an advanced stage and have a higher feasibility than in actuality.

D. On December 23, 2016, Bezeq reported in an immediate report to the public about the transmission of the letter and its contents. This report included the misleading detail contained in the Ministry of Communications letter. Elovich and Handler knew that the letter from the Ministry of Communications contained the misleading detail and that it would be reported to the public. The next day, the Ministry of Communications published a clarification according to which the cancellation of the corporate separation will be done after a hearing procedure and subsequently Bezeq published a report clarifying this part of the previous report.

[6] It should be noted that, as part of the Settlement, the Company stated that it currently has no knowledge of Elovich's and Handler's real-time awareness of any specific detail.

It should be noted that, as appears from the settlement, the suspicions against Bezeq stem from the actions and/or omissions of Elovich and Handler, who were involved in the execution of the acts described in the settlement and who no longer serve at Bezeq.

For this matter, see also the company's immediate report from February 1, 2024, which is included in this report by way of reference.

1.1.7.2 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 Yes, Or Elovich, Amikam Shorer, Linor Yochelman , Ron Eilon and Mickey Neiman in the Yes 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 Yes 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 Yes 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 Yes 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 July 13, 2023, the judgment of the Supreme Court was given in the appeal filed by the State against the aforementioned decision, according to which the State's appeal regarding all respondents (except Eurocom Holdings (1979) Ltd.) was accepted and the case was returned to the District Court for further evidentiary investigation.

1.1.7.3 Bezeq does not yet have complete information regarding the investigations (mainly regarding the Yes Case), 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, although on February 1, 2024, an agreement was signed between the State of Israel and Bezeq to terminate proceedings conditional on the conditions as detailed in Section**שגיאה! מקור ההפניה לא נמצא.**). 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 2023 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, Yes, Bezeq's officers in the relevant period, and companies from Bezeq's former controlling group, including motions for approval of class actions/derivative claims and motions for disclosure of documents before filing a motion for approval of a derivative claim. For details regarding these procedures see Section2.18 2.18.

1.1.7.5 Regarding Yes, 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 Yes, 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 the Company's consolidated financial statements (see also Note 28 to the 2023 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 Section3 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. Yes - 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). Yes's 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 Bezeq's equity and transactions in its shares

The following is a breakdown of purchases of Bezeq shares in the last two years by the Company:

Date	Shares	Total consideration (NIS millions)	Average price per share (NIS)
28.12.2022	2,530,000	Approx. 15	5.95
3.4.2023	2,100,000	Approx. 10	4.75
28.5.2023	1,417,995	Approx. 6.8	4.77
30.5.2023	2,090,000	Approx. 10	4.79
28.6.2023	1,100,000	Approx. 5	4.54
29.6.2023	1,100,000	Approx. 5	4.57
31.1.2024	3,120,000	Approx. 15	4.82

Further to the amendment to the Communications Order (as specified in Section 1.1.4), which allows, among other things, an Israeli institutional investor to increase his holding to up to 7.5% by means of a certain type of control in the Company without the need for the approval of the Ministers, in the months of September-October 2023, the entities include Clal Holdings Insurance Business Ltd., Harel Investments in Insurance and Financial Services and Ltd., and Migdal Holdings Insurance and Finances Ltd. reported to Bezeq that they became related parties after their holdings increased beyond 5% of Bezeq's shares.

With the exception of the above, in the reporting year no investments were made in Bezeq's equity, and the Group is not aware of any other material transactions made by a related party in Bezeq shares off 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 two years (2022-2023), 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, 2024, the Bezeq Board of Directors decided to update Bezeq's dividend distribution policy, so that Bezeq will distribute every six months 70% of the semi-annual profit (after tax) according to Bezeq's consolidated statements, starting with the distribution for the second half of 2022, which 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 increase the dividend in the future, 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, among other things, with 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 - For details regarding the dividends distribution carried out by Bezeq in 2022-2023, see Note 20 to the 2023 statements. Bezeq’s balance of distributable profits as of the date of the report are about NIS 1,257 million (the said balance consists of surpluses accumulated in the last two years in Bezeq after deducting the dividend amounts paid in the past two years by Bezeq to itsa shareholders).

Regarding the recommendation of the Bezeq Board of Directors dated March 12, 2024 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 2023, see Note 12.7 to the consolidated statements for 2023.

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

All data in sections 0 to 1.5.4 are stated in NIS millions.

1.5.1. 2023

	Lnadline interior communication	Cellular communication (mobile radio telephone)	Bezeq International services	Multi-channel TV (3)	Other	Consolidation adjustments (2)	Consolidated
Total revenue:							
External	4,157	2,309	1,139	1,308	190	-	9,103
From other areas of activity in the corporation	255	39	73	1	2	(370)	-
Total revenue	4,412	2,348	1,212	1,309	192	(370)	9,103
Total attributable costs:							
Variable costs attributed to the area of activity (1)	656	734	744	385	165		
Fixed costs attributed to the area of activity (1)	2,305	1,418	429	928	28		
Total costs	2,961	2,152	1,173	1,313	193	(468)	7,324
Costs that do not constitute revenue in another area of activity (3)	2,913	2,053	984	1,293	190	(109)	7,324
Costs that constitute revenue of other areas of activity	48	99	189	20	3	(359)	-
Total costs	2,961	2,152	1,173	1,313	193	(468)	7,324
Profit from ordinary activities attributed to the owner of the Cmpany	1,451	196	39	(4)	(1)	98	1,779
Total assets attributed to activity as of December 31, 2022	9,311	2,832	1,000	1,231	88	(584)	13,878
Total liabilities attributed to the area of activity as of December 31, 2022	9,189	1,448	779	445	30	(211)	11,681

(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 2023 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. 2022

	Lnadline 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.

1.5.3. 2021

	Lnadline 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 2023 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 sections0 to **שגיאה! מקור ההפניה לא נמצא.** 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 2022 and 2023.

1.5.4.1 Bezeq Fixed Lines (Bezeq's activity as NIO)

Financial data (NIS millions)	2023	2022	Q4/ 2023	Q3/ 2023	Q2/ 2023	Q1/ 2023	Q4/ 2022	Q3/ 2022	Q2/ 2022	Q1/ 2022
Revenue	4,412	4,306	1,087	1,084	1,130	1,111	1,057	1,086	1,067	1,096
Operating profit	1,451	1,460	320	310	418	403	293	388	393	386
Depreciation and amortization	1,019	1,005	260	258	256	245	266	252	248	239
Operating profit before depreciation and amortization (EBITDA) (1)	2,470	2,465	580	568	674	648	559	640	641	625
Net profit	901	849	199	192	261	249	153	235	243	218
Cash flow from operating activities	2,380	2,230	584	586	602	608	628	427	541	634
Payments for investments in property, plant and equipment and intangible assets and other investments	1,122	1,135	290	239	281	312	277	294	279	285
Receipts from the sale of property, plant and equipment and intangible assets	33	36	3	-	1	29	9	8	5	14
Lease payments	158	138	46	37	35	40	35	34	33	36
Free cash flow (2)	1,133	993	251	310	287	285	325	107	234	327
Operating data										
Number of active telephone subscriber lines at the end of the period (thousands) (3)	1,442	1,503	1,442	1,454	1,473	1,488	1,503	1,522	1,542	1,563
Average monthly revenue per telephony subscriber (NIS) (ARPL) (4)	37	42	33	34	39	41	40	41	41	47
Outgoing usage minutes (millions)	2,692	2,949	652	677	658	705	682	740	726	801
Incoming usage minutes (millions)	3,473	3,938	829	874	852	918	921	986	951	1,080
Telephony subscriber churn rate (6)	10.2%	10.9%	2.3%	2.8%	2.6%	2.5%	2.5%	2.8%	2.6%	3.0%
Total number of Internet subscribers at the end of the period (thousands) (7)	1,495	1,504	1,495	1,500	1,505	1,505	1,504	1,505	1,511	1,519
Of which are subscribers connected to the fiber network at the end of the period - wholesale (thousands) (10)	565	267	565	506	424	351	267	212	160	124
Of which are Internet lines at the end of the period - in retail (thousands) (7)	1,028	1,032	1,028	1,029	1,028	1,031	1,032	1,024	1,021	1,024
Of which are subscribers connected to the fiber network at the end of the period - in retail (thousands) (7)	367	198	367	335	289	246	198	157	118	93
Internet lines at the end of the period – in wholesale (thousands) (7)	467	472	467	471	477	474	472	481	490	495
Of which are subscribers connected to the fiber network at the end of the period - in wholesale (thousands) (7) (8)	198	69	198	171	135	105	69	55	42	31
Average monthly revenue per Internet subscriber (NIS) - retail (ARPU) (9)	123	114	125	124	122	120	117	116	113	110
Fiber optic network deployment at the end of the period (thousands, households available for connection) (10)	2,070	1,526	2,070	1,970	1,835	1,689	1,526	1,442	1,308	1,193

Average packet rate for internet subscription - retail (Mbps) (5)	341	220	341	315	278	250	220	192	164	151
Number of Be routers used by the Company's customers (thousands)	831	764	831	819	801	786	764	733	708	688
Number of home internet network range enhancers of the Be Spot and Be Mesh types (thousands)	442	416	442	438	430	425	416	402	386	374

(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 Yes 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 2023 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 PP&E, and starting in 2018, with the implementation of IFRS 16, payments for leases are also deducted. Bezeq presents free cash flow as an additional measure to evaluate the business results and cash flows since, in Bezeq's opinion, free cash flow is an important liquidity measure that reflects the cash that the Company derives from its current operations after investing cash in infrastructure and PP&E and other intangible assets. For this matter, see Section 8 of the chapter describing the corporation's business in the periodic report for 2023.

(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 2023 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 2023 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) In the fourth quarter of 2023, there was a certain decrease in the rate of connecting retail subscribers to the Company's fiber network due to a slowdown in contractor activity due to a temporary dispute with the employees' representatives and due to the Iron Swords War (see Section 1.7.9).

(9) 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 2023 periodic report. Starting with the second quarter of 2022, the figure also includes revenue from Internet access service (ISP).

(10) As of the publication date of the report, fiber optic network deployment - about 2.16 million households are available for connection, of which about 619K subscribers are connected to the fiber network (of which 394K retail and 222K wholesale).

1.5.4.2 Pelephone

Financial data (NIS millions)	2023	2022	Q4/ 2023	Q3/ 2023	Q2/ 2023	Q1/ 2023	Q4/ 2022	Q3/ 2022	Q2/ 2022	Q1/ 2022
Revenue from services	1,756	1,791	409	450	452	445	441	467	446	437
Of which is revenue from interconnect (6)	371	427	79	79	102	111	102	106	106	113
Revenue from service net of interconnect interconnectivity (6)	1,385	1,364	330	371	350	334	339	361	340	324
Revenue from the sale of end equipment	592	608	153	135	133	171	151	141	153	163
Total revenue	2,348	2,399	562	585	585	616	592	608	599	600
Total revenue net of interconnect (6)	1,977	1,972	483	506	483	505	490	502	493	487
Operating profit	196	193	37	59	49	151	17	60	52	64
Depreciation and amortization	549	532	138	143	135	133	135	139	136	122
Operating profit before depreciation and amortization (EBITDA) (1)	745	725	175	202	184	184	152	199	188	186
Net profit	159	165	26	48	41	44	13	50	46	56
Cash flow from operating activities	713	874	240	242	98	133	149	203	244	278
Payments for investments in property, plant and equipment, intangible assets and other investments, net	310	295	90	81	82	57	0	157	66	72
Lease payments	270	228	94	57	49	70	62	58	47	61
Free cash flow (1)	133	351	56	104	(33)	6	87	(12)	131	145
Operating data										
Number of postpaid subscribers for the end of the period (thousands) (2)	2,202	2,149	2,202	2,187	2,166	2,159	2,149	2,137	2,122	2,093
Number of prepaid subscribers for the end of the period (thousands) (2)	416	431	416	431	427	426	431	538	514	490
Number of subscribers for the end of the period (thousands) (2)	2,618	2,580	2,618	2,618	2,593	2,585	2,580	2,675	2,636	2,583
Of which are subscribers in 5G plans (thousands) (2)	1,034	784	1,034	961	898	834	784	738	677	605
Average monthly revenue per subscriber (NIS) (ARPU) (3) (5)	56	57	52	57	58	57	57	58	57	57
Average monthly revenue per subscriber net of interconnect (NIS) (ARPU) (6)	44	43	42	47	45	43	44	45	43	42
Subscriber churn rate (Churn Rate) (4)	24.5%	24.1%	5.9%	6.0%	5.9%	6.7%	6.1%	5.7%	5.5%	6.8%

(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 revenue from which is significantly lower than the rest of the subscribers. As of the publication date of the report, Pelephone has approximately 1.075 million subscribers to 5G plans.

(3) The average monthly revenue per subscriber (postpaid and prepaid). The index is calculated by dividing the average monthly consolidated total revenue including 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 2023 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 2023 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

Financial data (NIS millions)	2023	2022	Q4/ 2023	Q3/ 2023	Q2/ 2023	Q1/ 2023	Q4/ 2022	Q3/ 2022	Q2/ 2022	Q1/ 2022
Revenue	1,212	1,239	304	303	293	312	319	311	302	307
Operating profit (loss)	39	(30)	(11)	20	16	14	(60)	17	17	(4)
Depreciation and amortization (NIS millions)	137	134	45	29	33	30	35	32	29	38
Operating profit (loss) before depreciation and amortization (EBITDA) (1)	176	104	34	49	49	44	(25)	49	46	34
Net profit (loss)	29	(32)	(14)	17	13	13	(58)	16	15	(5)
Cash flow from operating activities	157	210	45	36	57	19	56	5	37	112
Payments for investments in property, plant and equipment and intangible assets and other investments, net (2)	93	93	37	26	20	10	17	23	27	26
Lease payments	38	36	10	9	9	10	9	9	9	9
Free cash flow (1)	26	81	(2)	1	28	(1)	30	(27)	1	77
Operating data										
Subscriber churn rate (3)	45.6%	46.5%	9.0%	11.0%	10.0%	14.7%	15.0%	12.4%	12.9%	7.3%

(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) 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 2023.

1.5.4.4 **Yes**

Financial data (NIS millions)	2023	2022	Q4/ 2023	Q3/ 2023	Q2/ 2023	Q1/ 2023	Q4/ 2022	Q3/ 2022	Q2/ 2022	Q1/ 2022
Revenue	1,309	1,277	316	328	336	329	330	315	316	316
Operating profit (loss)	94	8	33	35	26	0	0	0	(2)	10
Depreciation, amortization, and ongoing impairment	166	199	29	41	46	50	57	46	46	50
Operating profit before depreciation, amortization and ongoing impairment (EBITDA) (1)	260	207	62	76	72	50	57	46	44	60
Net profit (loss)	102	13	27	40	30	5	1	0	2	10
Cash flow from operating activities	215	186	26	66	31	92	56	9	43	78
Payments for investments in property, plant and equipment and intangible assets and other investments, net	179	178	30	59	60	30	44	39	49	46
Lease payments	25	25	6	7	6	6	7	6	6	6
Free cash flow (1)	11	(17)	(10)	0	(35)	56	5	(36)	(12)	26
Operating data										
Number of TV subscribers (thousands) (2)	574	579	574	576	579	580	579	575	567	564
Of which are IP subscribers (3)	392	329	392	377	364	348	329	307	280	253
Of which are STING subscribers	120	104	120	116	111	108	104	101	94	89
Average monthly revenue per subscriber (ARPU) (NIS) (4)	182	183	175	182	185	185	181	182	184	186
Subscriber churn rate (5)	13.8%	12.8%	3.1%	3.9%	3.3%	3.5%	3.0%	3.2%	2.9%	3.7%
Number of subscribers connected to the fiber network (thousands) (6)	37	7	37	29	21	14	7	2		

(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) TV 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 or a gym), the number of subscribers is adjusted. The number of non-small business customers is usually calculated by dividing the total payment received from all non-small business customers by the average revenue per small business customer, which is determined once per period.

(3) The number of Yes subscribers using Yes+ and STING 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 2023). As of the date of publication of the report, is about 408K customers, which constitute approximately 71% of all the TV subscribers of Yes. The number of IP subscirbers and aforementioned rate also include subscribers who use satellite services in parallel.

(4) The average monthly revenue per TV subscriber is calculated by dividing the total Yes 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 2023 periodic report.

(5) The number of DBS subscribers who churned from Yes 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 2023 periodic report.

(6) The number of subscribers connected to the fiber network as of the date of publication of the report is about 44K.

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

1.6.1. The following is the Group's forecast for 2024 based on the information currently known to the Bezeq Group:

a. Adjusted net profit[7] for shareholders is expected to be NIS 1.25 billion.

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

c. CAPEX[9] It is expected to be NIS 1.9-1.8 billion.

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

d. The scope of the Company's fiber network deployment - reaching approximately 2.5 million households.

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

1.6.2. Medium-term ambitions

a. Adjusted EBITDA - average growth per year in terms of CAGR of about 1.5%-2%, with an adjusted EBITDA rate from revenues in the range of 42%-44%.

b. CAPEX - decrease to the range of 16%-18% in relation to CAPEX/Sales.

c. Adj. EBITDA minus CAPEX - improvement of approximately NIS 400-500 million.

d. Free cash flow[10] – average annual growth (in CAGR terms) of approximately 7%-9%.

e. Use of the Company's fiber network - reaching infrastructure take-up of about 40%.

f. Dividend policy - Bezeq will strive to increase the dividend in the future, subject to maintaining Bezeq's credit rating in the AA group.

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

h. ARPU - retail internet subscription - over NIS 140, cellular subscriber - NIS 45-50 (net of interconnect) and TV subscriber - approximately NIS 160.

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 2024 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 2023. Also, the forecast can change depending on the duration, intensity, and scope of the Iron Swords War.

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,

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[7] Adjusted net profit and adjusted EBITDA – net of the other operating expenses / revenue, net item, non-recurring losses / gains from impairment / appreciation, and expenses of the equity compensation plan. It should be noted that the adjusted EBITDA and the adjusted net profit for 2023 were approximately NIS 3.817 billion and approximately NIS 1.328 billion, respectively.

[8] See Footnote 10.

[9] CAPEX - Payments (gross) for investment in property, plant and equipment and intangible assets. The investments as part of the forecast for 2024 include a one-off increase for the benefit of two projects - the establishment of a group server farm and upgrading the capabilities of the core networks. It should be noted that the CAPEX for 2023 was approximately NIS 1.708 billion.

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

ambitions, by nature, do not purport to be predictions and should not be read 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 0, 3.19, 4.14 and 5.18), 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, either independently 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 includes 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 wholesale service (See Section 2.16.4.2) also allows operators who do not own

[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.

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, Bezeq, as an infrastructure owner, and later also Hot, is allowed to provide private service subscribers Internet access service themselves, 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 1.7.4).

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 Section1.7.11).

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 Cancellation of structural separation

Bezeq’s position is that it should be cancelled. It should be noted that following the report of an interdepartmental team for the examination of the updating of the structural separation obligations in the Bezeq and Hot groups, which was established by the State and submitted its recommendations to the Minister of Communications in 2020, the separation that existed between the infrastructure service and the ISP service was cancelled (for the aforementioned elimination of separation, see Section 1.7.5.1) Bezeq continues to work with the Ministry of Communications for the complete cancellation of the structural separation obligation applied to it, and in this framework it reached agreements with

12 Pelephone, Bezeq International, DBS and Bezeq Online.

the employees' representatives regarding the promotion of the treatment of the cancellation of structural separation as detailed in Section 2.9.6.

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 Yes in accordance with the decision of April 12, 2021 of the Commissioner of Competition, Yes 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 Yes - in recent years, the Ministry rejected various requests from Bezeq to provide its Internet services together with the television services of the subsidiary Yes (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 Section5.14.2.

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. 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.

"Bezeq service" is defined in an amendment to the law 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 Yes, except in relation to the ISP service provided by Yes. 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 to examine the justifications for determining different arrangements within the licenses. Regarding the obligation to disconnect dormant subscribers stipulated in the regulations, see Section 1.7.7.7.

On March 29, 2023, a decision was made by the Ministry of Communications (following the hearing on November 22, 2022) allowing all authorized providers to use the passive infrastructure reciprocally, including the Company's physical infrastructure not only in the incentive areas, and this subject to compliance with security instructions, in accordance with the instructions as amended in the appendix relevant to the case the service and the instruction of the General Manager.

Also, as of the date of publication of the report, a decision was not yet made on the hearing "Update the Wholesale Market Regulations and the Service Files - Adaptation to

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.

the New Regulation" that the Ministry published on December 8, 2023, 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.

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.

Regarding the use of passive infrastructures in a wholesale service, see Section 2.16.4.

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 a private Internet infrastructure service with Bezeq International's or another licensee's access service.

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, Yes 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, including through 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.

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 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 section2.16.4.

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 revenue 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 (in view of historical linking mechanisms, the actual rates as determined by regulations are higher):

(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 Yes) 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 Call centers

In the licenses of Bezeq, Pelephone, Bezeq International, and Yes, instructions were set regarding the obligation to route calls in certain matters to a professional human answer, response times, as well as instructions regarding call center manning hours, recording and documentation of calls, and reporting obligations, and this is further to the amendment to the Consumer Protection Law that deals, among other things, with the time of waiting for a human answer.

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.

[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.

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.

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. On April 2, 2023, a judgment was issued in the appeal filed by Bezeq on the imposition of the sanction confirming the agreement of the parties that the amount of the financial sanction will be a reduced amount of approximately NIS 3.4 million, and accordingly the Consumer Protection Authority returned to Bezeq a total of approximately NIS 3.7 million (including linkage and interest differences).

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 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 recommended 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 2023 statements. On January 14, 2021, a preliminary request was also sent to Yes 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, Yes 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 Yes (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 2023 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 sections2.16.3.7, 3.14.2 and5.14.1.7.

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 2023 statements.

1.7.9. State of War - "Iron Swords

As of October 7, 2023, the State of Israel is in a state of war in the Gaza Strip, as well as in a state of limited hostilities in the northern border area. The state of war creates various effects on the Bezeq Group companies, which are reflected on the one hand in an increase in demand for some services, in Internet traffic and in the use of landline telephony, and on the other hand in a decrease in roaming activity, a decrease in the sale of cellular devices, and the removal/freezing of business lines in areas that are affected by the war. Also, with the outbreak of the war, due to the recruitment of employees to reserve service and a decrease in contractor activity, there was a slowdown in deployment and installation activity in the Bezeq network. Also, a number of regulatory moves were made as part of the State of Israel's handling of the state of war, including a law to postpone payment dates for those entitled and to ease phone call charges, including calls related to distance learning. It should be noted that some of the Group companies took their own initiative to ease the charges towards localities in the Gaza Envelope and on the northern border.

The Bezeq Group companies, which provide, among other things, essential communication services to private, business, and institutional customers, including the state institutions, the security forces, and the health system, are prepared accordingly

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

and respond to the various needs, including fault solving, increasing vigilance and preparedness in cyber systems, and assisting the community in various ways. Also, the Group companies regularly examine and follow closely the developments related to the war.

At this stage, the effects of the war and its consequences as described above do not have a material impact on the activities of the Company and Bezeq Group and their business results. Also, the liquidity and financial situation of the Company and Bezeq Group allows them to function well during the war. The scope and duration of the war and its consequences on the state of the Israeli economy, as well as on Bezeq Group companies, are unobservable and difficult to predict, and they depend, among other things, on the manner and scope of the development of the war and the possibility of the economy slipping into recession as a result. In this context, attention is also drawn to the relevant risk factors detailed in Chapter A (Description of the Corporation's Business) of the periodic report for the year 2023 (Sections 2.20.11, 2.20.15, 3.19.2.9, 4.14.8, 5.18.1.2, 5.18.1.4).

Some of the information contained in this section is forward-looking information, as defined in the Securities Law, based on estimates, assumptions, and expectations of the Company and Bezeq Group which may not materialize, or materialize in a materially different way than anticipated, depending, among other things, on the manner and scope of the development of the war and the state of the economy as a whole.

1.7.10. Cyber defense management

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 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 2.20.12, 3.19.2.8, 4.14.7 and 5.18.3.9.

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 5.14.

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, including upgrading browsing speeds using fiber, and the transition to a unified Internet package will constitute a growth engine in Bezeq Fixed Lines.

B. Reduction of Bezeq International's private segment Internet activity, and transforming the ISP activity in Yes into a "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 (such as entering the field of electricity supply as detailed in Section 1.9). 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 cancel structural separation. For this purpose, concrete multiyear plans have been determined for implementation in the group companies, which include, among other things, targets for reducing expenses and investments.

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.

1.8.4. ESG

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.

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

Bezeq's subsidiaries Pelephone, Bezeq International and Yes (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 Sections0, 0, 4.13 and 0.

In respect of decisions by Bezeq's Board of Directors and Yes's Board of Directors regarding an outline for a gradual transition from satellite broadcasts to transmission via the Internet (OTT) see Section5.18

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 0,3.19, 4.14 and 5.18.

1.9. Entry into the field of electricity supply

1.9.1. Bezeq's entry into the field of electricity supply

On January 25, 2024, Bezeq's Board of Directors approved its entry into the field of electricity supply and its engagement with Powergen Ltd. ("**Powergen**")[16], a company wholly owned by Generation Capital Ltd. which coordinates the fund's energy activities, In the non-binding memorandum of understanding regarding strategic cooperation and the establishment of a joint venture in the field of electricity supply ("**the MOU**"). The signing of the aforementioned memorandum of understanding is in accordance with Bezeq's strategy, which includes finding opportunities for expansion in areas that are tangential and complementary to the Group's activities, and entering areas of activity with high growth from the Company's core areas while diversifying the portfolio and reducing dependence on regulatory risks (for this matter, see Section 1.8.2.3).

1.9.2. Background regarding the reform of the electricity sector in Israel

As part of the reform in the electricity sector in Israel, it was determined in 2018 that the supply segment relating to the purchase of electricity and its sale to consumers, including determining the price for the consumer, generating bills, etc., will be gradually opened to competition. While the distribution activity, at least at the regional level, is almost entirely controlled by the Israel Electric Company Ltd. ("**IEC**") and can anyway be done by only one distributor (a natural monopoly), the supply activity can be open to competition. The supply segment was open to competition for large consumers and starting in 2021 it will gradually open up to competition for domestic consumers as well. Competition in the supply segment allows consumers to contract with a private supplier and continue to purchase electricity from IEC. According to the decisions of the Electricity Authority, it is now possible to transfer customers who have a smart meter installed (a continuous meter that allows remote reading of data) from IEC to suppliers who do not possess production means, thus opening up to market competition on a very significant scale, as IEC is prevented from offering discounts to customers until it loses 40% market share in low voltage. According to the consulting firm BDO Consulting, the market share that may pass

[16] Powergen Ltd. (formerly Generation Energy Ltd.) coordinates the energy activities of Generation Capital Ltd., corporations under its control possess electricity production facilities on a significant scale, and it also engages directly and through corporations under its control in initiating projects for the establishment and operation of electricity production and storage facilities.

to IEC's competitors until the year 2030 is estimated at about NIS 10 billion.

1.9.3. Main points of the MOU

1.9.3.1 The MOU regulates the principles of cooperation between Bezeq and Powergen in the field of electricity supply to household customers and small and medium-sized business customers ("**Activity Field**").

1.9.3.2 For the purpose of the cooperation, a company jointly owned by Bezeq (50%) and Powergen (50%) ("**the Venture**") will be established, which will hold a supply license to suppliers who do not possess production means, by virtue of the regulation published by IEC.

1.9.3.3 Bezeq, through the services it will provide to the Venture, will be responsible for marketing, sales, acquisition, and customer retention, as well as for providing account management services to customers, including collection services and contact with the customer. Powergen will be responsible for providing voltage for the benefit of the Venture, both through electricity production and storage facilities that belong to the corporations held by it, and through continuing to initiate, operate, and finance projects for the establishment and operation of electricity production and storage facilities, by itself or through corporations under its control. It is hereby clarified that the investments in these projects will be made, directly or indirectly, by Powergen Group only, and Bezeq Group or the Venture are not expected to make substantial investments in connection with the Venture's activities. In the first period of the Venture's activity, Powergen will also provide electricity trade and optimization services to the Venture, under certain conditions as reflected in the memorandum of understanding.

1.9.3.4 Powergen will offer the Venture the electricity it produces, directly and indirectly, and the Venture will purchase the electricity from it (under certain conditions), as long as it is required, within the framework of long-term engagements with commitments to purchase the electricity through various price-setting mechanisms. As part of contracts with Powergen renewable energy facilities, the eligibility for "green" electricity production, including the eligibility for issuing green certificates, will belong to the Venture.

1.9.3.5 Upon the establishment of the Venture, the parties will provide it, in equal parts, the amount required to finance its activities in the first year (it will be clarified that this is an immaterial amount in relation to the Bezeq Group).

1.9.3.6 Each party between Bezeq and Powergen will appoint half of the members of the Venture's Board of Directors. The Chairman of the Venture's Board of Directors will be the CEO of Bezeq. All decisions of the Venture's Board of Directors will be made jointly, but the directors appointed by Bezeq will have an excess vote in the Venture's Board of Directors, mainly on issues such as decisions concerning transactions with Powergen Group, the marketing strategy and its implementation.

1.9.3.7 Following the signing of the MOU, the parties work to enter into a detailed agreement based on the principles detailed in the MOU.

The launch of the Venture is expected in the second quarter of 2024. In accordance with the business plan included in the MOU, the project aims to reach a market share of approximately 400,000 household electricity customers and tens of thousands of business customers by the end of 2030.

Bezeq's entry into the field of electricity supply and the entry into force of the MOU require an amendment of the objectives section of Bezeq's Memorandum of Association. On March 3, 2024, the general assembly of Bezeq's shareholders approved an amendment to the aforementioned Memorandum of Association.[17]

Bezeq examines the expected accounting treatment for the Venture in its financial statements. According to what appears at this stage, the treatment will be carried out according to the balance

[17] It is clarified that in accordance with the Companies Ordinance, the approved amendment to Bezeq's Memorandum of Association regarding Bezeq's targets, will enter into force within 21 days from the date of the decision at the asembly, subject to and in accordance with the provisions of Article 25 of the Companies Ordinance.

sheet value method, and Bezeq's share of the Venture’s profits (losses) will be recorded as part of Bezeq's current business activity and presented as part of Bezeq's operating profit and EBITDA.

Some of the information contained in this immediate report includes forward-looking information, within its meaning in the Securities Law, 1968-5778 and is based, among other things, on estimates regarding future developments regarding the electricity sector, the behavior and needs of electricity customers, regulatory policy, competitors' marketing strategy, etc. These estimates may not materialize, or materialize in a materially different way than projected, among other things, depending on the variables mentioned above.

1.10. Corporate responsibility (ESG)

On February 24, 2022, Bezeq's Board of Directors approved the expansion of its activity in the field of corporate responsibility (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. The Board of Directors also approved, on and around the same date, corporate responsibility policy documents on various topics. In February 2023, the application of the aforementioned ESG targets was also approved in the subsidiaries Pelephone, Bezeq International and Yes. In March 2023, Bezeq joined the gender equality initiative of the UN Women's Organization (WEPs).

In addition, during 2023, 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, and starting in 2022, Bezeq submits a report to the international organization CDP, which is engaged in managing a professional system for reporting, documenting, and rating the nature of the environmental impact management of various entities.

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 Section2.16.4).

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 section1.7.3 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 section2.16.3.

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 section2.16.9).

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**.שגיאה! מקור ההפניה לא נמצא**), 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 2022 and 2023, 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[18]:

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 2023, the number of wholesale Internet subscribers on the Company’s network was approximately 467K subscribers, constituting approximately 31% 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).

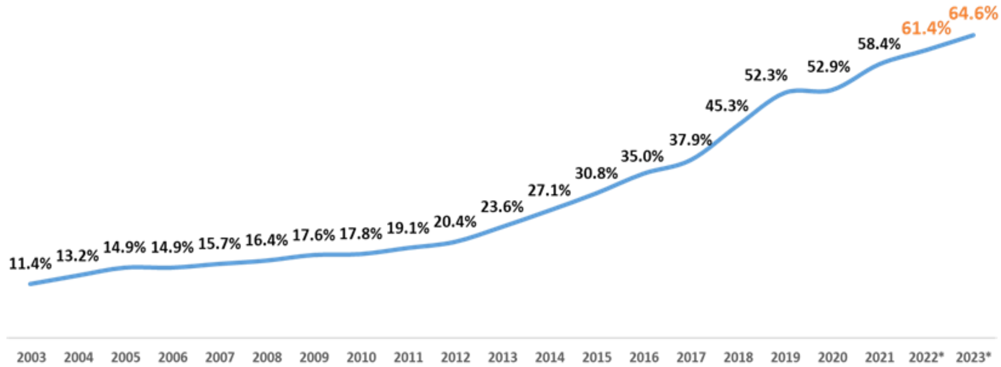
Bezeq also provides a wholesale service that allows competitors to use Bezeq's passive infrastructure.

Regarding the wholesale services, see Section 2.16.4.

[18] For details of the data as well as subscrber definitions and average revenue, see the notes to the table in Section 1.5.4.1.

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, as well as an increase in the number of calls over the Internet (See Section 2.1.4). In 2023, there was a decrease of about 4% in the number of Bezeq subscribers compared to 2022.

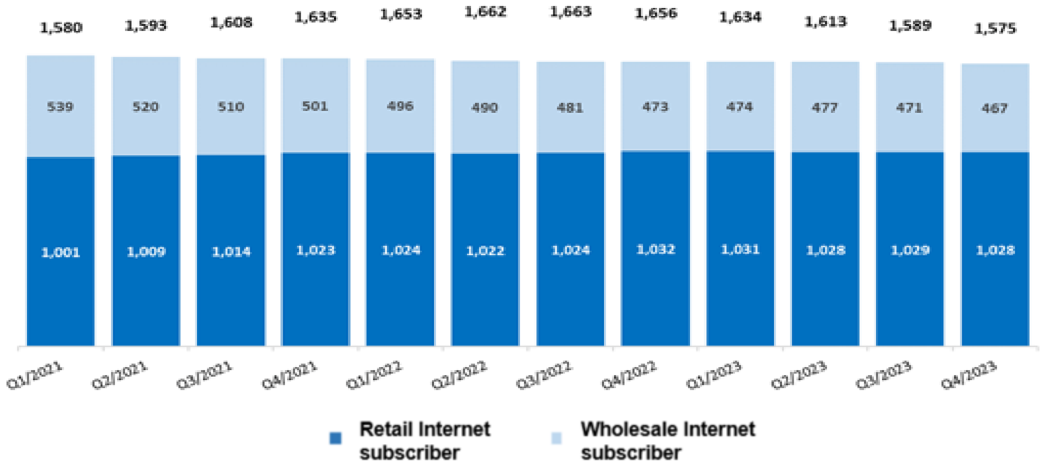
Diagram - Rate of households without a landline telephone line[19]



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 2023, Bezeq estimates that the following changes compared to 2022 will apply: an increase of approximately 1% in the number of landline Internet subscribers in Israel and a decrease of approximately 1% in the total number of Bezeq’s Internet subscribers (decrease in both retail and 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). Bezeq also provides speed at a rate of up to 200 megabytes on its copper network

19 The data were taken from the publications of the Central Bureau of Statistics (Household expenditure survey for 2021 dated December 31, 2023. In relation to the data for the years 2022-2023 - in accordance with Bezeq’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 2.6.6). 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 section1.7.1. 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 allow other operators to provide services similar to those provided by Bezeq at even 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 section3.1.5), since they will also be able to provide ultra-fast internet at the customer's home.

In the business segment, the entry of large global cloud service providers into the Israeli market such as AWS, MICROSOFT, GOOGLE may threaten certain services of the Company such as VCLOUD, DR. On the other hand, cooperation with them is an opportunity for Bezeq's growth and entry into new fields.

2.1.5. The development of SD WAN[20] technology and its increasing use in the business sector, which includes the integration of the technology in the Company's communication networks, is an opportunity to enrich the business services offered by Bezeq and increase its revenues. 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**שגיאה! מקור ההפניה לא נמצא.**.

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 sections2.7.2 and **שגיאה! מקור ההפניה לא נמצא.**), 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 **שגיאה! מקור ההפניה לא נמצא.**); 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

[20] SD-WAN is a solution from the software defined networking family - implementing a network on smart software over uniform hardware. In SD-WAN, intelligent central software manages endpoint routers at customer sites and enables uniform communication and information security for the organization with easy and convenient central management.

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 Section2.6.5), 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, Bezeq and Hot Telecom. In respect of the fiber network, Bezeq is obliged to provide service according to choice areas - see Section 2.7.2.3): Bezeq, and Hot Telecom. IBC is also obliged to deploy the fiber network, so that at the end of 5 years from March 7, 211, 1.7 million households in Israel will be accessible to its network[21]. 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 (regarding Cellcom and Hot joining IBC, see Section 2.6.3).

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 also aoperates in the unified Internet service, which includes both infrastructure (fiber or copper) and a private 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 Bezeq’s passive infrastructure in the incentive areas for this purpose.

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 Bezeq 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 over Bezeq’s fiber network (See also the IRU agreement between Bezeq and the Partner in Section 2.6.3).

The field of landline telephony is in competition, and Bezeq's competitors, some of them within communication groups (see Section 1.7.1), are Hot Telecom, as well as VoB service

21 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.

providers operating under licenses without universal service obligation For several years now, without their own self-access infrastructure, as well as the cellular companies. 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. 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 and offering a complete communication solution to the customer.

Competition in the industry depends on various factors such as: technological developments, 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 subsidiarie.

For a description of the development of competition, see Sections1.7 and2.6.

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, 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 section2.16.4.4.

2.2.3. Internet access infrastructure services and ISP

Bezeq provides broadband internet services over the fiber network in statistical areas subject to milestones in its license over the copper infrastructure using xDSL technology, as well as wirelessly using VBAND technology. Bezeq's fiber infrastructure allows for signiciantlyhigher speeds than the traditional copper network, and accordingly, thereis an increase in the average package rate. In addition to switching customers to Bezeq's fiber network, Bezeq is also working to upgrade customers' browsing speeds over the fiber network. Also, as of April 3, 2022, Bezeq markets and provides a unified internet service, infrastructure, and private Internet access (for this matter, see Section 1.7.5.1).

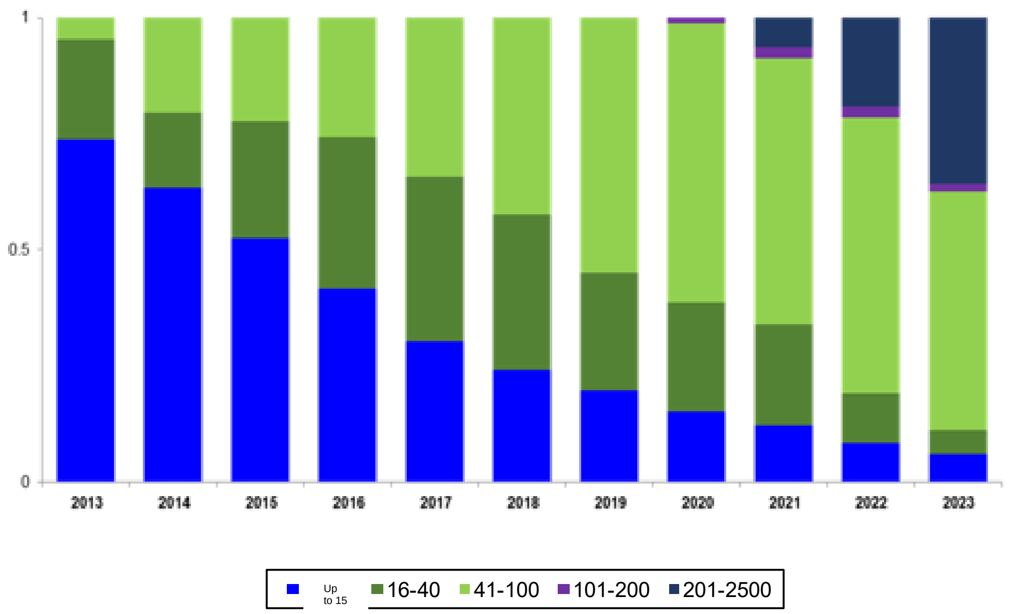
For details regarding changes in the number of Bezeq Internet subscribers in the average monthly revenue per Internet subscriber and in the average package speed, see Section 1.5.4. For details regarding Bezeq's market share in this field, see Section **שגיאה! מקור ההפניה לא נמצא.**.

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.[22]

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, see Section 2.6.2.1.

Diagram - Changes in the package speeds of Bezeq Internet subscribers in the years 2013-2023 (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 Section2.6.6).

2.2.5. Cloud and digital services

This category includes, among others, virtual server services, cyber services, 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.

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

22 Including revenue from service providers in wholesale service..

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 section1.7.4.

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 section2.15.

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. Further to Bezeq entering into an MOU with Powergen Ltd. regarding cooperation and the establishment of a joint venture in the field of electricity supply (see Section 1.9) subject to all laws, the license for electricity supply held by Bezeq will be converted to the benefit of the joint corporation.

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 (including products not in the field of communications).

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 2021-2023 (NIS millions):

	2023	2022	2021
Revenue from Internet infrastructure services	1,947	1,789	1,624
Rate out of the total Company revenue in the field of activity	44.13%	41.55%	38.83%
Revenue from landline telephony	650	780	913
Rate out of the total Company revenue in the field of activity	14.73%	18.11%	21.83%
Revenue from transmission and data communication services	1,163	1,132	1,087
Rate out of the total Company revenue in the field of activity	26.36%	26.29%	26.0%
Revenue from Cloud and digital services	349	331	318
Rate out of the total Company revenue in the field of activity	7.91%	7.69%	7.6%
Revenue from other services and sale of end equipment	303	274	240
Rate out of the total Company revenue in the field of activity	6.87%	6.36%	5.74%

Total revenues from the field of landline interior communications	**4,412**	**4,306**	**4,182**

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 48%) and business customers (approximately 52%)[23]. The aforesaid distribution is according to revenue, as detailed in the table below (in NIS millions):

	2023	2022	2021
Revenue from private customers	2,114	2,099	2,071
Revenue from business customers	2,298	2,207	2,111
Total revenue	**4,412**	**4,306**	**4,182**

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) market the Company’s Internet infrastructure as part of a unified Internet service based on Bezeq's BSA wholesale service. Note that 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.

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 market Bezeq's internet infrastructure on the one hand, and on the other hand to compete with Bezeq using its services and physical infrastructure, at regulated maximum prices not determined by Bezeq.

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 2023 its market share in the Internet infrastructure market (retail and wholesale customers) was about 55% (unchanged compared to 2022). Also, according to Bezeq, its market share in terms of retail customers as of the end of 2023 is about 38%[24]. Also, the proportion of the Company's unified internet customers out of its retail customers by the end of 2023 is about 74%.

Since March 2021, Bezeq ha been marketing an Internet infrastructure service to customers over an advanced network - the fiber network deployed by it, and competes with this service against Partner (who also deployed its own fiber network and also entered into an IRU agreement with Bezeq), Cellcom, and Hot. Authorized providers are

23 Including revenue from wholesale service providers.

24 Bezeq’s assessment of its market share in the field of Internet infrastructure services for the end of 2023 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.

also allowed to deploy a broadband Internet infrastructure, including through the use of Bezeq’s passive infrastructure, and provide services through it.

As of April 2022, Bezeq also operates 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:

Competition from Hot Group:

Hot has an almost traditional Internet infrastructure, deployed almost nationwide, 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).

Competition from IBC

IBC's license enables the provision of services mainly to license holders. IBC is obliged to the deployment so that at the end of 5 years from March 7, 2021, 1.7 million households in Israel will be accessible to its network (according to a report on the IBC website, as of the end of 2023, over 1.5 million households are already accessible to its network). IBC is owned by the IEC (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 signing of an agreement with IBC 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.

As far as Partner is concerned - in accordance with its announcement, starting from the fourth quarter of 2023, it began to offer its customers internet services over IBC's fiber optic network as part of the wholesale market.

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.[25] 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 Bezeq'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, it should be noted that as of the date of the report, Partner insists on exercising the right of use to the extent of approximately 80%). 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 6 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 6 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.

Further to the above agreement and the contacts with the Ministry of Communications Bezeq agreed to 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[26] 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

[25] 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.

[26] 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 79.4 and NIS 88.3, respectively, plus VAT .

for anyone interested in it. On December 25, 2023, Bezeq informed the Ministry of its decision not to link the said price to the index in 2024 and to leave it at the aforementioned NIS 72. Accordingly, the Ministry does not object to the agreement.

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 few years, 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 gradually, they were also allowed to use Bezeq's 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, 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 Section2.1.3.2). Bezeq estimates that in 2024 the entire telephony market continued to erode at a similar rate to 2023. For this matter, see also Section2.4. Since not all competitors in the field are reporting corporations and their data is not public, it is not possible to detail the market shares of the competitors in the field.

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 Section2.16.4.

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 main reasons for the decrease in the average traffic per line, and the high rate of removal of telephone lines (see section2.1.3).

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 Section0)[27], *inter alia*, in order to compete with Bezeq in this field.

Operating in this field are also infrastructure owners IBC and Hot. These infrastructure owners may use Bezeq's physical infrastructure. In this matter see Sections 0 and2.6.7.

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

2.6.7. Additional competing infrastructures**[28]**

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.

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

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:

Bezeq is working to introduce the high-speed Internet service and to increase the number of its customers in this field (see also Sections 2.2.3 and2.7.2). 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 2.6.5).

2.6.8.1 As of 2018, Bezeq has been marketing its Be router (in version upgrades over the years). 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. Bezeq also markets products to improve the reception range of the Be spot (including a fiber-optimized version) and Be mesh home Internet networks. 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.

In May 2023, Bezeq, together with the global company "Nokia", conducted an experiment in which the ability to provide rates of up to 25 gigabytes with advanced technologies was demonstrated, and in parallel, it announced a future road map for the development of rates and services that includes the launch of multi-gig rates of up to 10 gigabytes and WiFi7 in 2024 and up to 25 gigabytes in 2027, advanced WiFi standards and upgrading Bezeq's Be router.

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).

Bezeq is launching new communication services and value-added applications (such as BIZFIBER, integration services, etc.), as well as product and service packages and shared baskets (similar to certain baskets marketed by its competitors, although subject to a detachability limit - see Section 1.7.3.1), in order to expand the scope of the use of subscriber lines, to respond to customer needs, and to strengthen the image of technological innovation. Bezeq invests in the improvement and modernization of its infrastructure, to enable the provision of advanced services and products to its subscribers.

2.6.8.5 Bezeq has launched a number of business services under a branding called "Bezeq Business Pro" which includes security services, business networking, integration, and expansion of the Metro service into a comprehensive package called Metro PRO and a HYPER CONNECT service that enables a stable and secure connection to global and local public cloud providers. Also, Bezeq is working to upgrade the transmission lines to high rates.

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

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:

a. Limited rate flexibility

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

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

b. Structural separation obligation and limitations in the marketing of joint service packages of Bezeq and Group companies;

For this matter, see Section1.7.3.

c. The universal service and fiber deployment obligation

Bezeq has an obligation to provide service at a uniform price to the general public in Israel (universal service), except in relation to advanced network (fiber). 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 revenue 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 section2.16.4).

d. 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 and 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 and operator relationship management using a Class 4 switch. All switches are backed up and survivable in different farms, as well as all telephony components.

2.7.2.2 Data transfer network and transmission

Bezeq's fiber infrastructure for private customers began to be deployed in 2020 and enables ultra-broadband rates. As of the publication date of the report, this network has been deployed to approximately 2.16 million households nationwide that are available for commercial connection, of which approximately 619K subscribers have been connected (of which 397K are retail and 222K are wholesale).

This infrastructure is based on GPON technology and currently allows bandwidths of up to 2.5Gbs in the downlink channel.

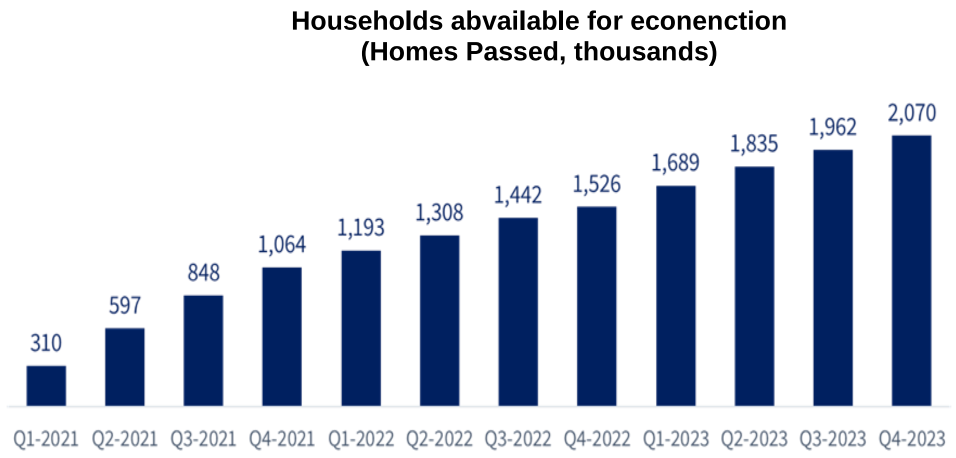
For the amendment of the Bezeq license and the selection of the fiber network deployment areas by it, see Section 2.16.5.

In parallel with this infrastructure, the NGN network based on fiber optic infrastructures for street cabinets (FTTC) also operates, and on an access network based on all copper cables from the street cabinets to the terminal point of the network with the subscriber (mentioned in the description of the telephony network above. See section 2.7.2.1). Over this network it is currently possible to provide bandwidths of up to 200 Mbs downlink depending on the quality of the copper infrastructure.

This data transmission network is used by the Internet providers in Israel as a dual access network in a wholesale model, based on both xDSL technology over copper infrastructure and GPON technology over fiber infrastructure to the customers' homes. All access infrastructures are linked at a national level through an advanced MPLS network to all providers in Israel and for Bezeq's own use. The MPLS network enables the implementation of reliable and efficient national connectivity for various uses, at a national level.

Bezeq has two parallel MPLS networks from different equipment manufacturers for backup and survivability in different implementations. These networks provide, in addition to the Internet service, IP Layer 3 transmission services, cellular backhaul connection services as a service for a cellular bundle, as well as metro transmission services (Ethernet Layer 2 connectivity) with a high level of performance and great flexibility. The services are provided over Bezeq's infrastructure using new and advanced communication systems that allow the transfer of large volumes of traffic between sites for a variety of applications. Also, the services include advanced options of full Bezeq management or independent management, which allow the business customer better control over the management of the corporate communication network.

Since receiving the license to operate as an ISP (see Section 2.2.3), Bezeq has added an ISP Internet provider infrastructure, backed up and survivable on two sites. This infrastructure includes an IP network, a customer connection system, a valid IPv4 address sharing system in the CGNAT model (address translation and sharing) with full support for IPv6 as well. The network is currently being deployed in 3 more sites in Europe to enable the use of content from the global Internet in a flexible and efficient manner. Most of the end equipment (equipment installed by the subscriber such as routers) is owned by Bezeq and is rented by the customer. The following is a description of the development of a number of households available for a commercial connection in Bezeq's fiber network as well as the total number of subscribers in Bezeq's fiber network:



2.7.2.3 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. 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.

2.7.2.4 Millimeter waves

Millimeter wave technology makes it possible to transfer wirelessly a significantly larger bandwidth than the technologies that were available in the past. The technology can be used both point-to-point and point-to-multipoint and is a solution for the final segment, that is, the connection to the subscriber's endpoint. Through the use of this technology, it is possible to connect (to the access of the Ministry of Communications after approval) extensive areas relatively quickly and at lower costs compared to the deployment of a wired infrastructure.

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. 301	Approx. 836	Approx. 83	From this, approx.. 297 field assets in the area approx. 817K sqm. of plots, approx. 72K 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. 330	Approx. 31	Approx. 65	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. 703	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 properties to Ila. Another property will be returned to Ila during the year 2024 after the completion of the vacating procedure, after Bezeq has received a replacement 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 2023 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. An appeal filed by Bezeq with the District Court was dismissed on October 17, 2023. 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 section2.16.2). Also, the Company has a general NIO license for the Judea and Samaria region (see Section 2.16.2.9).

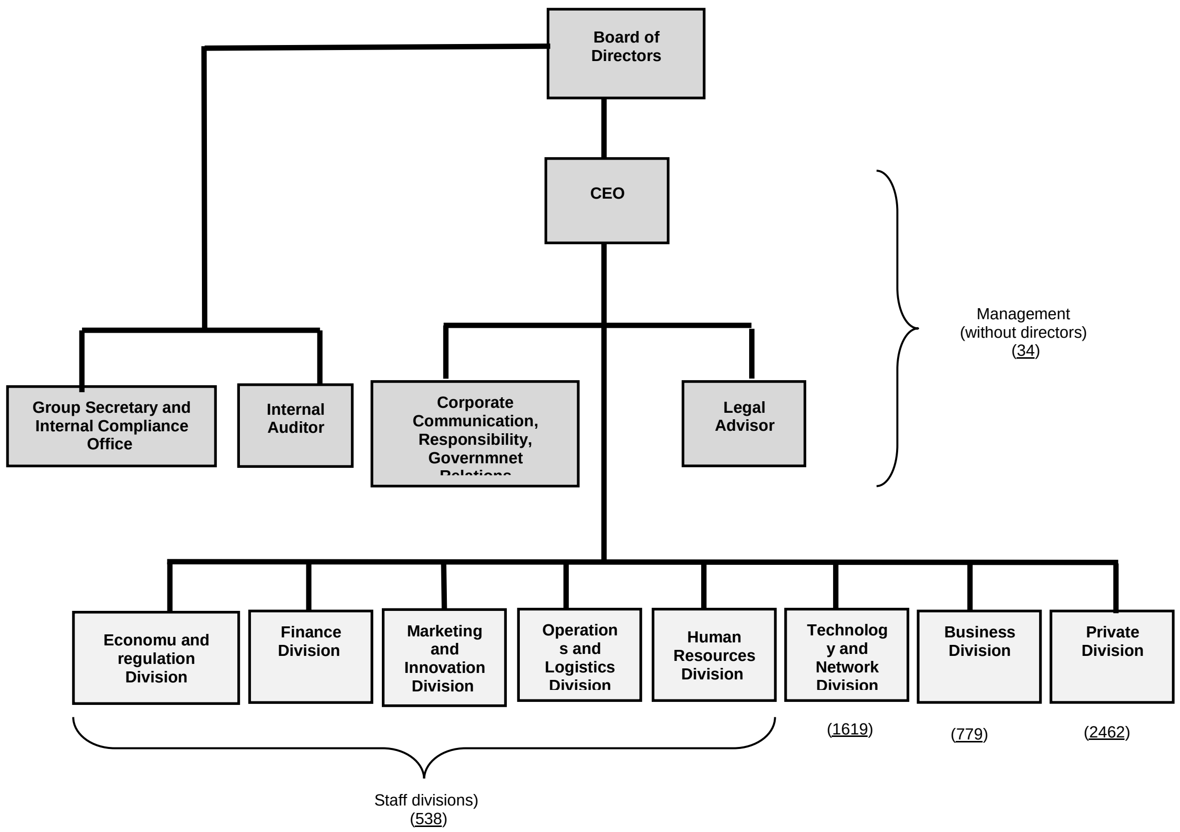
2.8.2. Trademarks

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, 2023:



2.9.2. Number of Bezeq employees and employment frameworks

The number of employees at Bezeq as of December 31, 2023 was 5,432 employees (compared to 5,598 employees at the end of 2022). About 93% of Bezeq employees are employed under collective agreements (of which approximately 57% 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 Section2.9.4.

2.9.3. Early retirement plans for employees

During 2023, 83 permanent Bezeq employees retired in accordance with the retirement plan in Bezeq.

On December 13, 2023, 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 50 veteran permanent employees during 2024 through the early retirement track at a total cost of approximately NIS 55 million. In light of the aforesaid, Bezeq recorded an expense accordingly in its statements for the fourth quarter of 2023.

For this matter see also Note 16.5 to the 2023 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[29] 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 assembly). 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).

29 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 in effect as of the date of publication of the report and as arranged as part of the 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.

Further to the move to amend the Communications Order regarding the possession of means of control in Bezeq (see Section 1.1.2) and to the negotiations conducted between Bezeq and the employees' organization to amend the Bezeq collective bargaining agreement following that, on September 18, 2023, an amendment (No. 7) (“**the Amendment**") to the agreement was signed, and this after Its approval by Bezeq's authorized institutions, including the approval of the general assembly of Bezeq's shareholders on September 14, 2023.

The following are the main points of the amendment:

1. Maintaining Bezeq's financial resilience, including, maintaining the status of a public company, Bezeq's current credit/debt rating, and a percentage of holdings in Pelephone that will not be less than 50.01%.
2. Making a dividend distribution to Bezeq's shareholders subject to the law and while maintaining Bezeq's current credit/debt rating, while regarding a distribution that does not meet the profit test only - the consent of the employees' organization will also be required.
3. Payment of a special bonus to Bezeq employees in the amount of NIS 75 million, most of which is conditional on the dates and conditions set forth in the amendment depending on the change in the percentage of holdings of the current control permit holders in Bezeq (or the expiration/cancellation/transfer of the control permit) ("**the Conditions**").
4. If the Conditions are met, Bezeq will pay a monthly supplement of NIS 2,400 linked to the Consumer Price Index, and the Company will pay management fees to the pension fund for veteran permanent retirees who have retired or will retire from the Company as of July 1, 2023.
5. If the Conditions are met and in the absence of a controlling interest in Bezeq, the employees' organization has the right to appoint an additional (second) representative from among the employees, if the number of Board of Directors members exceeds eleven (11) (including external directors and a director from among the employees).
6. The validity of the amendment is from July 1, 2023 until December 31, 2025, when in relation to some of the arrangements a later validity is determined as detailed in the Amendment. The Amendment exhausts all the claims of the parties and the parties will maintain industrial peace in the matters regulated therein during its period of validity, and in any matter related to changes in the holdings of the present control permit holders even after the expiration of its period of validity.

Nothing in this section and in the fact of signing of the Amendment is sufficient to testify that Bezeq has any information regarding a possible change of control.

2.9.5. Officers and employees of Bezeq's senior management

As of the date of publication of the periodic report, Bezeq has 8 directors, of which three are external directors, one independent director (who is not an external director) and 4 directors who are not independent directors (including one director from among the employees). In addition, Bezeq has 11 senior management members.

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 compensation for officers, see Section 7 of Chapter D of this periodic report and Note 29 of the 2023 statements.

On December 10, 2020, Bezeq’s Board of Directors approved an equity compensation 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, May 9, 2022 and December 27, 2023) 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 compensation policy for a period of three (3) years, effective as of January 1, 2022, which includes, among other things, clarifications regarding the return of compensation given on the basis of erroneous financial information, an adjustment that allows the awarding of performance-dependent variable compensation 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 compensation policy, see the immediate report on assembly convening dated March 23, 2022, which is included in this report by way of reference**.**

Also, on April 20, 2023, the general assembly of Bezeq's shareholders approved, among other things, various amendments to Bezeq's compensation policy, so that the compensation policy which includes such amendments will be in effect for a period of three years from the date of the approval. The amendments include, among other things, the application of the compensation 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 more details on the updated compensation policy, see Bezeq's immediate report (amendment) on the convening of the meeting dated April 4, 2023 included in this report by way of reference.

For the capital compensation plan - see Note 26 to the 2023 statements.

On November 1, 2023, Mr. Gil Sharon, who serves as Chairman of the Bezeq Board of Directors, announced his desire to embark on a new path and end his tenure as director and Chairman of the Board of Directors of Bezeq (and Bezeq's subsidiaries) within three months, at a date to be agreed between the parties and with an orderly transfer of duties. Following this, in December 2023, the Bezeq Board of Directors decided to approve the appointment of the director Mr. Tomer Raved to serve as the Chairman of the Board of Directors of Bezeq and its subsidiaries, starting on January 1, 2024. The terms of office of Mr. Raved were approved by the general assembly of Bezeq's shareholders on February 5, 2024. For this matter, see the report convening a special general assembly of Bezeq's shareholders dated December 28, 2023 and the meeting results report dated February 5, 2024, which are included in this report by way of reference.

On February 25, 2024, the CEO of Bezeq, Mr. Guron, announced his desire to end his tenure, and he is expected to end his term of office on March 31, 2024. In March 2024, the Company's Board of Directors decided to appoint Mr. Nir David, VP of the Company's Business Division, as the Company's CEO, and he is expected to begin his term on April 1, 2024.

2.9.6. Agreements with the employees’ representatives regarding the promotion of treatment for the cancellation of structural separation

As part of Bezeq's activity to cancel the obligation of structural separation between it and its subsidiaries (see Section 1.7.3) and in order to promote its activity on an issue that is of utmost importance to Bezeq Group, Bezeq has turned to its employees’ representation office ("**Employees’ Representation**") with a request for its commitment to assisting and promoting the successful completion of the move, at this stage in regards to the activity to cancel the structural separation between Bezeq and "Yes". Following this, on March 3, 2024, the Employees’ Representation, in coordination with the Yes employees’ representation, announced its agreement to Bezeq's request to agree to the move while reaching agreements between the parties that include sharing and updating the Employees’ Representation about Bezeq's activities on the subject, including:

2.9.6.1 Notification and consultation with the Employees’ Representation before any step that constitutes a structural change within the process.

2.9.6.2 Regulating the consequences of the steps in the process on Bezeq and Yes employees in a collective agreement (or another agreed upon way), while any step with such consequences will not be carried out unilaterally before it is settled in a reasonable and fair manner between the parties, while such negotiations will also include requirements for settling economic exchanges in favor of the employees.

2.9.6.3 Applying the arrangement with the required changes to any similar move that Bezeq will take in the future in relation to other subsidiaries.

Bezeq believes that the involvement of the Employees’ Representation of the Company and Yes will add to and contribute to its efforts to cancel the structural separation between the two companies.

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 10% of the Bezeq’s total annual purchases.

During 2023, 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 deployment of fiber by the Company.
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
DELL	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 2023 statements, and also see Sections 3 and 4 of Chapter D of the periodic report.

2.13. Funding

2.13.1. The average and effective interest rate on Bezeq's loans

As of December 31, 2023, 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	799	NIS unlinked	Fixed	3.62%	3.54%	-3.20% 4.95%
	Banks	700	NIS unlinked	Variable on the basis of the short-term loan interest rate per year **	6.71%	6.85%	-5.78% 6.78%
	Non-banking sources *	3,070	NIS unlinked	Fixed	3.06%	3.30%	-2.79% 4.00%
	Non-banking sources	2,504	CPI-linked NIS	Fixed	1.40%	1.44%	-0.58% 2.20%

* In January 2024, debenture series 11 and 13 were expanded in the amount of NIS one billion par value (approximately NIS 892 million).

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

For more details about Bezeq loans, see Note 13 to the 2023 statements.

2.13.2. Credti receipt limitations

2.13.2.1 Limitations included in Bezeq loans

See Note 14 to the 2023 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, 2023, Bezeq's reportable credit, in accordance with legal position 104-15 of the Securities Authority (reportable credit incident) is Bezeq's debentures series 9, 11, 12, and as of January 11, 2024, also debentures series 13, all as specified Note 13 to the 2023 statements and in Section 4 of the Board of Directors' report.

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 and thereafter

On March 26, 2023, Bezeq completed a public offering of debentures (series 13 and 14) by way of expanding series traded on the stock exchange, according to a shelf offer report dated March 22, 2023, which was published according to a shelf prospectus published on April 7, 2020, as extended by the Securities Authority until April 7, 2023. In this framework, NIS 230,040,000 par value debentures (series 13) were issued to the public for a total of approximately NIS 182 million, and NIS 278,363,000 par value debentures (series 14) for a total of approximately NIS 238 million. For more details on the subject, see Bezeq's shelf offer report dated March 22, 2023 and Bezeq's immediate report dated March 26, 2023 regarding the results of the offering included in this report by way of reference.

On May 9, 2023, Bezeq published a new shelf prospectus (dated May 10, 2023) ("**the Prospectus**").

On January 11, 2024, Bezeq completed a public offering of debentures (series 11 and 13) by way of expanding series traded on the stock exchange, according to a shelf offer report dated January 10, 2024, which was published according to a shelf prospectus published on May 9, 2023. In this framework, NIS 567,877,000 par value debentures (series 11) were issued to the public for a total of NIS 539 million, and NIS 432,123,000 par value debentures (series 13) for a total of NIS 353 million. For more details on the subject, see Bezeq's shelf offer report dated January 10, 2024 and Bezeq's immediate report dated January 11, 2024 regarding the results of the offering included in this report by way of reference. For the matter mentioned in this section, see also section 4 of the board of directors' report and note 13 of the 2023 reports.

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.

2.13.6. Credit rating

Bezeq's debentures are rated by Standard and Poors Maalot Ltd. at a ilAA-/Positive rating, and by Midroog Ltd. at a Aa3.il rating with a positive rating horizon.

For details regarding the history of Bezeq ratings in the last two years, see Bezeq's immediate reports dated May 10, 2022, May 5, 2023 and September 1, 2024 (Standard and Force Maalot Ltd.), as well as from May 10, 2022, May 15, 2023 and September 1, 2024 (Midrog 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 (2024) and the sources of borrowing

During 2024, Bezeq is expected to repay a total of NIS 1.35 billion for the principal and the interest on its loans, including debentures. Most of Bezeq's borrowing needs for 2024 have already been realized as detailed in Section 2.13.4.

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 2023 statements.

2.14. Taxation

For information on taxation, including losses carried forward for tax purposes in Yes, see Note 7 to the 2023 statements.

On December 10, 2023, 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 Yes 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, 2024. 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 Yes 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, 2024, as long as there are no significant developments in 2024 regarding the abolition of the structural separation between Bezeq and Yes. According to Bezeq's position, which was transferred to the Yax Authority, 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[30] 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 section2.16.11.

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

[30] 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.

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 2.16.11.

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 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

Starting 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 reduced.

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[31]. Also, Bezeq may market telephony service packages that include a telephone line and call minutes, at rates that will be determined

31 At the same time, until July 1, 2023, with regard to existing subscribers in these baskets, the maximum payment will be the maximum payment of subscribers who, on the eve of the entry into force of the amendment, paid for a cluster of services according to an alternative payment basket, according to the conditions established in that alternative payment basket or according to the payment regulations as drafted after the amendment, whgichever is lower.

by it in accordance with Article 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.

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 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 March 27, 2023, a decision was published on a hearing 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.[32] According to the decision, the margin reduction test will take place on a retail product based on Bezeq's advanced network in the deployment areas, and may be extended by the Ministry to additional companies. Licensed providers who will deploy advanced networks in the incentive areas will be subject to the margin reduction format established in the decision of the Minister of Communications on the subject of 'Determining an obligation and maximum payment for managed ultra-broadband access service over the fiber network of the winners of the incentive fund tenders'. The decision details the method of calculating the prices underlying the test and states that the retail margin component will be calculated as an addition of 25% to the wholesale costs, or alternatively - as a reduction of 20% from the effective retail price to the end customer plus a reduction of component G (representing the cost of international transmission). The test will 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

[32] 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.

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. During this year the Minister may consider a permanent update of the reduced rate in the regulations.

2.16.1.5 It should be noted that Bezeq also operated, prior to the decision in the hearing, a self-examination for not reducing margins in the BSA service. For wholesale rates and new pricing for all wholesale rates see Section 2.16.4.

2.16.2. Bezeq's NIO license

Bezeq operates, among other things, under the NIO license[33]. 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 section1.7.4. Regarding the deployment and universal service obligation in connection with advanced infrastructure (fibers), see Section2.7.2.

2.16.2.2 Rules of structural separation

For a description of the structural separation rules applicable to Bezeq, see Section1.7.3.

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 1.7.3.3.

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 provisions in the license regarding response at the call centers, see Section 1.7.7.3.

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.

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

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.

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.

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[34] 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 revenue in activities not intended for the provision of Bezeq services (when the revenue 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.

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

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

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 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:

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 (7.5% or more regarding an Israeli institutional investor) 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, having consulted with the Minister of Defense ("**Control Permit**"). 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 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 assembly 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.

In the amendment to the Communications Orer (see Section 1.1.4) an option was added for the controlling shareholder to replace the Israeliness requirement if the Company was given an instruction by the Prime Minister according to Article 13 of the Law, at the request of the General Security Service, and the General Security Service confirmed that it includes alternative requirements 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 Service portfolio

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[35]. The service is provided both on the 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"

[35] 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.

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.

BSA service rates over the copper network

The usage regulations set the maximum rates for the service and they were updated between 2017 and 2023 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. On December 31, 2023, an amendment to the usage regulations was published within which the aforementioned update mechanism was canceled, and it was determined that the rates for 2024 will be updated in accordance with the change in the index published in November 2023 compared to the index published in November 2022. Bezeq informed the service providers of not increasing the rates according to the index, and this also in relation to the rest of the wholesale market rates.

Rates for the BSA service on fiber infrastructure **("Fiber BSA")**

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[36] 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.

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 incentive zones may demand from another licensed provider for a managed broadband access service at a nationwide connection level is 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.

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

[36] 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.

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[37], 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 March 2023, it is possible for all authorized providers to use the passive infrastructures reciprocally, including Bezeq's physical infrastructures, not only in the incentive areas, subject to compliance with security regulations.

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 ruling on the appeal by Bezeq, see Section2.16.9.5, 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.

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[38], which is about a quarter of the rate in the 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 (alongside an economic opinion) as part of a new pricing process for all wholesale rates planned for 2022 (and for this matter see Section 2.16.4.2), among other things, the determination of the abovementioend regulated rates will also be examined.

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37 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.

38 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.

2.16.4.4 Wholesale telephony service

This service allows service providers who do not own infrastructure to offer their customers telephony service at wholesale rates over the Company's network.

The wholesale telephony service in all configuraitons over the years 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 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 future hearing and its consequences. In accordance with the hearing published on December 21, 2023 regarding the amendment of the usage regulations (replacing the mechanism for updating BSA prices on Bezeq's copper network), it was stated that the Ministry of Communications is in the process of updating all of the wholesale rates on the landline network. As a result of the long time that has passed since the construction of the Frontier model and the significant changes that have taken place in the market, including the entry of additional players into the communications infrastructure market and the large-scale deployment of fiber optic infrastructure to the customer's home, the Company decided that an update was needed to the way the maximum payments are determined in the wholesale market. The publication of a model for hearing in preparation for amending the regulations was delayed for various reasons, and it is expected to be published for hearing, according to Bezeq’s estimate, at the end of the first quarter of 2024 or in the second quarter of 2024.

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 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, in Bezeq's licenses or in the licenses of another landline 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. On July 31, 2023, the Communications Order (Bezeq and Broadcasting) (Incentive Fund Annual Payment Rate) (Provisional Order), 5783-2023 was published, according to which, following the examination carried out by the Ministry of Communications, it was determined within the framework of a provisional order that in 2023 the payment rate of the entities liable to the incentive fund will be at a rate of 0% instead of 0.5%. Further to the provisional order, there will be a decrease of approximately NIS 40 million in the Group's expenses in 2023 compared to 2022.

The allocation of the incentive funds is done 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.

The only benchmark for selecting tender winners is 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.

In the license of a winner of a tender or by administrative order, an obligation is 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 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)[39]; 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 will be 82.5%, which is an 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 The Tenders Committee, established according to Article 14d of the Communications Law, published two tenders for the incentive areas, on October 31, 2021 and on February 1, 2023. According to the Ministry (as reflected in the explanatory notes to the draft order above), the winners of these tenders won a vast majority of the incentive areas, and as of July 2023, there is an obligation to deploy and provide Internet access service over an advanced network on approximately 99.5% of households. The Ministry stated that it anticipates that some of the winners of the first tender will request to return some of the winning bids in their won areas where they did not deploy. The Tenders Committee and the Ministry are considering incentivizing the rapid return of areas where the data and information indicate that the winners do not intend to deploy an advanced network in such a way that a tender could be held for them as early as 2024. On August 14, 2023, the Minister of Communications approved Bezeq's request of June 4, 2023, in accordance with the provisions of Article 14e of the Telecommunications Law, to require it to deploy an advanced network and provide Internet access service over it in all incentive areas remaining after the first and second incentive tenders except in the Kfar Aqab area, which is, among other things, in light of the Company's compliance with its license conditions. The Bezeq license was amended accordingly (Bezeq's deployment obligation in approximately 85% of households).

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

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

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), 5730-1970 was published, regarding the obligation to lay optical fibers in new buildings. In addition, the Communications Law established conditions regarding the laying of an advanced network in a shared residential building, even 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 Yes 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 **שגיאה! מקור ההפניה לא נמצא.**.

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[40].

b. Providing fast-access services through subscriber access network[41].

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

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 Yes 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 Yes (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

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40 Announcement dated 30.7.1995.

41 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).

that the condition stipulating the cancellation of exclusivity arrangements between Bezeq and Yes 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 October 24, 2023, the Competition Court rejected an appeal filed by Bezeq on the Determination. It should be noted that the full amount of the sanctions was paid by Bezeq in 2019. Regarding the request for approval of a class action and requirements for exhausting rights before submitting a derivative action further to this Determination, see Section 2.18.1f.

2.16.10. Telegraph Order

The Government is dealing with the existing shortage of radio frequencies to provide a variety of advanced communication services to the Israeli public (among other things, due to the allocation of many frequencies for security and other public uses), by allocating them in tenders and limiting the number of licenses that can be used, as well as by establishing conditions and criteria to ensure 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 allocation of an appropriate frequency in accordance with the Committee’s policy. 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 settled 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.

2.16.11.3 Radiation permits

Regarding radiation permits for communication and transmission facilities, see Section2.15 2.15.

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 (Works and Buildings Exempted from the Permit), 5774-2014.

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 2023 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 section2.7.4.3.

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 (2021-2023). Therefore, in the absence of relevant qualitative considerations, this section describes legal proceedings to the extent of NIS 80 million or more[42], 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)[43]. 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.	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 motion deals with, according to what is alleged in it, 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 Yes 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 Yes 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	502

42 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.

43 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 work of the Audit Committee, the Board of Directors and the general assembly, 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 20, 2024, in light of the Securities Authority's investigation and indictments filed later in it (see Section**שגיאה! מקור ההפניה לא נמצא.**).	
b.	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 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. Further to another request by the State regarding the stay of the procedure, the discussion of the procedure has been delayed at this stage until March 1, 2024. The applicants submitted a request for the continuation of the preliminary proceedings in the case and the request is under discussion. <u>The motion from March 2018</u>- 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 until February 15, 2024 and also approved his request to submit an update notice until Mach 17, 2024. In September 2019, the applicants submitted a request for the filing of a	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)
					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 (F) 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.	
c.	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 requests deal with the 2015 transaction in which Bezeq acquired from Eurocom DBS (a company controlled by Bezeq's controlling shareholders at the time) the balance of Yes 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-classes - 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 Yes's cash flow reported in Bezeq According to the claim, artificially misleading the reasonable investor who relied on Yes's 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. 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, 2024 in light of the Securities Authority investigation and indictments filed further thereto (see Section **שגיאה! מקור ההפניה לא נמצא.**) On May 23, 2023, the applicants in the consolidated procedure, together with the Company and Shaul and Or Elovich ("**Elovich**") submitted a motion for the approval of a compromise settlement in the consolidated procedure, where the Company agreed to pay a sum equal to USD 4.35 million (USD 5.5 million dollars including attorney's fee, compensation, and other expenses) as compensation for exhausting the claims against itself and against Elovich (in their capacity as officers/controlling shareholders of the Company). In the motion, it was emphasized that the waiver made does not detract from the claims regarding Elovich regarding Bezeq. On January 8, 2024, a hearing was held on the motion, in which the Court ordered the parties to the settlement agreement to submit an amended motion for approval of the agreement as well as an amended agreement, taking into account the issues discussed in that hearing.	About 1,240 in the first application and-568 in the second application
d.	June - August	Bezeq shareholders	Tel Aviv District	Various motions	An amended and consolidated motion submitted following the Court's decision of April 15, 2018 regarding the consolidation of four applications	

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
	2017 and June 2018	against Bezeq and DBS	Court	for disclosure of documents before submitting a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law	filed in the same matter. The Court is requested to order Bezeq (and Yes, as the case may be) to provide the applicants with certain documents in connection with a stakeholder transaction between Yes and Space from 2013 as amended at the beginning of 2017 (in this section: "**Yes-Space Transaction**")[44]. 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, 2024, in light of the Securities Authority's investigation and indictments filed later in it (see section**.שגיאה! מקור ההפניה לא נמצא**).	
e.	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 revenue from loans to Yes 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 Yes will be fully recognized to Bezeq after the merger between Bezeq and Yes. 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 Yes ("**Yes 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 Yes 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 Section**.שגיאה! מקור ההפניה לא נמצא**).	65 Minimum threshold 219 Maximum threshold
f.	(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	400

44 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)
					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 B. 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.	
	(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 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. On June 4, 2023, the judgment of the Haifa District Court was issued, in which it partially granted the motions, and ordered the disclosure and review of the Claims Committee's report appendices only, and not the transcripts of the Committee's hearing minutes.	
g.	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.[45] 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	"Over NIS 2.5 million (for the purposes of substantive authority)"

45 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.

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					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.	
I	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.
J	June 2023	Customers VS the Company	Tel Aviv District Court	Motion for approval of a class action	It is claimed that Bezeq does not act in accordance with the law when giving notice of the end of fixed-term transactions, in that it does not send a separate notice of the expected end of the benefit period within the fixed-term transaction, and only notifies the customer through the monthly invoice and a text message. These are two motions where the Court approved the motion of the applicants to consolidate them into one motion that will be heard in the Tel Aviv District Court. Similar requests were also submitted against Pelephone (see update to Section 3.16.1) and Yes (see update to Section 5.16.1).	The amount of the class action is over NIS 2.5 million, but it cannot be accurately estimated.
K	September 2023	Customers VS the Company	Lod (Central) District Court	Motion for approval of a class action	It is claimed that (1) Bezeq made a misleading representation regarding the price of the Internet package, since it did not present, in addition to the cost of the Internet package, the monthly charge of NIS 19.90 for the router. The claim refers to those who were subscribers to a package that included the Company's infrastructure and another Internet provider and then purchased a new package, where the Company provides the provider and infrastructure services (starting in April 2022) and continued to be charged for the router they rented from Bezeq, without the Company making it clear to them that the price displayed does not include the router; (2) Bezeq provides customers with an antivirus service for a monthly fee of NIS 14.90 by default and without receiving express consent, in violation of commitments approved in a settlement agreement as part of a previous class action against the Company.	The amount of the class action cannot be accurately estimated and is estimated at over NIS 2.5 million

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

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
a.	January 2015	Shareholder against Bezeq and former officers in Bezeq	District (Tel Aviv - Economic Department)	Motion for approval of a class action	A claim for compensation of shareholders for losses which were claimed to have been caused due to "Bezeq's reporting failures to the stock exchange and the concealment of material information from the investing public" regarding the "reduction of interconnect fees" and the "reform of the wholesale market". On August 27, 2018, the decision of the Economic Department of the Tel Aviv District Court was issued approving the claim as a class action ("**the Approval Decision**"). On December 1, 2019, a ruling was issued at a rehearing held at the	

					request of Bezeq and the defendant officers in the Economic Department of the Tel Aviv District Court regarding the decision to approve the claim as a class action and it was determined as follows: 1. Regarding the reduction of the interrconnect fees - the Court accepted the motion insofar as it concerns the claims concerning the reports regarding the reduction of the interrconnect fees, after concluding that the plaintiff did not even *prima facie* prove the existence of damage in connection with the reason for the reduction of the mutual connection fees, and therefore therefore it would be inappropriate to approve the class action on this ground. 2. Regarding the wholesale market reform - the Court dismissed the motion in relation to the defendants' claims regarding the reports about the wholesale market reform. At the same time, reduce the definition of the group of plaintiffs in relation to this cause. On July 12, 2020, an amended statement of claim was filed, including corrections in accordance with the ruling in the rehearing, in which the total amount of the claim was also corrected to a total of NIS 687 million. On February 8, 2023, the Court issued a ruling approving a settlement agreement reached between the parties following a mediation process in which the plaintiffs were paid, by the officers' insurance company and at no cost to the Company and the defendant officers, a total sum of NIS 75 million (including compensation and attorney fees). In view of the provisions of the accounting standard, a provision was recorded in Bezeq's financial statements for the first quarter of 2022 (during negotiations for a settlement in the case) in the amount of the settlement amount, and on the other hand, in view of the existence of full insurance coverage, an indemnity asset in the amount of the provision was recognized in the same report, without impact on Bezeq's results. Upon the issuance of the aforementioned ruling, the registration of the provision and the aforementioned indemnification asset were canceled in the reports for the first quarter of 2023.
b.	August 2021	Shareholder against Bezeq, Yes, Mr. Shaul Elovich, and Mr. Or Elovich	The District Court (Economic Department) in Tel Aviv	Motion to disclose and review documents according to Article 198a of the Companies Law	It is requested that the Court order Bezeq, Yes, as well as the former controlling owner of the Company, Mr. Shaul Elovich, and his son, Mr. Or Elovich (hereinafter, collectively: "**Elovich**"), to hand over to the applicant, as a shareholder in Bezeq, various documents for the consideration of submitting an application for approval of a derivative claim on behalf of the Company. According to the applicant, the Company and Elovich violated their fair and fiduciary duties towards Bezeq, in that the sale of 115 million Bezeq shares on February 2, 2016 by the Company was carried out while the Company and Elovich used Bezeq's insider information, and at a value significantly higher than the real value of the shares. According to the applicant, this sale brought the Company improper profits in the amount of approximately NIS 313 million. According to the claim in the motion, the insider information which, was used as mentioned is, among other things, that the financial statements of Yes and Bezeq do not reflect the *de facto* financial situation of Bezeq, but "free cash flow" that is inflated for the purpose of increasing the consideration in the context of the transaction in which Bezeq purchased the shares of Eurocom Communications in Yes (“**the Yes Transaction**"). On September 19, 2023, a judgment was issued striking out the motion on the grounds that it was submitted over five years ago, and no hearing was held due to the delay in the proceedings in the case. It was also stated in the judgment that the striking out does not constitute a limitation of its underlying grounds, and no claim in this regard will be heard regarding the period from the date of the judgment until it is filed as a new claim, if any.

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. Being the leading fiber company in the number of connected retail lines in the Israeli communications market;

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

d. Creating new sources of revenue through the launch of new and innovative services and products and entry into fields that are tangential and complementary to the Company's activity, such as the field of electricity supply (see Section 1.9);

e. 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 Section1.7.4 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 Section1.7.3 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 Section2.16. 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 Section1.7.7.5).

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 section2.16.4. For possible restrictions under the Centralization Law on the renewal of licenses and the allocation of new licenses, see Section1.7.7.6.

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 Section2.16.1). 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 sections2.16.1 and2.16.4. 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 Sections2.9.3 and 2.17.3.

Also, as described in section1.7.11, according to the report, Bezeq, like the other companies in the Group, implements streamlining procedures, which include, among other things, 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 2023 statements and Section 1.6 of the Board of Directors' report.

2.20.8. Bezeq's debt and debt repayment capability

Bezeq is required to maintain a sufficient cash flow in order to meet its obligations and its long-term business plans. The lack of sufficient cash flow may have a negative impact on Bezeq's business, including the inability to meet its obligations, damage to its ability to repay debt, make investments and deal with competitive threats. For more details on the financing of Bezeq's activity, see Section 2.13.

2.20.9. 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.

2.20.10. Frequent technological changes

The field of communications is characterized by frequent technological changes and the shortening of the economic life of new technologies - see section2.1.4. 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.

2.20.11. 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.

2.20.12. Failure in Bezeq’s 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, server farms, 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 the Systems, including as a result of power outages, 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, information retrieval (including not as a result of a cyber incident), and from there, also to material damage to Bezeq’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 Bezeq’s VP of Technologies and

Network. The person responsible for implementing the policy in Bezeq 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, Bezeq's Board of Directors is involved in and supervises the management of cyber risk in Bezeq within the framework of handling Bezeq's overall risk management policy and receiving ongoing updates. 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.

2.20.13. 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.

2.20.14. 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.

2.20.15. 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, as well as damage to the supply chain, may adversely affect the Company's business and results.

2.20.16. Damage to electricity supply

Damage to the supply of electricity to the Company's facilities for various reasons (some of which are described in Section 2.20.15) may adversely affect the Company's business and damage the Company's ability to provide services. Some of the Company's systems have power backup, but at the same time, in the event of a prolonged damage to some or all of the systems, significant and even more difficulties may be caused in the provision of the Company's services, including in the event that the Company will not be able to return the systems to service quickly.

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 3.19, 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[46]

	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
Debt and debt repayment capability	X		
Dependence on macro factors and levels of business activity in the economy		X	
Pandemic			X[47]
Damage caused by nature, war, disaster	X		
Damage to electricity supply	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	
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.

46 It is hereby 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 5.18), the probability of the risk factor materialization was not estimated fully, 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. 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.

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

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 section3.2. 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 section3.14.2).

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 3.13.2).

3.1.3. Changes in the scope of activity in the field

For financial data on the scope of Pelephone's activity, see sections **שגיאה! מקור ההפניה לא נמצא.** and 3.3.

<u>Revenue from services</u>

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 Section3.6). 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 2023, the downward trend continued (similarly to the years 2021-2022) in the volume of mobilizations between companies has decreased. Also, the recovery in revenue from roaming services continued in 2023, as it returned to its 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 plans. During the fourth quarter of 2023, there was a significant decrease in revenues from roaming services following the "Iron Swords" war.

<u>Revenue from the sale of end equipment and electronics</u>

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 2023, 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[48]. The estimated penetration rate as of September 30, 2023 is approximately 117%.

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 in the process of upgrading 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[49]: 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 Section3.8.2.

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

48 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).

49 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.

bracelets. On February 11, 2024, Pelephone launched the option to connect to its services using an eSIM as a main line (at this stage it does not include national prepaid services for the subscriber). Shortly after, other cellular operators launched eSIM in their networks as well. Regarding Pelephone's acquisition of the company "Roamability", which specializes in providing solutions in the global roaming services market, see Section 3.2.1.2.

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 3.7.2).

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[50]

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 section3.7.2.2).

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.

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

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 operators with an radio telephone license/permit 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

On July 16, 2023, following a hearing on the subject, the Ministry published a policy document outlining the rules for the allocation of a frequency band in the 26 GHz range (as well as a narrow band in the 2100 MHz range) for use by parties other than cellular operators or interior operators, for the purpose of operating private networks on a local basis (area polygon) for each project. The implementation of the policy will require regulatory adjustments in the relevant legislation and is not expected to significantly affect Bezeq or Pelephone business.

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. Regarding roaming services, as well as regarding the development of the use of eSIM technology in these services - as part of Pelephone's activity and its preparation for global trends in the roaming services market, which include, among other things, a more extensive use of eSIM technology in these services, on October 18, 2023, Pelephone’s Board of Directors approved the acquisition of full ownership in the company "Roamability", which specializes in the supply of solutions in the global roaming services market, including wholesale, and including providing a platform for the management and sale of these services. Accordingly, Pelephone acquired 100% of the control and ownership rights in the company (an American company and an Israeli company) in exchange for an amount that is immaterial at the group level.

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	**2023**	**2022**	**2021**
Revenue from services	1,385	1,364	1,204
Rate of total revenue	59%	56.09%	52.86%
Revenue from interconnect	371	427	438
Rate of Pelephon’s total revenue	15.8%	17.8%	19.1%
Revenue from products (end equipment)	592	608	647
Rate of Pelephon’s total revenue	25.2%	25.3%	28.3%
Total revenue	**2,348**	**2,399**	**2,289**

3.4. Customers

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

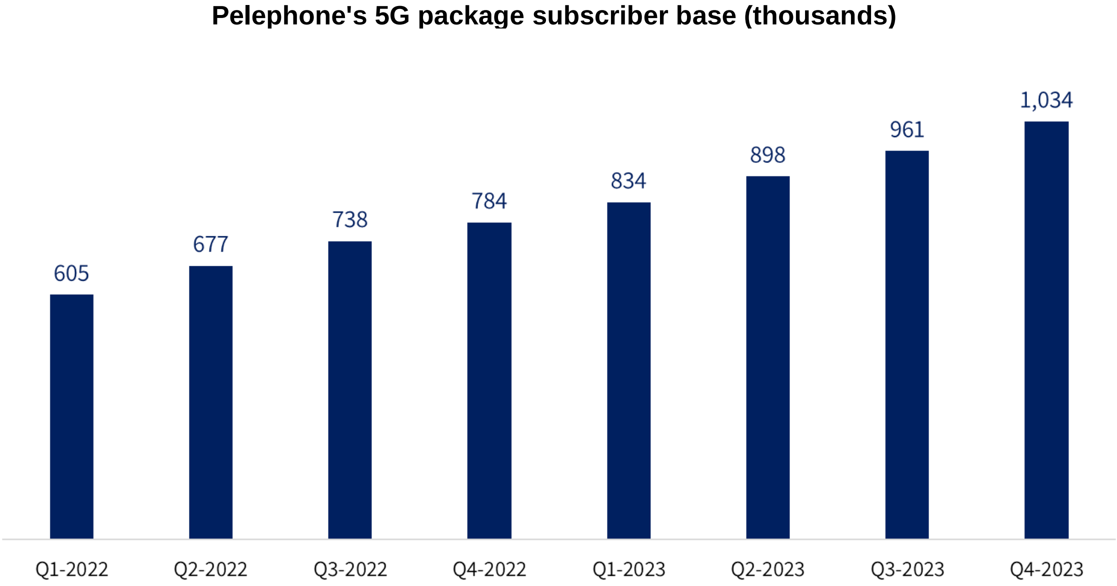
Products and services	**2023**	**2022**	**2021**
Revenue from private customers net of interconnect	1,180	1,193	1,131
Revenue from private customers	1,375	1,416	1,361
Revenue from business customers (*)net of interconnect	797	779	720
Revenue from business customers (*)	973	983	928
Total revenue net of interconnect	1,977	1,972	1,851
Total revenue	**2,348**	**2,399**	**2,289**

(*) 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 2023, the number of Pelephone subscribers was approximately 2.6 million, including approximately 2.2 million postpaid subscribers (subscribers who receive service for a monthly payment), and approximately 0.4 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 1.075 million subscribers in such packages.

The following is a breakdown of Pelephone's subscribers with 5G packages:



3.5. Marketing, distribution and service

Pelephone's distribution system includes about 210 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 compensation 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 section0).

The following are data, to the best of Pelephone's assessment, about the number of subscribers of Pelephone and its competitors over the years 2022 and 2023 (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, 2022	Number of subscribers	2,580	3,452	2,744	1,760	826	11,362
	Market Share	22.7%	30.4%	24.2%	15.5%	7.3%	
As of September 30, 2023	Number of subscribers	2,618	3,523	2,655	1,837	860	11,493
	Market Share	22.8%	30.7%	23.1%	16%	7.5%	

(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 Q3/2023 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, 2023, 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.[51]

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 1,500 sites, as well as in the 3500 MHz range at approximately 900 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

[51] On June 6, 2023, an updated decision was made by the Minister stating that a license holder will be allowed to continue providing service over the 2G network for the purpose of M2M (machine to machine communication) only until December 31, 2028, subject to receiving the Manager's approval. Also, the licensee will be entitled to contact the Manager with another request to extend the service period with 2G technology for M2M purposes only, until December 31, 2030.

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, throughout the period of the license, 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 3.7.2 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**שגיאה! מקור ההפניה לא נמצא**.

During the year 2023, an agreement was signed according to which Bezeq will carry out a significant renovation in a facility called "Bezeq Ayalon" to which Pelephone's core facility in Ramla will be transferred. With the completion of the expected renovation at the end of 2024, Pelephone will begin a phased process of vacating the core facility in Ramla that will last until the end of 2025. The agreement also regulates the lease relationship between Bezeq and Pelephone.

3.7.3.2 Pelephone's headquarters are in Petah Tikva.

3.7.3.3 For service and sales activities, Pelephone rents about 40 service centers and sales points spread throughout Israel.

3.7.3.4 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[52] and

[52] Pelephone has the option of requesting a 5-mega allocation in the 800 MHz range following the 850 MHz frequency evacuation project.

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 section3.1.5) 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 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).

The deployment of 800 MHz frequencies that was planned for 2023 was postponed to 2024 and the activation of these frequencies is expected during 2025.

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 section3.19.3.9.

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 2023 statements.

   On July 17, 2023, Pelephone received a winning notice in the ongoing tender for 5G mobile mobile radio telephone services in the 26 GHz frequency range for the purpose of improving and consolidating the 5G capabilities and solutions existing in the cellular networks (“**the Tender**"). As part of the Tender, 25 competition bands of 100 MHz each (a total of 2,500 MHz), for competition between the existing cellular operators (existing cellular networks), where each network was entitled to win up to 1,200 MH (out of the 2,500).

   Pelephone won a cluster of frequencies in this area as follows:

A. Winning 800 MHz in the 26 GHz section (for a period of 10 years), when the license period as a cellular operator does not change as a result of the Tender and can be renewed in accordance with the license instructions ("frequency allocation").

B. The frequency allocation will be carried out after the extension of the license and against the payment of license fees in the amount of NIS 4.16 million. Following the war of iron swords, the Ministry of Communications postponed the payment date and announced that it must be made no later than July 1, 2024.

The extension of the license in accordance with the winning result is subject to the approval of the Minister of Communications as stipulated in the Tender conditions.

The aforementioned frequency allocation will allow Pelephone, among other things, to expand the range of advanced uses of the cellular network with 5G technology, with an emphasis on private networks and advanced services that require a particularly high browsing speed, such as hospital complexes. The cost of integrating this frequency range into 5G technology will be ongoing, and is not expected to be substantial.

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

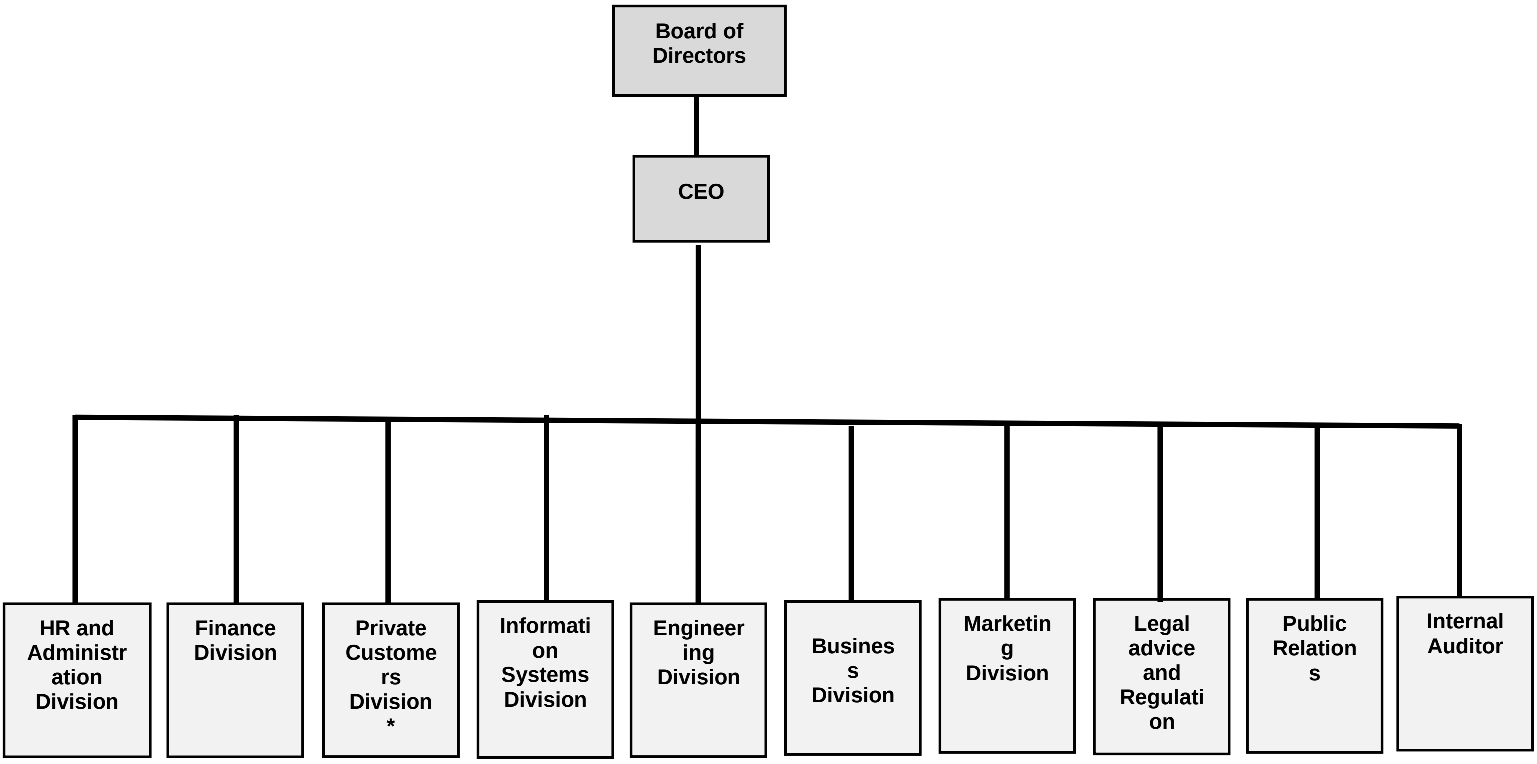
Pelephone uses software and computer systems, some based on licenses it has acquired and some developed by Pelephone's information systems division. Many of these licenses are limited in time and are renewed from time to time. The main systems used by Pelephone are an ERP system by Oracle Applications 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 Yes. 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

3.9.1. 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 Yes. In addition, some of the VPs who serve on Pelephone also serve as VPs at Yes.

3.9.2. 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	
	31.12.2023	**31.12.2022**
Management and administration divisions	197	194
Private and business customer divisions	1,113	1,123
Engineering and Information Systems Divisions	374	382
Total	**1,684**	**1,704**

The number of employees included in the table above includes employees employed part-time. The total number of jobs[53] at Pelephone as of December 31, 2023, was 1,486.

3.9.3. 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.

53 The calculation of the number of "jobs" in Pelephone is: the total monthly working hours divided by the monthly working hours quota.

3.9.4. 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 2023 statements.

3.9.5. 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.

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 cleared. It was clarified that the economic demands due to the labor dispute of January 31, 2018 have been exhausted, but the demand of the Employees' Representation to appoint a representative on its behalf on the Pelephone Board of Directors has not been exhausted, and it was stipulated in the agreement that it will be discussed later (starting in June 2024).

3.10. Suppliers

3.10.1. 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 material suppliers are Apple, with whom there is an agreement that requires defined procurement targets and is valid until March 2024 (the extension of the agreement between the parties by another year is currently being signed), 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 2023 was approx. 14.5% and approx. 10.5% (respectively) of Pelephone’s total purchases from all of Pelephone’s suppliers[54]. 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.

Due to the state of war, there was a delay in the maritime supply route in relation to engineering goods and end equipment.

3.10.2. Infrastructure providers

The infrastructure equipment for the cellular networks (5G, LTE, UMTS, as well as the equipment for the microwave transmission field) is provided by the company LM Ericsson Israel Ltd. ("**Ericsson**"). Pelephone has multiyear agreements for supply, maintenance, support, and software upgrades for the entire network, and also for the 5G network core with Ericsson, and in its opinion it may depend on it in connection with network support and expansion. In addition, the cellular network uses transmission, and Bezeq is a material supplier to 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).

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 2023:

[54] All suppliers - All of Pelephone’s suppliers, including suppliers who are not suppliers of end equipment and electronic devices.

	Credit volume in NIS millions	Average credit days
Customers for the sale of end equipment (*)	479	252
Customers for services (*)	137	24
Suppliers	238	47

(*) Net of loan-loss

3.12. Taxation

See Note 7 to the 2023 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.

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 section3.19.2.5.

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 section3.14.2.

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[55].

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.

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

[55] 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)).

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 3.13.2; 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 660 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 420 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.

3.14.4. Establishment of sites by parties other than cellular operators

On July 17, 2023, the Ministry of Communications published a decision (and an amendment to the cellular operator's license), regarding allowing entities that do not have a cellular license to establish and lease cellular radio centers (communication sites) and lease them to cellular operators. The sites will be operated and maintained by the cellular operators (operation and maintenance will be allowed by said parties as subcontractors of the cellular operators). The implementation of the decision requires legislative changes and the establishment of regulatory rules regarding the manner of implementation and its limitations. In Pelephone's estimation as of the date of publication of the report and before the establishment of regulatory rules on the subject, the decision is not expected to have a material impact on Pelephone's business.

3.14.5. 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.

3.14.6. 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 02.16.9).

3.15. Material agreements

3.15.1. For agreements with Ericsson, see section 0.

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 that was estimated at 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 16, 2024. On February 21, 2024, the Accountant General published a new tender for the supply of cellular communication services and end equipment.

3.15.3. Regarding a collective agreement between Pelephone and the Histadrut and Pelephone's Employees' Committee, see section 3.9.4.

3.16. Legal Proceedings[56]

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:

	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	About 124

[56] For reporting policy and materiality thresholds, see section 2.18.

	Date	Parties	Instance	Proceeding type	Details	Amount of the claim (NIS millions)
					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.	
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.	October 2017	Customer vs. Pelephone and Partner	Central Districut Court	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. It should be noted that in December 2023, another claim was filed that includes the same grounds as this claim and by the same representatives, according to them for precautionary reasons.	About 850
d.	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	Two similar motions for the approval of a class action in which it is claimed that Pelephone does not act in accordance with the law with regard to providing notices of the termination of fixed-period transactions. On September 11, 2023, a consolidated motion was subsequently filed for approval by the Court. In the consolidated motion, it was stated that similar motions for approval of class actions were also submitted against the Company (see Section 2.18.1) and Yes (see update to Section 5.16.1).	The amount of the claim is not stated, but in the motion it is estimated at tens of millions of NIS
e.	June 2023	Customer vs. Pelephone	Central District	Consolidated motion motion to approve a class action	Two similar motions for the approval of a class action in which it is claimed that Pelephone does not act in accordance with the law with regard to providing notices of the termination of transactions for a fixed period. On September 11, 2023, a consolidated motion was subsequently submitted for approval by the Court. In the consolidated motion, it was stated that similar motions for approval of class actions were also submitted against Bezeq (see Section 2.18.1) and Yes (see update to Section 5.16.1).	Over NIS 2.5 million. Impossible to accurately estimate.
f.	December 2023		Haifa District Court	Monetary claim and a motion to be recognized as a class action	In the motion, it is claimed that within the framework of the numbers blocked for dialing by the subscribers of the Kosher Floor (as part of the characteristics of the Kosher route), Pelephone and the other respondents illegally blocked numbers	Over NIS 3 million. Impossible to accurately estimate until all data is received

3.16.3. Legal proceedings concluded during the reporting period

	Claim filed	Parties	Instance	Proceeding type	Details	Original claim amount (NIS millions)
a.	April 2017	Customer vs. Pelephone	Tel Aviv District Court	A monetary claim and a motion for approval as a class action	It is claimed that the defendant unilaterally and without consent changed the terms of the agreement between itself and the applicant, and others like her, by allowing continued browsing after exhausting the volume of browsing included in the package instead of stopping it, despite Pelephone's notification on the matter. On April 28, 2023, a ruling was issued confirming the settlement arrangement between the parties, the main of which is the provision of benefits and compensation with a total value of approximately NIS 18 million.	Approx. 80
b.	January 2023		Haifa District Court	A monetary claim with a motion for approval as a class action	It is claimed 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.

3.17. 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 2024, the competition will focus on increasing the value and volume of browsing to the customer.

3.18.3. Cellular network innovation and products

In 2024, Pelephone is expected to continue to promote services and products that will enable increased revenue or an image advantage over competitors: eSIM, 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 2024, Pelephone is expected to continue to develop and expand its digital service and sales channels.

3.18.6. 5G network

In 2024, 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 revenue 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.

3.19.1.4 Damage to electricity supply - Damage to the electricity supply to Pelephone facilities for various reasons (some of which are described in Section **Error! The source of the reference was not found**.) may have a negative effect on Pelephone's business and damage Pelephone's ability to provide services. Some of Pelephone's systems have power backup, but at the same time, in the event of prolonged damage to some or all of the systems, there may be significant difficulties and beyond that in the provision of Pelephone services, including in the event that Pelephone cannot return the systems to service quickly.

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**שגיאה! מקור ההפניה לא נמצא.**. 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 Section2.20.13.

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.

Risk factors summary table - cellular telephony

	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		
Damage to electricity supply	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, cloud services, cyber protection; 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 Sections1.5.4.3 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 is no change 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 leads to 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 cloud, hosting, and computing services for businesses, in 2023, the increase in demand for hosting services in server farms and public cloud services continued, 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). There are various factors that affect demand for cloud services, such as 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 integration solutions 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 Teams, 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 were damaged, and they are expected to continue to decrease materially. 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. In addition, Bezeq International has partnerships with the companies Microsoft and Cisco, within which Bezeq International provides NIO and international operator services to the customers of the aforementioned companies.

4.2.3. Cloud, hosting, 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 employs 81 employees as of December 31, 2023), which offers implementation solutions and professional services in this field. Bezeq International was recently certified as a partner of the company AWS, and by virtue of this certification, it began selling licensing for this company's cloud products, as well as related professional services.

4.2.4. Cyber protection services

Bezeq International provides the business sector with various services for protection against cyber threats and information security. The services offered by Bezeq International include, among others: a SIEM-SOC service that monitors events and indications of cyber attacks on the customer's systems; protection services against distributed denial of service (DDoS) attacks; and protection of end positions. The services are provided through cloud-based cyber protection solutions from various manufacturers such as Trend Micro and Cisco.

4.2.5. Integration solutions

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):

	2023	2022	2021
Internet services	538	637	683
Rate of total Bezeq International revenues	44%	51%	55%
International telephony services	185	183	177
Rate of total Bezeq International revenues	15%	15%	14%
Cloud, hosting, and computing services for businesses	224	185	142
Rate of total Bezeq International revenues	19%	15%	11%
Integration solutions	265	234	235
Rate of total Bezeq International revenues	22%	19%	19%
Total revenue	**1,212**	**1,239**	**1,237**

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)[57]:

	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

[57] The data are after changing the classification of small customers (SOHO) from private customers to business customers carried out in 2019.

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.

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 Bezeq International competes in providing ISP services to customers from the business segment, and does not conduct competitive or marketing activities in connection with the provision of ISP services to the household segment.

The market is saturated with competitors, the main ones being Cellcom, Partner, and Hot Net.

4.6.1.2 There are also smaller competitors in the market that mainly address the business segment, such as Gilat Telecom and ITC. In the absence of public data on the market shares of the competitors in the business Internet market, it is impossible to assess Bezeq International in this area.

4.6.1.3 The competition in 2023 is mainly characterized as competition on prices. The ISP service for the business segment is seen as a commodity product, i.e. a uniform off-the-shelf product in which the identity of the provider is not important, and many customers attach decisive weight to the price. This naturally leads to price erosion

4.6.2. International telephony services

4.6.2.1 As of the end of 2023, 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, 2023 is approximately 21%[58].

4.6.2.2 General characteristics of the competition in 2023:

In 2023, 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. In many organizations, the increase in the use of services that allow

[58] Based on publications from the Ministry of Communications regarding the number of minutes spent in the fourth quarter of 2023.

calls and meetings to be carried out online continues, 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. Cloud, hosting, and computing services for businesses

4.6.4.1 Hosting services

The field of hosting services is characterized by many competitors, including Bynet, Edgeconnex, Med-1, and more. In 2023, there is 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 the purchase of solutions that will ensure recovery from a disaster. 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 addition, in 2023 Bezeq International began operating as a partner of the AWS company, which allows it to offer its customers the cloud products of this company as well. 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. Cyber protection services

The field of cyber protection is characterized by many competitors and different and varied solutions. The demand for cyber protection services is on the rise due to the increased risk of cyber threats. In the absence of public data on the market shares of the competitors in this market, it is impossible to estimate the market share of Bezeq International in this field.

4.6.6. Integration solutions

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.

4.6.7. Unique characteristics

4.6.7.1 Positive factors affecting Bezeq International's competitive position:

B. A well-known and strong brand.

C. Technological innovation.

D. 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.

4.6.7.2 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. PP&E, 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. In January 2024, Bezeq International signed an agreement with Oracle, according to which new CRM and ERP systems will be installed on Oracle's cloud platform, for the purpose of replacing the old systems. The construction of the new systems is expected to be completed in 2025.

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 2024 (with an option for extension by another year).

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).

4.8. Human capital

The following are details about the number of Bezeq employees International in years 2022 and 2023:

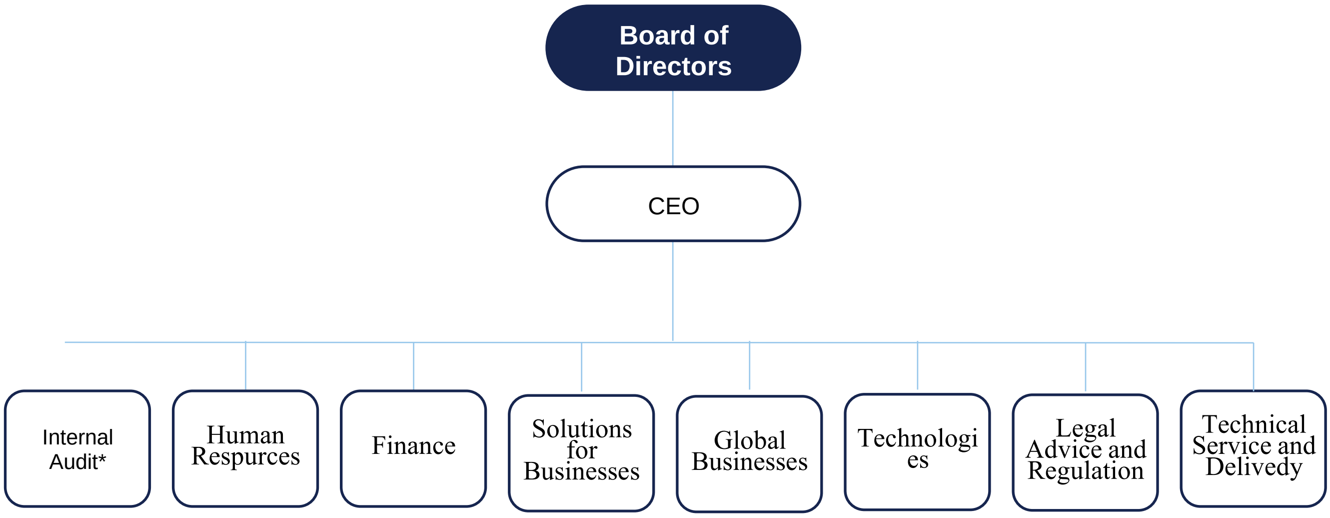
	31.12.2023	31.12.2022
Administrative employees	597	676
Service and sales representatives	105	273
Total	**702**	**949**

The number of employees included in the table includes employees employed part-time. Total jobs[59] Bezeq International as of December 31, 2023 was 679 compared to 927 as of December 31, 2022.

Organizational structure

[59] Total monthly working hours divided by the monthly working hours quota.

The following is a diagram of Bezeq International's organizational structure as of the date of the report:



(*) The Internal Auditor is a Pelephone employee.

Regarding streamlining processes and intra-organizational changes at Bezeq International, Pelephone and Yes, 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 2023 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 260 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 Telecom Italia Sparkel (formerly Med Nautilus) and Cyprus Telecommunications Authority (CYTA).

As part of its engagement with Telecom Italia Sparkel, 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 Telecom Italia Sparkel between Israel and Europe, and continued capacity over the Company's ground infrastructure to a number of communication nodes in Europe. Some of the use periods were extended until July 2030, and some until May 2032. 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 was extended until May 2030.

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 ServerFarm Israel Infrastructure Fund Bnei Zion Limited Partnership, Bezeq International purchases hosting services at a server farm owned by this partnership starting from 2023. The agreement is valid until 2039, with options for extension until 2047. These services are 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.

4.9.5. Main supplier

Bezeq is a main supplier of Bezeq International and provides it with services as detailed in this section above. The rate of purchases of Bezeq International from Bezeq in 2023 was about 20%.

4.10. Taxation

See Note 7 to the 2023 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 2.16.6).

4.11.4. Payments for interconnectivity

In the matter of interconnectivity fees paid to the NIO and the cellular operator, see Section 1.7.7.1.

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 **שגיאה! מקור ההפניה לא נמצא.**.

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 2024.

4.12. Legal proceedings[60]

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

60 For reporting policy and materiality thresholds, see Section 2.18.

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

None.

4.13. Targets, business strategy and development prospects

In light of the cancellation 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 activity, cloud services, and cyber protection services 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 Teams, 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. Regarding information systems, it should be noted that the information systems currently used by Bezeq International are outdated and not supported by the manufacturer (see Section 4.7), which poses a risk of faults in these systems.

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, or damage to the submarine cable, may adversely affect Bezeq International's business and its results.

4.14.8.1 Damage to electricity supply - Damage to the electricity supply to Bezeq International facilities for various reasons (some of which are described in Section **Error! The source of the reference was not found**.) may have a negative effect on Bezeq International's business and damage Pelephone's ability to provide services. Some of Bezeq International's systems have power backup, but at the same time, in the event of prolonged damage to some or all of the systems, there may be significant difficulties and beyond that in the provision of Bezeq International services, including in the event that Bezeq International cannot return the systems to service quickly.

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 Section4.12.

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 Section1.7.11, 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[61]:

<u>Risk factors summary table - international communications, Internet and network endpoint services</u>

	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**[62]	
Damage caused by nature, war, disaster	**X**		
Damage to electricity supply	**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**		

61 See Footnote 46.

62 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.

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.

5. Yes - multi-channel TV

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 broadcasting license pursuant to the Communications Law, which provide multi-channel television services - (both linear channel broadcasting and on-demand viewing services[63]) Yes as well as Hot[64] ("**the field of satellite and cable broadcasting**"). This, alongside the provision of multi-channel television services via the Internet (see sub-paragraph B). For details about the regulation applicable to the ownership of broadcasting licenses as such, see Section 5.14.

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). The main ones are Yes (through Yes+ and STING services, for details, see Sections 5.2.2.1, 5.2.2.2 and 5.2.2.1), Cellcom, Partner, Hot, and freeTV (regarding the commencement of operations of freeTV, see Section 5.5.1). The main international providers operating in Israel are Disney, Netflix, Apple, and Amazon, which provide options for watching VOD content without linear channels. To the best of Yes's knowledge, most subscribers of international providers in Israel also subscribe to the services of some of the local providers. 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. Yes 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 Idan+ system), will give each "registered content provider"[65] consent to broadcast its linear broadcasts on the Internet free of charge, in accordance with and subject to the provisions of the law[66]. As of the date of this report, Yes

[63] For the question of the regulation of Yes's VOD services, see Section 5.14.2.

[64] Which provides cable television services, which is the owner of a declared monopoly according to the Economic Competition Law in the field of multi-channel television broadcasting.

[65] "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.

[66] In February 2023, a provisional order that applied to the commercial channels ended, which applied special arrangements in relation to them, including granting a license for their broadcasts on the Internet to any registered content provider 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. All is as detailed in the provisional order.

has agreements with the aforementioned broadcasters, which also include on-demand viewing services.

c. 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[67]. 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.

d. Parties that offer content without the permission of the rights holders (piracy)[68]

5.1.1.2 The multi-channel TV providers, including Yes, 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 Yes and the restrictions thereon, see Section 1.7.3.3.

In the year of the report, the fierce competition continued to prevail, mainly due to the entry of freeTV and the activity of local and international content providers via the Internet, as mentioned, operating at a relatively low price level. The activity 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 Yes 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 Yes subscribers, see Section 5.5.1.

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. 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.

In July 2023, the Ministry of Communications published a memorandum of the Communications (Broadcasting) Law, 2023-2023, which includes the text of a bill ("**the**

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67 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.

68 Yes is one of the shareholders of Zira Ltd., which works to prevent copyright infringement in video content on the Internet.

Memorandum" and "**the Bill**", respectively[69]). According to what is stated in the Bill and the explanatory notes to the Bill, the Bill was based on the recommendations of various committees over the years (the most recent of which was the Folkman Committee) and to update the set of duties and rights applicable to all players operating in the visual and audio content market in a number of ways, including the following:

A. A new authority will be established in place of the Cable and Satellite Broadcasting Council and the Council of the Second Authority for Television and Radio, whose role will be to regulate the entire field of viewing and audio content provision in a way that will be indifferent to the manner and technology in which the content is distributed, it Will be responsable for the competition in the field of cisual and audio content provision, and it will be authorized to issue provisions that prevent actions that may harm competition in the field.

B. A limited and focused set of duties will be applied to the significant players operating in this market, including registration duties (and for this purpose it was proposed to establish three different registries - for content providers, Israeli channels, and news providers), investment in local productions (see subsection 6 below), distribution of content from the Israeli Broadcasting Corporation and the Knesset Channel, obligations in the fields of sports and consumerism, where the extent of the obligations will change according to the revenue level of the content provider.

C. The existing restrictions on the economic models in the content market for visual and audio content will be removed (while allowing some of the provisions regarding cross-costs). As far as the holders of broadcasting licenses (including Yes) are concerned - the prohibitions applicable to them regarding the broadcasting of advertisements and the production of news content will be lifted. In addition, a transitional provision was established according to which TV broadcasting licensees as defined in the Second Authority Law, to whom the transfer arrangements set forth in the Communications Law and the Broadcasting Distribution Law apply, will be required to allow the continued transfer of the channels to registered licensed providers in accordance with what is stated in the said laws and the mandated changes, and this for the period stipulated in the Memorandum.

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.

Yes submitted its response to the Memorandum. As of the date of this report, to the best of Yes's knowledge, no legislative procedures have been promoted in connection with the Memorandum. Since this is a legislative memorandum, at this stage it is not known which of the provisions of the Memorandum, if any, will be enshrined as binding legislation, and what the content and regulations of such legislation will be, and therefore, it is difficult at this stage to assess the extent of the impact of the legislation and regulations that will be established following the Memorandum on Yes's business (if any).

5.1.3. Changes in the scope of activity in the field and its profitability

For data on changes in the scope of Yes’s activity and profitability, see Section **שגיאה! מקור ההפניה לא נמצא.**.

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.

[69] The Memorandum was published following 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 dated September 2021 regarding the adoption in principle of the Committee's recommendations subject to changes and adjustments and the hearing published on the subject regarding the Draft Law of Principles of Regulation of the Provision of Audio-Visual Content to the Public, 5782-2022 ("**the Hearing**").

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 5.14.2).

5.1.4.6 Collaborations with international content providers and providing access to applications operated thereby.

5.1.4.7 High level of customer service tailored to the type of service.

5.1.4.8 The strength of the brand and its identification with quality, innovation and leadership, content and services for subscribers.

5.1.4.9 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

Yes sees the possibility of receiving many foreign channels using relatively cheap end equipment as a substitute for its services in relation to certain segments.

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.

Yes 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 Yes, most of them are, in addition, subscribers of the local television providers operating in the field. According to Yes, 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

Yes's 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 Yes's services from satellite TV services to OTT services. For the migration process see Section5.17.3.

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. Yes's television services

5.2.1.1 Satellite broadcasts

Satellite Yes broadcasts include linear channel broadcasts, as well as radio, music and interactive channels.

For the purpose of receiving Yes 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 Yes's broadcasting license and the council's decisions, the broadcasting of the Yes via satellite includes a basic package of linear channels that each subscriber is required to purchase (along with other basic packages that Yes 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 Yes's VOD services see Section5.14.2.

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

Yes offers a number of OTT services:

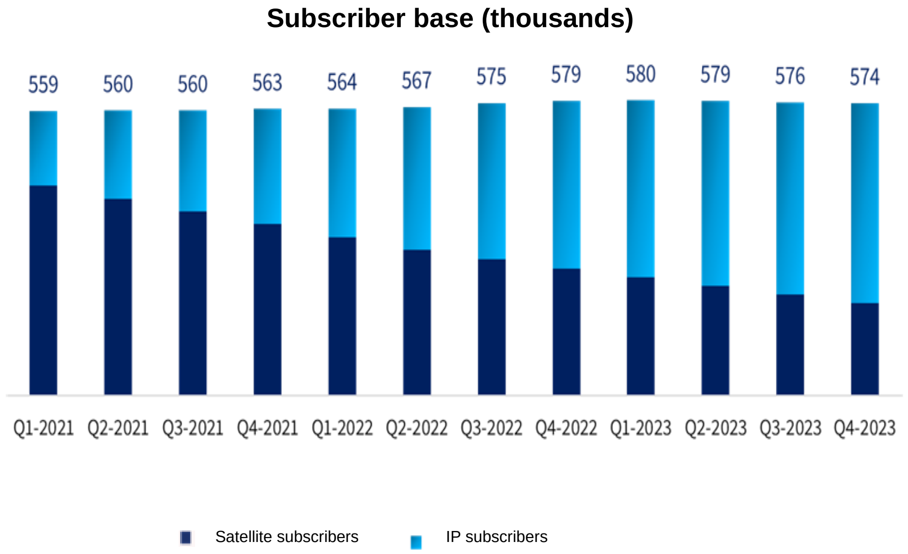
5.2.2.1 Yes+ services

Yes 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 devices. The service can be used on its own or in parallel with the satellite service.

5.2.2.2 STING+ services

Yes operates the "STING+" 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 Yes's 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 devices.

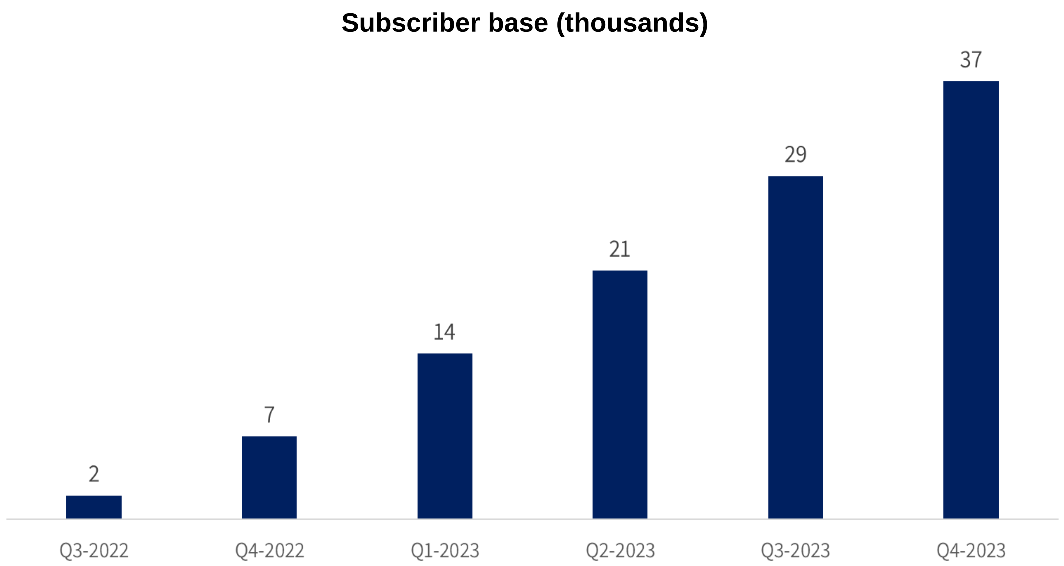
The following is the Yes's susbscriebr base distributed by satellite subscribers and IP subscribers[70]



5.2.3. Internet access services

Yes provides Internet access services, focusing on selling combined Internet and television packages to customers.[71] These services are provided through services received by Yes from Gilat Telecom Ltd.

The following is a breakdown of Yes's fiber subscriber base:



5.3. Customers

The vast majority of Yes's subscribers are private customers. In general, Yes enters into a subscription agreement with its subscribers, which regulates the subscribers' set of rights and obligations in their relationship with Yes. With respect to the subscription agreement with the satellite subscribers, the approval of the council is required, which was received.[72]

[70] The number of IP subscribers also includes subscribers who also use the satellite services in parallel (see also Section 1.5.4.4).

[71] The services are provided according to a general permit in accordance with the provisions of a general permit.

[72] According to the broadcasting license, the approval of the Uniform Contracts Court is also required for the subscription agreement (approval previously granted and expired). Yes has applied to the Council for amendments to the subscription agreement and for the amendment of the license, as part of which Yes requested, *inter alia*, to revoke the license provision

5.4. Marketing and distribution

5.4.1. The marketing of Yes's services is done through advertising in the various media. Yes's sales activity to existing and new customers is carried out through the following main distribution channels (some of which are operated by Yes 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).

Yes' main competitors are Hot, Cellcom, Partner, freeTV, and Netflix.

In April 2023, freeTV, a multi-channel broadcasting platform via the Internet, commenced its operations, owned by Keshet Broadcasting Ltd., which operates, among other things, a commercial TV channel transmitted as part of Yes Broadcasting ("**Keshet**") and the RGE Group Ltd. ("**RGE**"). For details about the Sports Channel Ltd., which is part of the RGE Group, see Section 5.9.2. In the year of the report, the activity of the venture intensified the competition in the field.

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 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[73] of Yes, to the best of its knowledge, as of December 31, 2022 and 2023[74]:

2023		2022	
Subscriptions (thousands)	**Market Share**	**Subscriptions (thousands)**	**Market Share**
574	33%	579	33%

5.5.2. Current competition characteristics

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.

[73] The market shares were calculated from all Yes, Hot, Partner, Cellcom, and freeTV 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 Yes's market shares in 2021 and 2022 is based on the number of Yes, Cellcom, and Partner subscribers (according to their reports on the number of subscribers as of the end of the third quarter of 2022), as well as of Hot and freeTV, which do not publish the number of their subscribers, so the data in relation to them is according to Yes's estimate. However, there is no certainty that the data presented in relation to Hot and freeTV are accurate, and therefore it is possible, respectively, that the actual market shares are different from those estimated.

[74] 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 revenue per small business customer, which is determined once per period.

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 TV 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 Yes, see also Section 1.7.3.3), 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 yes

5.5.3.1 In the opinion of Yes's Management, the main competitive advantages of the Yes are:

a. The quality and variety of content that Yes broadcasts to its subscribers.

b. Level, quality and availability of Yes's 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 Yes'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 – Yes's 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 contrast to the use of the Internet which enables 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 5.14.2.

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 Yes 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 5.15), 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 Yes to deal with the competition:

5.5.4.1 Content - Yes 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 Section5.2.2).

5.5.4.4 Service - Yes places emphasis on the customer service system.

5.5.4.5 Technology - Yes is investing in expanding its technological capabilities, with an emphasis on providing innovative and advanced services.

5.5.4.6 Branding - Yes 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 Yes 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, Yes almost fully utilizes the space segments it uses. The space segments are provided to Yes 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. PP&E, real estate and facilities

The following are the main components of Yes's PP&E:

5.7.1. Real estate

DBS leases a number of real estate properties for its operations. Yes's 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 Yes 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 Yes 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

Yes 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. Yes purchases streamers and leases them to its subscribers.

5.7.4. Broadcasting equipment and computer and communication systems

Yes 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 2028[75].

5.7.5. Operating and encryption systems

Yes 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 Yes and Cinemedia from January 2020. These services are provided in relation to various Yes

[75] This is in accordance with the exercise of the right stipulated in the agreement, a provision according to which Yes is granted the right to extend for five additional years at a time, and its validity. The validity of this provision is under discussion between the parties, including in relation to the extension period until 2028.

systems, end equipment, and viewing cards and other hardware components required to receive these services, and Yes 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 Yes 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, Yes 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 Yes, and on development services that Yes 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). Yes 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).

Yes 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

Yes 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 Yes also uses Salesforce software together with Pelephone and Bezeq International,, according to Pelephone's contract with Salesforce (for details, see Section 3.8.4).

Yes is dependent on the NetCracker system and services and-Salesforce, due to their importance for Yes's management and monitoring of purchase of services and content by its subscribers, as well as for the purpose of charging and collecting from its subscribers. System failures or discontinuation of services to Yes (Including depending on Pelephone’s engagement 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 Yes’s satellite activity and constitutes the main regulatory permit for this activity (for the terms of this license, see Section 5.14[76]).

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 Yes’s broadcasting license specified in Section 5.8.1.1.[77]

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

76 The expiration date of the aforementioned license was determined further to Yes's request to adjust, as much as possible, the expiration date to the estimated date of completing the transition process (migration) of Yes from broadcasting via satellite to broadcasting via the Internet network. The license gives Yes the right to notify the Ministry of the extension of the license in two periods of one year each time, under the conditions stipulated in the license.

77 In July 2021, an application was made to the Head of the Judea and Samaria Administration for the renewal of this license.

operation operations), which are valid until January 2022.[78] This license is essential for Yes'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

Yes has registered trademarks[79], the main ones of which are intended to protect its trade name (Yes) and the key brands it uses (Yes, Yes+, STING+).

5.9. Broadcasting rights

5.9.1. Yes has broadcasting rights in content of two types:

Content whose rights to broadcast are acquired from third parties, including discrete content and channels. Yes 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 Yes invests in its production (in full or in part), and in addition to the right to broadcast the content as part of its broadcasts, Yes usually has rights in the same content, at the rates specified in the agreements with the producers. In most cases, Yes 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 broadcasting by Yes.

Broadcasting and distribution of content by Yes, 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 Yes is a forward-looking assessment, as defined in the Securities Law, based on, among other things, Yes estimates, including in relation to the extent of the 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 Yes acquires broadcasting rights, Yes 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 Yes customers. Compensation under these agreements is based on a fixed monthly payment in accordance with the number of subscribers to Yes 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 Yes customers, it is important to broadcast them as part of its broadcasts.

5.10. Human capital

5.10.1. Organizational structure

Yes's Management consists of divisions, with each division headed by a VP, who serves as

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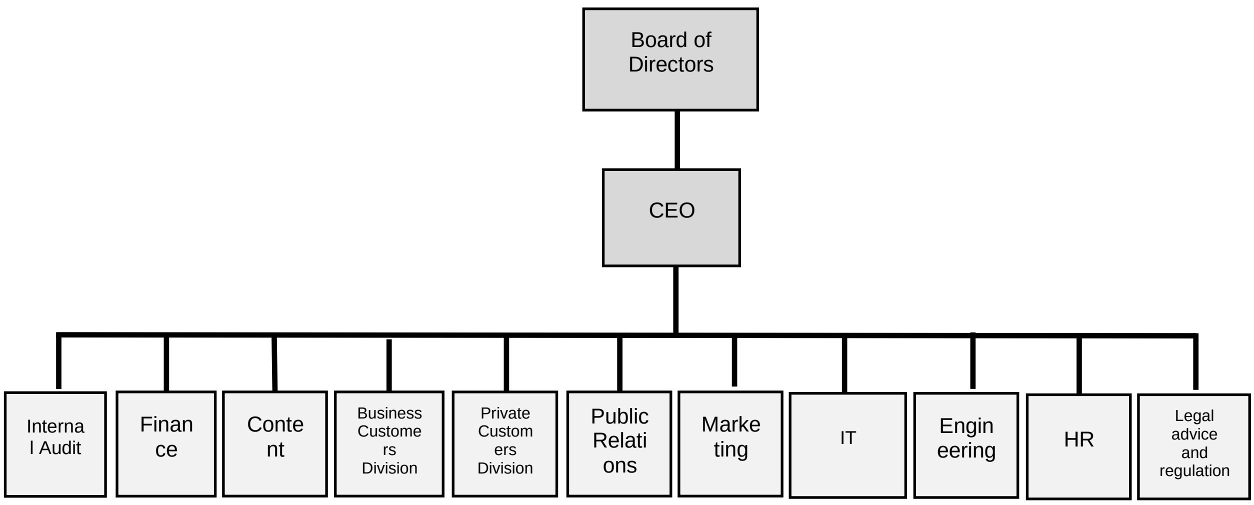
[78] After an extension made in January 2022.

[79] The trademark STING+ has not yet been registered and is in the process of registration.

a member of Yes's Management.



The CEO of Yes also serves as the CEO of Pelephone. In addition, most of the VPs who serve at Yes also serve as VPs at Pelephone, so does the Internal Auditor (who also serves in Bezeq International).

5.10.2. Yes employee base by divisions:

	Number of employees	
	31.12.2022	**31.12.2023**
Administration	351	366
Customer Division	714	726
Total	**1,065**	**1,092**

The number of employees included in the table above includes employees employed part-time. The total number of jobs[80] in Yes as of December 31, 2023 was 1,018.

5.10.3. Benefits and nature of employment agreements

The terms of employment in the Yes 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 Yes's employees is the Histadrut.

In addition, Yes 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, Yes 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 until December 31, 2024. According to it, 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 Yes employees (as amended above) regulate, *inter alia*, the periods after which a Yes 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

[80] Calculated as the total monthly working hours divided by the standard monthly working hours.

and additional financial benefits to be provided by Yes 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 compensation plans

Yes 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 equity compensation from Bezeq in relation to some of Yes's executives, see Section 2.9.5.

5.11. Suppliers

5.11.1. Rate of purchases from main suppliers and the form of engagement with them

Yes considers as a "main supplier", for the purposes of Section 23 of the First Schedule to the Prospectus Details Regulations, a supplier from whom Yes's annual volume of purchases exceeded 10% of the total annual volume of purchases of the Group. During the year 2023, Yes did not have a main supplier as defined above.

5.11.2. Dependence on suppliers

Yes believes that it may be dependent on the following suppliers:

Gilat Telecom, for details on the engagement, see Section 5.2.2.

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 Yes is carried out from its own sources, but it may need investments or credit from the Company according to Yes's needs.

In March 2023, Bezeq approved a credit facility or investment in Yes's equity in a total amount of up to NIS 40 million, for a period of 15 months starting on January 1, 2024. This approval is instead of a similar approval given in November 2023 (and not in addition to it).

Yes's estimate as mentioned above is forward-looking information, as defined in the Securities Law. There is no certainty that in the future Yes will require financing from Bezeq or that Bezeq will provide financing for Yes's activities in excess of the above, and on what dates, and this depends, among other things, on the situation of Yes, on developments in its areas of activity and on the state of competition in these areas and on Yes's future financing needs.

5.13. Taxation

For more details, see Note 7 to the 2023 statements.

5.14. Restrictions and supervision of Yes

5.14.1. Regulation of satellite broadcasts

Yes'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[81] and in newspapers with daily circulation, as well as "Israeliness" requirements regarding officers in the Yes 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 Yes's Council-approved price list. The vast majority of satellite subscribers subscribe to promotions, offering Yes services, including various composition of content packages, ancillary services as well as receiving and installing end equipment, at prices lower than the list price.

Yes 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 Yes, 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, Yes must invest an amount of not less than 8% of its revenues from the subscription fees of satellite subscribers[82] in local productions, when according to the rules of the media and the decisions of the council, Yes must invest different rates out of these investment amounts in different categories of local productions.

In January 2024, the Council decided to postpone for 2025 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 2024 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.

Regarding the obligation to invest in local productions - see also Section 5.16.10.

5.14.1.4 Duty to transfer channels

[81] 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.

[82] Based on its revenues in the past year from satellite subscribers, including Yes'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 Yes disagrees with it, these revenues also include revenues from VOD service to satellite subscribers.

Yes is obligated to transmit the "mandatory channels" in satellite broadcasts and everything as determined by the Minister and in the broadcasting license.[83]

In addition, Yes 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 Yes. According to the Second Authority Law, 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 Yes, 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 Yes. 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 Yes's broadcasting license, Yes 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 1.7.7.7.

5.14.1.6 Ownership of broadcast channels

According to the rules of communication, Yes, 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 Yes broadcasts (compared to a limit of 20% applicable to HOT). Yes is also restricted according to the Communications Law, in owning a news broadcast producer.

5.14.1.7 General provisions regarding the broadcasting license

The Minister and the Council have parallel authority to amend the Broadcasting License. The Minister is authorized to 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 Yes 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

[83] According to the provisions of the Communications Law, Yes is exempt from payment to the commercial channels included in the mandatory channels due to the transmission of their broadcasts over its satellite broadcasts. For the transmission of the commercial channels as part of the OTT services, see Section 5.1.1.1.

Communications to secure Yes'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 Yes 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. Yes also believes that the VOD services it provides via the Internet to satellite subscribers (see Section5.2.1) 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 Yes 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 Yes, 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

Yes markets integrated packages of TV and Internet services provided by it. Additionally, according to the broadcasting license, Yes may offer a shared basket of services, including Bezeq service and Yes 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 Yes, 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 Yes and the amendment under consideration, see Section 2.16.9.3.

In the opinion of Yes, 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 Yes 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 Yes, which were signed or are valid during the reporting period:

<u>Agreement for the lease of space segments</u>[84]

[84] 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 Yes 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 Yes, and which in part is not even controlled by Space and depends on its engagements with third parties. Therefore,

According to an agreement with Space, since 2013, as amended (including amendment from January 2023), Yes has leased space segments in satellites from the "Amos" series ("**the Space Agreement**").

Comply with the provisions of the Space Agreement, Yes 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).[85]

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[86].

The leased space segments - according to the Space Agreement (and subject to unavailability events), until the end of the Amos 7 Yes lease period, Yes 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 Yes 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.[87]

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, Yes 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".

Yes has a substantial dependence on Space, as the sole owner and sole supplier of the space segments used by Yes, 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 Yes and the lack of redundancy for the Amos 3 satellite from the end of the Amos 7 lease, see Section5.18.3.4.

5.16. Legal Proceedings[88]

5.16.1. Pending and contingent legal proceedings

	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 Yes and its former CFO see Section.**שגיאה! מקור ההפניה לא נמצא**.	
b.	June 2017	Bezeq shareholders vs. Bezeq, Chairman of the	Tel Aviv District Court (Economic Departm	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 Yes and its former CFO, in connection with a 2015 transaction in which Bezeq acquired the remaining shares of the Yes shares held	

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.

85 See Bezeq's immediate report dated February 27, 2023.

86 In some cases, Yes may announce the continued use of the "Amos 3" satellite even after the end of its life.

87 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.

88 For reporting policy and materiaityl threshold, see Section 2.18.

	Date	Sides	Court	Type of procedure	Details	Amount of claim / remedies
		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 Yes	ent)		thereby from Eurocom DBS, see Section 2.18.1c.	
c.	July - August 2017	Bezeq shareholders against Bezeq and Yes	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 Yes, for disclosures of certain documents in connection with a 2013 Yes and Space stakeholder transaction as amended in 2017 (Space Agreement) See Section 2.18.1 Subsection D.	
d.	June 2023	Customers vs. Yes	Central District Court-Lod	Motion for approval of a class action	The point of the claim is that Yes does not act in accordance with the law with regard to giving notice of the end of fixed-period transactions in that it does not send a separate and independent notice of the end date of the benefit period, beyond informing the customer through the monthly invoice and by sending a text message. It should be noted that similar motions on the same subject (failure to provide notice as required on the termination of a fixed-period transaction) were filed against the Company (see Section 2.18.1) and Pelephone (see Section 3.16.1).	Over NIS 2.5 million
e.	August 2023	Customers vs. Yes		Motion for approval of a class action	The claim alleges that Yes violates the provisions of the law, including Article 18b(a1)(3) of the Consumer Protection Law, the provisions of its license, and the provisions of the Consumer Protection Regulations (Provision of Telephone Service), 5772-2012, regarding the required waiting time for receiving a response from a representative from the beginning of the call.	Over NIS 2.5 million
f.	August 2023	Customers vs. Yes		Motion for approval of a class action	Motion for approval of a class action	107

	Date	Sides	Court	Type of procedure	Details	Amount of claim / remedies
g.	January 2024	Organizations of creators, performers, producers, screenwriters, and editors vs. the Council, the Chairman of the council, Yes and Hot		Appeal to HCJ	Further to the petition submitted in April 2023, which was struck out in July 2023, while preserving the claims of the parties, the petition was refiled, in the framework of which the Court was asked to order the Council and the Chairman of the Council to respond and justify why they would not order Hot and Yes to include their revenue from additional services provided by them, which are not multi-channel television services through satellite or cable communication, including telephony services, Internet access services, and multi-channel television services over the Internet (OTT) for the purpose of calculating their annual investment obligations in local productions according to the Communications Law.	

5.16.2. Legal proceedings that ended during the reporting period

	Date of filing claim	Sides	Court	Type of procedure	Details	Original claim amount (NIS millions)
a.	June 2018	Shareholders of the Company vs. the Company, Yes, and the former controlling shareholders of the Company	High Court of Justice Tel Aviv District Court (Economic Department)	Motion for disclosure and perusal of documents in accordance with Article 198A of the Companies Law	For details regarding the striking out of the motion for the disclosure of documents before submittifilingng a motion for approval of a derivative claim in accordance with Article 198a of the Companies Law, which were filed by Bezeq shareholders against Bezeq, Yes, the former controlling shareholder of the Company, Mr. Shaul Elovich, and his son, Mr. Or Elovich ("the Elovich "), for the delivery of documents and information in connection with the violation of the fiduciary, fairness and fiduciary duties of Elovich in connection with the sale of Bezeq shares on February 2, 2016 by the Company, see Section 2.18.2.	

5.17. Targets and strategy

5.17.1. Yes'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, Yes 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 Yes 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 Yes.

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 Yes's expenses and a better adaptation to changing market conditions.

As of the date of approval of the statements, the rate of Yes subscribers using the Services Yes+ and STING+ transmitted via the Internet (as stated in the Sections5.2.2.1 and **שגיאה! מקור ההפניה לא נמצא.** above) is about 71%[89] of all Yes subscribers. For this matter see also Section 1.5.4.4 (Note 3).

5.17.2. 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 Yes; 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 Yes to implement the outline of the transition to OTT services.

5.17.3. 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 Yes'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 Yes 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 apply and will apply to Bezeq, which affect Yes. However, the predictions of the Yes 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 Yes ("**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 - Yes 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

[89] This rate also includes subscribers who also use satellite services.

decrease in disposable revenue may lead to a decrease in the number of Yes subscribers, a decrease in Yes's revenues and damage to its business results.

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 Yes.

5.18.1.3 Epidemic - Disease outbreaks and epidemic events in general (such as the outbreak of COVID-19 in 2020) may have consequences for Yes'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 Yes'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 Yes, and their consequences are subject, among other things, to the decisions of countries and authorities in Israel and around the world that may affect Yes accordingly. For this matter see also Section 5.18.1.2 and the Company's reference in Sections 2.20.11 and 2.20.14.

5.18.1.4 Damage caused by nature, war, disaster - damage to Yes 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.

5.18.1.5 Damage to electricity supply - Damage to the electricity supply to Yes's facilities for various reasons (some of which are described in Section **Error! The source of the reference was not found**.) may have a negative effect on Yes's business and damage Yes's ability to provide services. Some of Yes's systems have power backup, but at the same time, in the event of prolonged damage to some or all of the systems, there may be significant difficulties and beyond that in the provision of Yes services, including in the event that Yes cannot return the systems to service quickly.

5.18.2. Industry risks

5.18.2.1 Dependence on licenses – Yes's 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 Yes'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 Yes's activity and may materially impair its financial results. The OTT services including those of Yes 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 Section5.1.1 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 Yes. In addition, Yes'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 Section1.7.7.4 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 Yes 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 Yes’s business model . For the characteristics of competition, see Section5.5.

Yes’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 Yes to make large financial investments in order to maintain its competitive position (see Section5.1.1).

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 Yes (see Section5.1.1).

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 - Yes 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 Yes subscribers, and a claim relating to a small damage to a single subscriber may become a material claim to Yes, 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 - Yes is limited in its cooperation with Bezeq in relation to the offer of a basket of communications services in a manner that materially affects Yes’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 Yes, as well as a decrease in the holding rate of Israeli citizens or residents in Yes, 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 - Yes 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 Yes’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 Yes, 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 **שגיאה! מקור ההפניה לא נמצא.**, will meet the needs of Yes activity for the coming year.

5.18.3.4 Yes 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 Yes 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 Yes on the other satellite, to broadcast the channels broadcast by Yes (all or almost all) (for the Space Agreement, including backup mechanisms determined under it, see Section 5.15.1). However, according to Yes, the said duplication of satellites is expected to end in the beginning of 2025, and from that period onwards, Yes will operate with one satellite - see Section 5.15.1. Yes 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 Yes subscribers are still satellite subscribers may result in substantial damage to Yes 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 Yes 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 - Yes has a substantial dependence on Space, as the sole rights holder and the sole supplier of the space segments used by Yes, 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 Section5.15 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 - Yes has dependence on software vendors and equipment, as well as on certain content vendors (see Sections 5.7.2 and 5.7.5) 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 Yes 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, Yes will be able to continue to broadcast from the other broadcasting center; As far as satellite broadcasts are concerned, some of its linear channels as well as the VOD service, and as far as OTT services are concerned - some of its linear channels, while it can continue to broadcast only the VOD service in the event that the activity of the secondary site is stopped. Each broadcasting 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 broadcasting centers. Damage to the Yes logistics center may also disrupt its operations, and in particular the installation and maintenance of end equipment.

The assessment of Yes 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 Yes 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 Yes's operational capacity. However, Yes 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 Yes site's computer systems in Kfar Saba, it will be possible to reactivate the central systems through the backup site.

Yes'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 - Yes 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, Yes 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 Yes is the information security manager.

Yes 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 Yes, 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. Yes 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.

Yes 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, Yes allocated resources to manage cyber risks through the establishment of an information security system consisting of professional employees in the field.

Yes's Board of Directors is involved in and supervises the management of cyber risk at Yes within the framework of handling the overall risk management policy of Yes.

Despite Yes's actions investments in measures to reduce such risks, Yes 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 – Yes's satellite infrastructure suffers from technical limitations compared to Hot infrastructure as well as to the Internet infrastructure. The technical limitation prevents Yes 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 – Yes'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 Yes 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 Yes broadcasts and / or the availability of the broadcasts to the subscriber may result in damage to the financial results of Yes. As of the date of this report, to the best of Yes's knowledge, no holder of the main allotment used the said frequencies in a manner that caused actual and / or persistent interruptions in Yes's broadcasts.

5.18.3.13 Interference for transmissions - since Yes 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 Yes 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 - Yes 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 Yes, and possibly also at other Bezeq subsidiaries, could cause damage to Yes'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 Yes's outline for the transition to OTT broadcasting (see Section0) 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 Yes.

Below is a presentation of the risk factors according to their influence in the opinion of the Yes's Management. It should be noted that the following DBS assessments regarding the extent of the risk factor's impact on Yes 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.[90]:

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[91]	
Damage caused by nature, war, disaster	X		
Damage to electricity supply	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	X		

90 See Footnote 51.

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

	The degree of influence		
	High	Medium	Small
infrastructure vendors			
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 Yes's assessments regarding the impact of risk factors on Yes'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 Yes'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.

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 consolidated statements and Section 4 to the Board of Directors' report.

6.1.3. Credit rating

On June 19, 2023, Midroog Ltd. established an A3.il rating with a stable horizon for the Company's debentures (series C) and (series F) that were in circulation as of that date, as well as a stable horizon for additional debentures (series F) to be issued by the Company in the amount of up to NIS 550 million by way of series expansion.

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 Yes shares by Bezeq from Eurocom. On May 23, 2023, the Company signed a settlement agreement (“**the Settlement Agreement**") in connection with the 2 motions mentioned above, and according to it, without admitting any of the claimed fraud, including the existence of misleading details in the reports or statements of Bezeq and/or the Company, the responsibility of any of the respondents to the alleged misleading details, the alleged damages or the entitlement of the members of the classes to the claimed remedies, the Company agreed to pay as follows: (a) to the members of Class A defined in the settlement agreement as "everyone who purchased Bezeq shares in the period between February 11, 2015 and June 19, 2017, with the exception of the respondents or anyone on their behalf" - a total amount in shekels equal to 1,500,000 US dollars; (b) to members of Class B defined in the settlement agreement as "everyone who purchased shares of the Company on the Tel Aviv Stock Exchange Ltd. starting on May 21, 2015 at 13:00 until June 19, 2017 (inclusive)" - a total amount in shekels equal to 2,850,000 US dollars.

In addition, as part of the Settlement Agreement, the parties recommended that the Company pay compensation to the applicants, their attorney fees, and additional costs in connection with the execution of the Settlement Agreement. The total amount that the Company is expected to pay under the Settlement Agreement, including the compensation amounts for the classes as detailed above, amounts to a total in NIS equal to USD 5,500,000. The aforementioned settlement amount does not include the offset of the insurance company's participation by virtue of officers' insurance.

On August 23, 2023, the Attorney General submitted his reference to the Settlement Agreement according to which there is no objection from his side to the Settlement Agreement, along with several comments on the merits of the matter. On August 31, 2023, Bezeq and some of the respondents submitted a motion to the Court to schedule a hearing on the Settlement Agreement. Following a number of interim motions that were submitted, on January 8, 2024, a discussion regarding the Settlement Agreement was held, in which a number of comments on the substance of the matter were received from the Attorney General, and in accordance with the Court's decision, the parties must make a number of Changes to the Settlement Agreement and its submission, including the addition of an opinion, without the Settlement Agreement being changed by the Court until March 17, 2024.

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.

On November 30, 2022, the applicant's summaries were submitted, and in accordance with the Court's decision, on March 29, 2023, the respondents' summaries were submitted, and on April 24, 2023, response summaries were submitted on behalf of the applicant.

6.2.3. 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 aforesaid settlement, and accordingly, the parties began holding mediation proceedings, and according to the Court's decision, they must act to exhaust the procedure within 3 months and submit an update on the matter by April 2, 2024.

______________________	March 12, 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. Abbreviated names for pieces of 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
General Permit Regulations		Communications Regulations (Bezeq and Broadcasting) (General Permit for the Provision of Bezeq Services), 5782-2022
Usage regulations		Communications (Bezeq and Broadcasting) Regulations (Use of an NIO's Public Network), 5775-2014
The Communications Order		Communications Order (Bezeq and Broadcasting) (determination of an essential service provided by Bezeq, The Israel Telecommunications Company Ltd.), 5777-1997
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[92]

Statistical area	-	A continuous area unit created from a geographic-statistical division, as ordered by the Minister of Communications according to Aarticle 14f of the Communications Law; The division into statistical areas is based on the CBS.
Internet Gold	-	Internet Gold Gold Lines
Bezeq Online	-	Bezeq online Ltd.
Bezeq International	-	Bezeq International Ltd
Golan telecom	-	Golan Telecom Ltd.

92 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.

2023 statements	-	The Company's consolidated financial statements for the year ended December 31, 2023
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)
Yes	-	Yes Television and Communications Services 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
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 maintenance of equipment and services in the customer's premises
Authorized provider		Bezeq license holder or registered in the registry maintained according to Article 4A1 of the Communications Law
Cellcom	-	Cellcom Israel Ltd. and corporations under its control
Pelephone	-	Pelephone Communications Ltd.
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 radio	-	Mobile radio telephone phone; Cellular telephony

telephone		
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.
Advanced network	-	A network based on optical fibers that reach a network endpoint in an end user's apartment, or an equivalent network in terms of the level of service that can be provided over it according to standards ordered by the Minister and published on the website of the Ministry of Communications; For this purpose, "apartment" - a room or cabin, or a set of rooms or cabins intended to be used as a complete and separate unit for living, business, or any other need, including a detached apartment
Traditional network		Non-advanced Bezeq network
Bezeq services	-	A service that is one of the following, provided to the general public or a part of it through the Bezeq network: (1) Telephony service; (2) Internet access service; (3) Data transfer service; (4) Another service listed in the First Schedule
Internet access service		A service that can be provided to subscribers for consideration, in money or money equivalents, that allows them to link to the endpoints of the Internet network that are accessible to the general public
Data transfer services	-	Network services for data transfer from point to point, data transfer between computers and various communication networks and remote business access services
Telephone service		A service that allows the transfer or reception of a Bezeq message based on a number according to the numbering plan
On-demand viewing services		Services that allow viewing content when it is not broadcast, including VOD, Catch Up (viewing content that has been broadcast, until a certain period of time has passed since the time of its original broadcast), Start Over (the possibility to go back and watch content from the beginning), recording and saving content in the cloud
Reporting period	-	Twelve months ended December 31, 2023
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.
ICT		Business integration service (Information and communications technology)
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
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 revenue per line / subscriber / parent house and is calculated as the monthly average distribution of the total relevant revenue 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, 2023

Report of the Board of Directors on the State of Affairs of the Corporation for the Year ended December 31, 2023

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, 2023 ("**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 and international communications services and ICT solutions (hereinafter: "Bezeq International Services")**
4. **Multichannel TV**

On April 23, 2023, the name of DBS Satellite Services (1998) Ltd. was changed to Yes Television and Communication Services Ltd. (hereinafter: "Yes").

The following are the Group's consolidated results:

	2023	**2022**	**Increase/decrease**	
	NIS millions	NIS millions	NIS millions	**%**
Net profit	**1,054**	891	163	18.3
EBITDA*	**3,616**	3,493	123	3.5
Adjusted EBITDA*	**3,806**	3,724	82	2.2
Adjusted net profit*	**1,212**	**1,087**	**125**	**11.5**

* Financial indices that are not based on generally accepted accounting principles, see below.

The net profit was affected, among other things, by a decrease in other operating expenses and the cancellation of the expenses on the fiber deployment incentive fund in the Group, an increase in the net profit of Yes, as well as a decrease in financing expenses in the landline national interior communications segment, offsetting an increase in salary expenses.

For more information, see Chapter 1.2 below.

*** Financial indices that are not based on generally accepted accounting principles**

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 income (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 3.7, 10.5, and 10.6 to the Statements).
Adjusted EBITDA	Calculated as an EBITDA index net of the other operating expenses / income item, net, and one-off losses / profits from impairment / increase in value and expenses in respect of the equity compensation plan. The index allows comparisons of operational performance between different periods while neutralizing the effects of exceptional expenses / income of a one-off nature. 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.
Adjusted net profit	Defined as net profit neutralizing other operating expenses/income, net after tax and one-off losses/gains from depreciation/appreciation after tax, and expenses for the equity compensation plan. The index allows performance comparisons between different periods while neutralizing the effects of unusual expenses/income of a one-off nature.

The following is a breakdown of the calculation of the indices:

	2023	2022
	NIS millions	
Operating profit	**1,749**	1,625
Depreciation, amortization, and impairment	**1,867**	1,868
EBITDA	**3,616**	3,493
Other operating expenses, net	**180**	220
Equity compensation plan expenses	**10**	11
Adjusted EBITDA	**3,806**	3,724

	2023	2022
	NIS millions	
Net profit	**1,054**	891
Other operating expenses, net after tax	**148**	185
Equity compensation plan expenses	**10**	11
Adjusted EBITDA	**1,212**	1,087

Report of the Board of Directors on the state of affairs of the corporation for the Year ended December 31, 2023

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, 2023	December 31, 2022	Increase (decrease)		Explanation
	NIS millions	%	NIS millions	%	
Cash and current investments	**1,892**	1,727	165	9.6	For more information, see Chapter 1.4 below.
Current and non-current trade receivables	**2,089**	2,189	(100)	(4.6)	The decrease was mainly due to the cancellation of an insurance indemnity balance for a provision for a claim in the landline national interior communications segment.
Inventory	**82**	85	(3)	(3.5)	
Right-of-use assets	**1,870**	1,746	124	7.1	The increase was due to the Bezeq International services segment, mainly from the cost of additional contracts that came into force as well as from an increase in the consumer price index, offsetting a decrease mainly in the cellular communication segment due to current depreciation expenses.
Property, plant and equipment	**6,828**	6,542	286	4.4	The increase was due to the Bezeq International services segment, mainly from the cost of additional contracts that came into force as well as from an increase in the consumer price index, offsetting a decrease mainly in the cellular communication segment due to current depreciation expenses.
Intangible assets	**3,280**	3,251	29	0.9	The increase was mainly due to the landline national interior communications segment, among other things due to the progress of the fiber network deployment project.
Deferred expenses and non-current investments	**312**	315	(3)	(1.0)	
Total assets	**16,353**	15,855	498	3.1	

1.1. Financial position – Liabilities and equity

	December 31, 2023	December 31, 2022	Increase (decrease)		Explanation
	NIS millions	%	NIS millions	%	
Debt to financial institutions and bondholders	**8,903**	9,178	(275)	(3.0)	The decrease in debt resulted from the repayment of debentures and loans, offsetting the expansion of series 13 and 14 debentures and the receipt of loans in the landline national interior communications segment. For more information, see Note 13 to the Statements.
Liabilities in respect of leases	**2,041**	1,908	133	7.0	The increase was due to the Bezeq International services segment, mainly from the cost of additional contracts that came into effect as well as from an increase in the consumer price index, offsetting a decrease mainly in the cellular communication sector due to payments during the year.
Trade payables	**1,758**	1,598	160	10.0	The increase was mainly due to the landline national interior communications. For more information, see Note 14 to the Statements.
Employee benefits	**583**	600	(17)	(2.8)	The decrease was due to payments for the retirement of employees, offsetting the increase in provisions for the termination of employee-employer relations through early retirement and voluntary retirement in the Group, and due to the recording of a one-off provision for the amount of the special bonus that will be paid to Bezeq employees as part of the amendment of the collective agreement, see Note 16 to the Statements.
Provisions	**140**	205	(65)	(31.7)	The decrease was mainly due to the cancellation of the provision for a claim offset by insurance indemnification in the field of landline national interior communications.
Deferred tax liabilities	**322**	319	3	0.9	
Other liabilities	**160**	151	9	6.0	
Total liabilities	**13,907**	13,959	(52)	(0.4)	
Non-controlling interests	**2,257**	1,842	415	22.5	
Total equity deficit attributed to the Company's shareholders	**189**	54	135	249.3	
Total equity	**2,446**	1,896	550	29.0	Shareholders' equity constitutes approximately 14.9% of the total balance sheet, compared to approximately 11.9% of the total balance sheet on December 31, 2022. The increase was due to 2023profits, offsetting the distribution of dividends per share and the buyback of shares in the Company.
Total liabilities and equity	**16,353**	15,855	498	3.1	

1.2. Enterprise results

1.2.1. Key results

	2023	2022	Increase (decrease)		
	NIS millions		NIS millions	%	Explanation
Revenues	**9,103**	8,986	117	1.3	The increase was due to growth in the landline national interior communications and multi-channel television segments, offsetting a decrease in revenues from the cellular communications segment and the Bezeq International services segment.
Operating and general expenses	**3,381**	3,396	(15)	(0.4)	It should be noted that the expenses were affected, among other things, by a decrease in expenses for the fiber deployment incentive fund due to a temporary order, in which it was determined that in 2023 the rate of payment of the entities liable to the incentive fund will be 0% instead of 0.5%, for further details see Chapter 1.2.2 below.
Salary	**1,926**	1,877	49	2.6	The increase was mainly due to the landline national interior communications segment, offsetting a decrease mainly in the international Bezeq services segment. For more information, see Note 23 to the Statements.
Depreciation, amortization and impairment	**1,867**	1,868	(1)	(0.1)	
Other operating expenses, net	**180**	220	(40)	(18.2)	The decrease was due to a decrease in expenses for the termination of employee-employer relations through early retirement and voluntary retirement and collective agreements in the Group, as well as a decrease in expenses for provision for claims, offsetting the recording of a one-off provision in the amount of NIS 75 million for the special grant that will be paid to employees of the landline national interior communications segment as part of the amendment of the collective agreement, see Note 24 to the Statements.
Operating Profit	**1,749**	1,625	124	7.6	
Financing expenses, net	**349**	398	(49)	(12.3)	The decrease was mainly due to the landline national interior communications segment. For more information, see Note 25 to the Statements.
Taxes on revenue	**346**	336	10	3.0	
Profit in the year	**1,054**	891	163	18.3	

1.2.2. Operating segments

a. The following are data regarding revenues and operating profit in accordance with the Group's operating segments:

	2023		2022	
	NIS millions	% of segment revenue	NIS millions	% of segment revenue
Revenues by operating segments				
Interior landline communication	**4,412**	**48.5**	4,306	47.9
Cellular communication	**2,348**	**25.8**	2,399	26.7
Bezeq International services	**1,212**	**13.3**	1,239	13.8
Multi-channel TV	**1,309**	**14.4**	1,277	14.2
Others and adjustments	**(178)**	**(2.0)**	(235)	(2.6)
Total	**9,103**	**100.0**	8,986	100.0

	2023		2022	
	NIS millions	% of segment revenue	NIS millions	% of segment revenue
Profit (loss) by operating segments				
Interior landline communication	**1,451**	**32.9**	1,460	33.9
Cellular communication	**196**	**8.3**	193	8.0
Bezeq International services	**39**	**3.2**	(30)	(2.4)
Multi-channel TV (proforma) *	**(4)**	**(0.3)**	(48)	(3.8)
Others and adjustments	**67**	**-**	50	-
Consolidated operating profit / percentage of Group revenues	**1,749**	**19.2**	1,625	18.1

*** 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 Yes' statements.**

Report of the Board of Directors on the state of affairs of the corporation for the Year ended December 31, 2023

1.2.2. Activity segments (Cont.)

b. Interior landline communications segment

	2023	2022	Increase (decrease)		Explanation
	NIS millions			%	
Internet - infrastructure	**1,947**	1,789	158	8.8	The increase was mainly due to an increase in the average revenue per retail subscription, which was mainly due to an increase in the number of subscribers connected to the fiber network, complementary end equipment, and the provision of Internet access services (ISP) starting in April 2022. In addition, there was an increase in the scope of wholesale market activity in the field of fiber and in the use of Bezeq infrastructures.
Landline telephony	**650**	780	(130)	(16.7)	The decrease was due to a decrease in the average revenue per telephone line due to the reduction of telephony rates by the Ministry of Communications starting in April 2022 and a further reduction starting in July 2023, a decrease in interconnection rates starting from June 15, 2023, and a decrease in the volume of traffic. There was also a decrease in the number of lines.
Transmission, data communication and other	**1,466**	1,406	60	4.3	The increase was due to data transmission and communication services for businesses and an increase in paid jobs. The increase was largely offset by a decrease in transmission revenues to Internet Service Providers (ISPs) due to the switch of subscribers to Bezeq due to the Unified Internet reform.
Cloud and digital services	**349**	331	18	5.4	The increase was due, among other things, to virtual switchboard services and cloud services.
Total revenues	**4,412**	4,306	106	2.5	
Operating and general expenses	**769**	759	10	1.3	The increase was mainly due to an increase in the expenses on subcontractors and materials, mainly for the deployment of the fiber network and paid works, offsetting a decrease in expenses on the fiber deployment incentive fund due to a temporary order, in which it was determined that in 2023 the payment rate of the entities liable to the incentive fund will be at a rate of 0% instead of 0.5% as well as a decrease in interconnection payments to communication operators, mainly due to a reduction in rates as of June 15, 2023.
Salary	**1,028**	970	58	6.0	The increase was due to salary updates (including the minimum wage), hiring employees, as well as a one-off grant for permanent employees following the wage agreement in the public segment, mainly offsetting employee retirement.
Depreciation and amortization	**1,019**	1,005	14	1.4	
Other operating expenses, net	**145**	112	33	29.5	The increase was due to the recording of a one-off provision in the amount of NIS 75 million for the amount of the special grant that will be paid to Bezeq employees as part of the amendment to the collective agreement, as well as a decrease in capital gains from the sale of real estate. The increase was partially offset by a decrease in provision expenses for claims and provision expenses for early retirement.
Operating profit	**1,451**	1,460	(9)	(0.6)	
Financing expenses, net	**256**	332	(76)	(22.9)	The decrease in net financing expenses was mainly due to an increase in financing income from investments, a decrease in linkage differences for debentures mainly due to a lower index increase, as well as due to early repayment costs of debentures which were recognized in the corresponding year. This is done by offsetting financing expenses on employee benefits against financing income that was recognized in 2022, see Note 25 to the Statements.
Taxes on revenue	**294**	279	15	5.4	
Segment profit	**901**	849	52	6.1	

1.2.2. Activity segments (Cont.)

c. Cellular communications segment

	2023	2022	Increase (decrease)		Explanation
	NIS millions			%	
Revenue from services net of interconnect *	**1,385**	1,364	21	1.5	The increase was mainly due to continued growth in the number of subscribers, including subscribers to 5G plans. This increase was partially offset by a decrease in revenues from a project with the Ministry of Education recorded in 2022, as well as a decrease in revenues from hosting services.
Interconnect revenues *	**371**	427	(56)	(13.1)	The decrease was mainly due to the reduction of interconnect rates in June 2023.
Sale of end equipment to customers	**592**	608	(16)	(2.6)	The decrease was mainly due to a decrease in the number of devices sold.
Total revenues	**2,348**	2,399	(51)	(2.1)	
Operating and general expenses	**1,278**	1,327	(49)	(3.7)	The decrease was mainly due to a decrease in expenses attributed to interconnect revenues (parallel to the decrease in revenues) as well as a decrease in expenses for the fiber deployment incentive fund. The decrease was partially offset by an increase in loan-loss expenses as well as an increase in network expenses, among other things due to an increase in the index and electricity rates.
Salary	**323**	314	9	2.9	The increase was mainly due to the effects of the collective agreement that was signed in December 2022, offsetting an increase in salary for investment as well as a decrease in the number of employees.
Depreciation and amortization	**549**	532	17	3.2	The increase was mainly due to the updating of the estimate of the cost of right-of-use assets carried out in 2022 for past periods. This increase was partly offset by assets whose depreciation period ended.
Other operating expenses, net	**2**	33	(31)	(93.9)	The decrease was due to the effects of the collective agreement regarding a bonus for employees and expenses for employee retirement in 2022.
Operating profit	**196**	193	3	1.6	
Financing income, net	**13**	26	(13)	(50.0)	The decrease was mainly due to a decrease in interest revenue from loans given to the parent company and repaid. This decrease was partially offset by a decrease in exchange rate differential expenses in light of the increase in the exchange rate as well as an increase in interest revenue from deposits.
Taxes on revenue	**50**	54	(4)	(7.4)	
Segment profit	**159**	165	(6)	(3.6)	

*** Revenue from interconnectivity (hereinafter: "interconnect") - as part of the reform to change the interconnect RAETS regime (hereafter: "the Reform"), which began gradually from June 2023 to June 2025, interconnect revenues from mobile radio telephone operators and NIO operators to whom the reform applies are presented separately.**

1.2.2. Activity segments (Cont.)

d. Bezeq International services

	2023	2022	Increase (decrease)		Explanation
	NIS millions			%	
Revenues	**1,212**	1,239	(27)	(2.2)	The decrease was largely due to a decrease in revenue from internet services (ISP), mainly due to a decrease in the number of subscribers following the unified internet reform that began in April 2022. This decrease was largely offset by an increase in Bezeq's business activity as a whole, mainly from the consolidation of the subsidiary CloudEdge in the second quarter of last year and an increase in this activity, an increase in revenues from equipment, licensing and service contracts, data services, and server farm activity.
Operating, general and impairment expenses	**800**	827	(27)	(3.3)	The decrease was mainly due to a decrease in expenses for the use of Internet infrastructure in view of a decrease in activity in this field, as well as a decrease in marketing and general expenses. This decrease was partially offset mainly by an increase in expenses due to the consolidation of the subsidiary CloudEdge in the second quarter of last year and an increase in this activity, an increase in expenses for the sale of equipment, licensing and service contracts and data services.
Salary	**216**	237	(21)	(8.9)	The decrease was mainly due to a continuous decrease in the number of Bezeq International employees, which was partially offset by an increase in the salary of the subsidiary CloudEdge.
Depreciation, amortization, and impairment	**137**	134	3	2.2	The increase was due to an increase in current depreciation for PP&E and impairments of right-of-use assets, which was offset by a decrease in asset depreciation.
Other operating expenses	**20**	71	(51)	(71.8)	The decrease was mainly due to the registration of the provision for voluntary retirement last year, offsetting expenses for updating the provision for voluntary retirement, and updating the provision for claims.
Operating profit (loss)	**39**	(30)	69	-	
Financing expenses, net	**10**	1	9	900.0	The increase was mainly due to an increase in financing expenses for leasing building.
Income taxes	**-**	1	(1)	(100)	
Segment profit (loss)	**29**	(32)	61	-	

1.2.2. Activity segments (Cont.)

e. Multi-channel TV (proforma) *

	2023	2022	Increase (decrease)		Explanation
	NIS millions			%	
Revenues	**1,309**	1,277	32	2.5	The increase was mainly due to an increase in revenues from combined television and fiber packages as well as revenues from new content packages, mainly from collaborations with international content providers, offsetting the change in the mix of subscribers from premium to discount as well as a decrease in revenues from the sale of content to external entities.
Operating and general expenses	**886**	855	31	3.6	The increase was mainly due to an increase in costs for fiber activity as well as an increase in costs for collaborations with international content providers, as well as from an increase in satellite segment expenses mainly as a result of a change in the dollar exchange rate. On the other hand, there was a decrease in expenses for the fiber deployment incentive fund and a decrease in marketing and general expenses.
Salary	**186**	193	(7)	(3.6)	The decrease was mainly due to the updating of salary discounts.
Depreciation and amortization	**244**	274	(30)	(10.9)	The decrease was mainly due to assets that were fully depreciated and a change in the estimated life expectancy of assets.
Other operating expenses	**(3)**	3	(6)	-	The change was mainly due to a loss due to the effect of asset impairments in 2022 as well as an update of the provision for employee retirement.
Operating loss	**(4)**	(48)	44	91.7	
Financing expenses, net	**(9)**	(6)	(3)	(50.0)	The increase was mainly due to an increase in interest revenue from deposits.
Taxes on revenue	**1**	1	-	-	
Segment profit (loss)	**4**	(43)	47	-	

*** The results of the multi-channel television segment are presented net of the overall impact of impairment recognized starting from 2018, see "proforma" 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 Yes' statements.**

1.2.2. Activity segments (Cont.)

e. Multi-channel TV (Cont.) - Comparison between accounting income and proforma income

	2023		2022	
	Accounting profit	**Pro forma profit**	**Accounting profit**	**Pro forma profit**
	NIS millions			
Revenues	**1,309**	**1,309**	1,277	1,277
Operating and general expenses	**861**	**886**	867	855
Salary	**193**	**186**	200	193
Depreciation and amortization	**166**	**244**	199	274
Other operating expenses (income), net	**(5)**	**(3)**	3	3
Operating profit (loss)	**94**	**(4)**	8	(48)
Financing income, net	**(9)**	**(9)**	(6)	(6)
Taxes on revenue	**1**	**1**	1	1
Profit (loss) for the year	**102**	**4**	13	(43)

1.3. Main data from the Group's consolidated quarterly income statements (NIS millions)

	Q1/2023	Q2/2023	Q3/2023	Q4/2023	2023	Explanation
Revenues	**2,308**	**2,299**	**2,265**	**2,231**	**9,103**	The decrease in revenues in the fourth quarter includes a decrease in revenues from roaming services in the cellular communication segment in light of the effect of the war. For more information see Chapter 1.8 below.
Operating expenses	1,842	1,815	1,843	1,854	7,354	It should be noted that the expenses of the third quarter include the recording of a one-off provision in the amount of NIS 75 million for the special grant that will be paid to Bezeq employees as part of the amendment of the collective agreement (see Note 16.1.1 to the Statements) as well as a decrease in expenses on the fiber deployment incentive fund due to a temporary order, in which It was determined that in 2023 the rate of payment of the entities liable to the incentive fund will be at a rate of 0% instead of 0.5%. The fourth quarter includes expenses for termination of employee-employer relations in early retirement and voluntary retirement, see Note 16.5 to the Statements.
Operating profit	**466**	**484**	**422**	**377**	**1,749**	
Financing expenses, net	88	98	77	86	349	
Profit after financing expenses, net	**378**	**386**	**345**	**291**	**1,400**	
Taxes on revenue	92	100	74	80	346	
Profit for the period	**286**	**286**	**271**	**211**	**1,054**	

1.4. Cash flow

	2023	2022	Change		Explanation
	NIS millions % of total revenue			NIS millions	
Net cash flow derived from operating activities	**3,442**	3,491	(49)	(1.4)	The decrease in the net cash flow from current activity was mainly due to the advance of the crediting dates with the credit card companies in 2022 and a shift in collection from customers from the fourth quarter of 2021 to the first quarter of 2022 due to the labor strikes in the cellular communications segment and in the Bezeq International services segment in 2021. The decrease was largely offset by the increase in net profit as well as an increase in the cash flow from current activity in the landline national interior communication segment is mainly due to changes in working capital in employee benefits.
Net cash flow used for Investing operations	**(1,835)**	(1,420)	(415)	(29.2)	The increase in the net cash flow used for investment activity was mainly due to a net increase in investment in deposits in banks and other financial investments in the landline national interior communication segment and in the Company.
Net cash flow used for financing operations	**(1,715)**	(2,315)	600	25.9	The decrease in the net cash flow used for financing activity was mainly due to a decrease in the repayment of debentures as well as the expansion of debentures (series 13 and 14) in 2023, offsetting a decrease in receiving loans, an increase in the dividend paid and an increase in principal and interest payments for leases.
Net decrease in cash and cash equivalents	**(108)**	(244)	136	55.7	
Effect of changes in foreign currency exchange rate	**(2)**	-	**(2)**	**-**	

Average volume in the reported year

Long-term liabilities (including current liabilities) to financial institutions and bondholders: approx. NIS 9,497 million.
Supplier credit: approx. NIS 962 million.
Short-term customer credit: approx. NIS 502 million.
Long-term customer credit: approx. NIS 295 million.

Working equity

The Group's consolidated working equity deficit as of December 31, 2023 amounted to approximately NIS 91 million, compared with a working equity deficit of approximately NIS 1 million as of December 31, 2022.

The Company's working equity (according to the "Solo" Statements) as of December 31, 2023 amounted to approximately NIS 99 million, compared with working equity of approximately NIS 68 million as of December 31, 2022.

Bezeq (according to the "Solo" Statements) as of December 31, 2023, has a working equity deficit in the amount of approx. NIS 162 million, compared with a working equity deficit of NIS 62 million as of December 31, 2022.

The increase in the deficit in the consolidated working equity was mainly due to an increase in the current maturities of the financial debt and trade payables of Bezeq Group.

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, 2023, including sources for repayment of the Company's liabilities, including the Company's debentures (Series C). 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 stated that despite the existence of a continuous negative cash flow from current operations in the Company's separate (solo) financial statements and a deficit in working equity in the Company's consolidated statements, in the assessment of the Company's Board of Directors, after receiving explanations for its opinion from the Company's Management, there is no reasonable concern that the Company and the Group will not meet their existing and expected obligations when they are due to be met. The Company and the Group have the ability to meet the existing and expected cash needs in the foreseeable future, even in the scenario of an unexpected deterioration in their business, through the cash balances in their possession, through the creation of cash from operations, through sources of (net) liquidity from subsidiaries, and through the borrowing and refinancing of significant amounts of debt from banking and non-banking sources.

The above information includes forward-looking information based on the Company's estimates regarding liquidity. The actual data may differ substantially from the above estimate in case of a change in one of the factors considered in these estimates.

1.6. Buyback of the Company's shares

During the year 2023, the Company repurchased 1,593,213 of its shares for approximately NIS 123 million.

1.7. 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 2023, the increase in the consumer price index was reflected in the recording of financing expenses in respect of the Group's financial debt amounting to approximately NIS 88 million (approximately NIS 79 million after hedging), a decrease of approximately NIS 65 million (approximately NIS 41 million after hedging) compared to the corresponding year. It should be noted that the effect of the increase in the consumer price index on the results of the Group's activities was not material. Also, it should be noted that the net effect of the increase in interest rates in the economy in the said year on the results of the Group's activities was immaterial.

In accordance with the scope of Bezeq's index-linked debt as of December 31, 2023, 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, depending on the scope of the Bezeq's existing variable interest rate debt, a change of 1% 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 an increase in interest rate.

1.8. State of War - "Iron Swords"

As of October 7, 2023, the State of Israel is in a state of war in the Gaza Strip, as well as in a state of limited hostilities in the northern border area. The state of war creates various effects on the Bezeq Group companies, which are reflected on the one hand in an increase in demand for some services, in Internet traffic and in the use of landline telephony, and on the other hand in a decrease in roaming activity, a decrease in the sale of cellular devices, and the removal/freezing of business lines in areas that are affected by the war. Also, with the outbreak of the war, due to the recruitment of employees to reserve service and a decrease in contractor activity, there was a slowdown in deployment and installation activity in the Bezeq network. Also, a number of regulatory moves were made as part of the State of Israel's handling of the state of war, including a law to postpone payment dates for those entitled and to ease phone call charges, including calls related to distance learning. It should be noted that some of the Group companies took their own initiative to ease the charges towards localities in the Gaza Envelope and on the northern border.

The Bezeq Group companies, which provide, among other things, essential communication services to private, business, and institutional customers, including the state institutions, the security forces, and the health system, are prepared accordingly and respond to the various needs, including fault solving, increasing vigilance and preparedness in cyber systems, and assisting the community in various ways. Also, the Group companies regularly examine and follow closely the developments related to the war.

At this stage, the effects of the war and its consequences as described above do not have a material impact on the activities of the Company and Bezeq Group and their business results. Also, the liquidity and financial situation of the Company and Bezeq Group allows them to function well during the war. The scope and duration of the war and its consequences on the state of the Israeli economy, as well as on Bezeq Group companies, are unobservable and difficult to predict, and they depend, among other things, on the manner and scope of the development of the war and the possibility of the economy slipping into recession as a result. In this context, attention is also drawn to the relevant risk factors detailed in Chapter A (Description of the Corporation's Business) of the periodic report for the year 2023 (Sections 2.20.11, 2.20.15, 3.19.2.9, 4.14.8, 5.18.1.2, 5.18.1.4).

Some of the information contained in this section is forward-looking information, as defined in the Securities Law, based on estimates, assumptions, and expectations of the Company and Bezeq Group which may not materialize, or materialize in a materially different way than anticipated, depending, among other things, on the manner and scope of the development of the war and the state of the economy as a whole.

2. <u>Corporate governance aspects</u>

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. The Company's donation policy focuses 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.

In 2023, the Bezeq Group donated a total of about NIS 11.4 million, which includes a financial donation of about NIS 4.2 million, donation of services and communication infrastructure to associations, evacuees, and disadvantaged populations in the amount of about NIS 5.1 million, and a salary donation for the volunteering of employees, the employment of at-risk youth, and the volunteering of the children of employees in the community in the amount of approximately NIS 2.2 million.

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 the employees' and their children's 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 addition, as part of the "Iron Swords" War that began in the fourth quarter, the Group mobilized to help the affected populations through a variety of initiatives, projects, donations, and volunteer work.

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	2023	2022
B Communications Ltd.	Somekh Chaikin	Audit and audit-related, including audit-related tax services	**432**	400
		Other services[1]	**66**	151
Bezeq – the Israeli Telecommunications Corp. Ltd.	Somekh Chaikin	Audit and audit-related, including audit-related tax services	**1,607**	1,530
		Other services[1]	**403**	485
Pelephone Communications Ltd.	Somekh Chaikin	Audit and audit-related, including audit-related tax services	**674**	603
		Other services[1]	**659**	434
Bezeq International Ltd.	Somekh Chaikin	Audit and audit-related, including audit-related tax services	**357**	379
		Other services[1]	**112**	403
Yes TV and Communications Services Ltd. (Yes)	Somekh Chaikin	Audit and audit-related, including audit-related tax services	**643**	612
		Other services[1]	**283**	283
Total			**5,236**	5,280

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 volume of hours and the derived hourly rate.

1 "Other services" provided to main companies in the Group in 2023 and 2022 included, among other things, consulting services on tax and accounting issues that are not related to auditing and special approvals.

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 auditors, 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.

2.5. Disclosure regarding the internal auditor in a reporting corporation

Details concentration	
Name of internal auditor	Ilan Chaikin
Date of entry into office	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 2023 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 in building the work plan are: Reasonable coverage of most areas of the Company's activity in accordance with the exposure to material risks, considering 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.

2.5. Disclosure regarding internal auditor in a reporting corporation (Cont.)

Details concentration	
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 audit procedure by the Internal Auditor for the second half of 2022 on March 14, 2023. In addition, an audit report on the implementation of the audit procedure by the Internal Auditor for the first half of 2023 was presented on November 9, 2023 and an internal audit report on investment management was presented on January 8, 2024.
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.
Compensation	The Internal Auditor’s compensation 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 2023, the Internal Auditor was paid compensation in the amount of NIS 56K including VAT. In the opinion of the Board of Directors, the scope of the Internal Auditor’s compensation had no effect on his professional judgment.

3. 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, 2023 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 material impairment would have been recognized.

	Pelephone **Highly material valuation is attached to the Statements as of December 31, 2023**	**Bezeq** **Highly material valuation is attached to the Statements as of December 31, 2023**	**Yes Television and Communication Services Ltd. ("Yes")** **A very substantial valuation as of December 31, 2023** **Attached to Bezeq's financial statements for December 31, 2023.** **See Sections 3.1.1 and 3.1.3 below**	**Bezeq International** **Material valuation as of December 31, 2022 -** **See Section 3.1.1 below**
Identification of subject of valuation	Pelephone's value in use for the purpose of examining the impairment of assets 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.	Examination of impairment of the assets of Yes as of December 31, 2023	Examination of impairment of the assets of Bezeq International Ltd. as of December 31, 2023
Timing of the valuation	December 31, 2023; The valuation was signed on March 4, 2024.	December 31, 2023; The valuation was signed on March 4, 2024.	December 31, 2023; The valuation was signed on March 4, 2024.	December 31, 2022; The valuation was signed on March 4, 2024.
Value of the subject of the valuation close to the date of the valuation, if the accepted accounting rules, including depreciation and	NIS 1,400 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 10,760 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, 2023 is in the amount of approx. NIS 16 million.	Book value before impairment as of December 31, 2023 is approximately NIS 7 million.

	Pelephone Highly material valuation is attached to the Statements as of December 31, 2023	Bezeq Highly material valuation is attached to the Statements as of December 31, 2023	Yes Television and Communication Services Ltd. ("Yes") A very substantial valuation as of December 31, 2023 Attached to Bezeq's financial statements for December 31, 2023. See Sections 3.1.1 and 3.1.3 below	Bezeq International Material valuation as of December 31, 2022 - See Section 3.1.1 below
amortization, did not require a change in its value in accordance with the valuation				
Value of the subject of the valuation determined according to the valuation	Approx. NIS 2,343 million. The Company concluded that there is no impairment that requires a reduction in the unit's book value amount recorded in the Company's books.	Approx. NIS 16,577 million. The Company concluded that there is no impairment that requires a reduction in the amount of goodwill recorded in the Company's books.	Yes's enterprise value, according to the cash flow discounting method, is higher than the fair value of Yes assets and liabilities, net, and therefore determined as the basis for determining Yes's recoverable amount. The value in use of Yes's assets, using the revenue discount method (value in use), has a negative value of approximately NIS 24 million. Note that the fair value minus sales costs of Yes's assets for that date amounted to a negative value of approximately NIS 60 million. Therefore, and in accordance with the provisions of IAS36, the recoverable amount of Yes's assets was determined as the value in use or the fair value minus selling costs, whichever is higher, i.e., a negative value of NIS 24 million.	Yes's total enterprise value is negative in the amount of approximately NIS 194 million. In light of the negative enterprise value, the net value of the assets and liabilities of Yes was determined as the fair value or zero, whichever is higher. Accordingly, Bezeq International's recoverable amount was determined, obtained according to fair value minus sales costs of the balance sheet items according to IAS 36 requirements, in a negative amount of about NIS 23 million. Based on the valuation, in 2023, the Group recognized an impairment loss of approximately NIS 87 million.

	Pelephone **Highly material valuation is attached to the Statements as of December 31, 2023**	**Bezeq** **Highly material valuation is attached to the Statements as of December 31, 2023**	**Yes Television and Communication Services Ltd. ("Yes")** **A very substantial valuation as of December 31, 2023** **Attached to Bezeq's financial statements for December 31, 2023.** **See Sections 3.1.1 and 3.1.3 below**	**Bezeq International** **Material valuation as of December 31, 2022 -** **See Section 3.1.1 below**
			Based on the valuation, in 2023, the Group recognized an impairment loss of approximately NIS 204 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, Be'er-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 the Company or Bezeq. Bezeq undertook to indemnify the valuator for damages in excess of three times her fee unless she acted maliciously or through gross negligence.			
Valuation model	The discounted cash flow (DCF) method.	The discounted cash flow (DCF) method.	The discounted cash flow (DCF) method.	In the first stage – value in use was calculated using the discounted cash flow (DCF) method. In the second stage - the fair value of Bezeq International's net assets and liabilities, minus sales costs, as of December 31, 2023, was determined.

	Pelephone Highly material valuation is attached to the Statements as of December 31, 2023	Bezeq Highly material valuation is attached to the Statements as of December 31, 2023	Yes Television and Communication Services Ltd. ("Yes") A very substantial valuation as of December 31, 2023 Attached to Bezeq's financial statements for December 31, 2023. See Sections 3.1.1 and 3.1.3 below	Bezeq International Material valuation as of December 31, 2022 - See Section 3.1.1 below
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 - 11% (after tax). Permanent growth rate - 1% The percentage of the scrap value of the total value determined in the valuation is irrelevant.	Discount rate – 11.5% (after tax). Permanent growth rate - 3% The percentage of the scrap value of the total value determined in the valuation is irrelevant. 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 presented at current value.

3.1. Disclosure regarding valuations (Cont.)

3.1.1 Despite the negative operating value of Yes, Bezeq supports YES by approving credit facilities or investing in Yes' capital (see Note 412.2.2 to the Statements). Bezeq's aforementioned support in Yes 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, 2023, the value of the activity segment "Bezeq" the Israel Telecommunications Corp. Ltd., the activity segment Pelephone Communications Ltd., the activity segment Yes TV and Communications Services Ltd. (Yes) and the Bezeq International Ltd. activity segment amounted to over 25% of its total assets. Accordingly, the valuator is considered a highly material 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 valuation 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 Yes' valuation as of December 31, 2022, which was attached to Bezeq's 2022 statements, the Group examined the actual data in 2023 regarding free cash flows compared to the 2023 forecast that was included in the aforementioned valuation and found that the free cash flows of Yes, according to its 2023 statements, are significantly higher than the forecast in the aforementioned valuation. The gap was mainly due to timing differences in working equity. For more information, see Appendix G in the attached valuation of Yes as of December 31, 2023.

B. Regarding the valuation of Bezeq International as of December 31, 2022, which was attached to the 2022 statements, the Company examined the actual data in 2023 regarding the free cash flows of Bezeq International compared to the 2023 forecast that was included in the aforementioned valuation and found that the free cash flows of Bezeq International, according to its 2023 statements, are higher than the forecast in the aforementioned valuation. The gap resulted mainly from higher revenues due to a lower than forecast ISP customer churn rate and a decrease in revenue-dependent operating expenses.

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 after the reporting period

On January 25, 2024, Bezeq's Board of Directors approved Bezeq's entry into the field of electricity supply and Bezeq's engagement with PowerGen Ltd., a company wholly owned by Generation Capital Ltd., which coordinates the fund's energy activities, in a non-binding memorandum of understanding regarding strategic cooperation and the establishment of a joint venture in the field of electricity supply ("the MOU"). The signing of the aforementioned MOU is in accordance with Bezeq's strategy, which includes finding opportunities for expansion in areas that are tangential and complementary to Bezeq Group's activities, and entry into areas of activity with high growth from Bezeq's core areas while diversifying the portfolio and reducing dependence on regulatory risks.

Regarding additional material events after the date of the Statements - see Notes 32 to the Statements.

4. **Details related to a series of liability certificates**

4.1. The following are data about the Company's debentures in circulation, as of December 31, 2022:

		Series F debentures
A	Issue date (without extensions)	July 6, 2021
B	Total nominal value at the date of issuance (par value)	NIS 393,973,000
C	The nominal value (par value) as of the date of the report	NIS 2,009,766,642
D	The amount of interest accrued as of the date of the report	NIS 6,230,277
E	Fair value as included in the Statements	NIS 1,946,327,424
F	Stock market value	NIS 1,930,782,813
G	Interest type	Fixed at 3.65%
H	Principal payment dates	On November 30, 2026
I	Interest payment dates	On May 31 and November 30 of each year, starting on November 30, 2021 until November 30, 2026.
J	Linkage	Non-linked
K	Total liability in relation to total Company liabilities	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	A3.il rating by Midroog
N	Compliance with the terms of the trust deeds	The Company issued to the trustees of the debentures of series F certificates regarding its compliance with the terms of the debentures for the year 2023.
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 debentures (series F) of the Company.

4.2. On June 19, 2023, Midroog established an A3.il rating with a stable horizon for the Company's Series C and Series F debentures that were in circulation as of that date. In addition, Midroog established an A3.il rating with a stable horizon for additional debentures to be issued by the Company from series F in the amount of up to NIS 550 million by way of series expansion (see immediate report Ref. 2023-01-057163).

4.3. On June 22, 2023, the Company issued to institutional bodies and the public approximately NIS 538 million in Series F debentures for approximately NIS 500 million.

4.4. On July 20, 2023, the Company made a full and final early repayment of NIS 497 million on Series C debentures plus accrued interest until their maturity date.

4.5. On January 11, 2024, Bezeq completed a public offering of debentures (series 11 and 13), by way of expanding the series traded on the stock exchange, according to a shelf offer report dated January 10, 2024, which was published according to a shelf prospectus published on May 9, 2023. In this framework, NIS 567,877,000 par value debentures (series 11) were issued to the public for a total of NIS 539 million and NIS 432,123,000 par value debentures (series 13) for a total of NIS 353 million.

Financial clauses of the Company's debentures

In accordance with the Company's commitment in debenture series F to comply with the LTV clause, the LTV ratio as of December 31, 2023 was 50.8%.

The Company's net debt balance as of December 31, 2023 is approximately NIS 1,884 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 2,016 million, net of cash balances and investments in the amount of NIS 132 million.

5. Miscellaneous

For information regarding the balance of liabilities of the reporting corporation in its financial statements as of December 31, 2023, see the form to be reported by the Company on the MAGNA system on March 13, 2024.

Darren Glatt Chairman of the Board of Directors	Tomer Raved CEO

Date of signing: March 12, 2024.

Chapter C

Consolidated Financial Statements for Year Ended December 31, 2023

Consolidated Statements as of December 31, 2023

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, 2023 and 2022 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, 2023. 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, 2023 and 2022, 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, 2023, 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 1.3 in 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 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 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.

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Measuring the impairment of cash-generating units of Yes Ltd. and Bezeq International Ltd.

Why was the matter determined as a key audit matter

As described in Notes 3.7, 10.2, 10.5 and 10.6 to the consolidated statements, as of December 31, 2023, the recoverable amount of the cash generating units Yes Ltd. and Bezeq International Ltd. (hereinafter: the "Units") is negative in the amount of NIS (24) and (23) million, respectively, and the total loss from the impairment of these units for the year that ended on December 31, 2023 amounts to NIS 291 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 3.7, 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, 2023, and our report dated March 12, 2024 included an unreserved opinion on the effective existence of those components.

Somekh Chaikin
Certified Public Accountants

March 12, 2024

Somekh Chaikin
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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, 2023. 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, 2023.

As described in the report regarding the effectiveness of the internal control over the financial reporting and disclosure, as of December 31, 2023, 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.

Somekh Chaikin
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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, 2023 and 2022 and for each of the three years in the period ending on December 31, 2023 and our report, dated March 12, 2024, 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 12, 2024

Consolidated statements of financial position as of December 31

		2023	2022
Assets	**Note**	**NIS millions**	**NIS millions**
Cash and cash equivalents	4,3.3	**644**	754
Investments	5,3.3	**1,248**	973
Trade receivables	6 ,3.3	**1,477**	1,440
Other receivables	6 ,3.3	**166**	289
Inventory		**82**	85
Total current assets		**3,617**	3,541
Trade and other receivables	6 ,3.3	**446**	460
Right-of-use assets	8 ,3.6	**1,870**	1,746
Property plant & equipment	9 ,3.4	**6,828**	6,542
Intangible assets	10 ,3.5	**3,280**	3,251
Deferred expenses and non-current investments	11	**312**	315
Total non-current assets		**12,736**	12,314
Total assets		**16,353**	15,855

Consolidated statements of financial position as of December 31 (Cont.)

		2023	2022
Liabilities and equity	**Note**	**NIS millions**	**NIS millions**
Debentures, loans and credit	13 ,3.3	**1,074**	921
Current maturities of lease liabilities	8 ,3.6	**433**	456
Trade payables	14	**1,758**	1,598
Employee benefits	16 ,3.8	**332**	399
Provisions	15 ,3.9	**111**	168
Total current liabilities		**3,708**	3,542
Loans and debentures	13 ,3.3	**7,829**	8,257
Lease liabilities	8 ,3.6	**1,608**	1,452
Employee benefits	16 ,3.8	**251**	201
Derivatives and other liabilities		**160**	151
Deferred tax liabilities	7 ,3.12	**322**	319
Provisions	15 ,3.9	**29**	37
Total non-current liabilities		**10,199**	10,417
Total liabilities		**13,907**	13,959
Equity attributed to:			
Shareholders of the Company	20	**189**	54
Non-controlling interests	12.8	**2,257**	1,842
Total equity		**2,446**	1,896
Total liabilities and equity		**16,353**	15,855

Darren Glatt
Chairman of the Board of Directors

Tomer Raved
CEO

Itzik Tadmor
CFO

Date of approval of the financial statements: March 12, 2024

The notes attached to the consolidated statements form an integral part thereof.

Consolidated income statements for the year ended December 31

	Note	2023 NIS millions	2022 NIS millions	2021 NIS millions
Revenues	21 ,3.10	**9,103**	8,986	8,821
Operating expenses				
General and operating expenses	22	**3,381**	3,396	3,265
Salaries	23	**1,926**	1,877	1,888
Depreciation, amortization and impairment	8,9,10,11	**1,867**	1,868	1,889
Other operating expenses (income), net	24	**180**	220	(77)
Total operating expenses		**7,354**	7,361	6,965
Operating profit		**1,749**	1,625	1,856
Financing expenses (income)	25 ,3.11			
Financing expenses		**518**	530	533
Financing income		**(169)**	(132)	(55)
Financing expenses, net		**349**	398	478
Profit before income taxes		**1,400**	1,227	1,378
Income taxes expenses	7 ,3.12	**346**	336	382
Net profit for the year		**1,054**	891	996
Net profit attributable to shareholders of the Company		**187**	158	129
Net profit attributable to non-controlling interests		**867**	733	867
Net profit for the year		**1,054**	891	996
Profit per share (NIS)	27			
Basic		**1.75**	1.42	1.11
Diluted		**1.74**	1.41	1.11

Consolidated statements of comprehensive income for the year ended December 31

	2023 NIS millions	2022 NIS millions	2021 NIS millions
Net profit for the year	**1,054**	891	996
Reassessment of defined benefit plan, net of tax – will not be transferred to income	**18**	56	(1)
Additional other comprehensive income (loss) from hedging, net of tax – will be transferred to income	**(6)**	(6)	37
Total comprehensive income for the period	**1,066**	941	1,032
Attributable to:			
Shareholders of the company	**190**	171	139
Non-controlling interests	**876**	770	893
Total comprehensive income for the period	**1,066**	941	1,032

The notes attached to the consolidated statements form an integral part thereof.

Consolidated statements of changes in equity for the year ended December 31

	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, 2021	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	158	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	-	1	11	12
Business consolidation	-	-	-	-	-	-	1	1
Dividend distributed to non-controlling interests (see Note 12.7)	-	-	-	-	-	-	(392)	(392)
Transaction with non-controlling interests (See Note 12.6)	-	-	-	-	(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**
Profit for the year 2023	**-**	**-**	**-**	**-**	**187**	**187**	**867**	**1,054**
Other comprehensive income (loss) for the year, net of tax	**-**	**-**	**-**	**(2)**	**5**	**3**	**9**	**12**
Total comprehensive profit (loss) for the year 2023	**-**	**-**	**-**	**(2)**	**192**	**190**	**876**	**1,066**
Transactions imputed directly to equity								
Share-based compensation (See Note 26)	**-**	**-**	**-**	**-**	**-**	**-**	**10**	**10**
Dividend distributed to non-controlling interests (see Note 12.7)	**-**	**-**	**-**	**-**	**-**	**-**	**(466)**	**(466)**
Transaction with non-controlling interests (See Note 12.6)	**-**	**-**	**-**	**-**	**(32)**	**(32)**	**(5)**	**(37)**
Buyback of shares (see Note 20)	**-**	**-**	**(23)**	**-**	**-**	**(23)**	**-**	**(23)**
Balance as of December 31, 2023	**12**	**1,495**	**(160)**	**(32)**	**(1,126)**	**189**	**2,257**	**2,446**

(*) Represents an amount lower than NIS 1 million.

The notes attached to the consolidated statements form an integral part thereof.

Consolidated statements of cash flows for the year ended December 31

	Note	2023 NIS millions	2022 NIS millions	2021 NIS millions
Cash flows from current activities				
Profit for the year		**1,054**	891	996
Adjustments:				
Depreciation, amortization and impairment	8,9,10,11	**1,867**	1,868	1,889
Capital gains, net	24	**(2)**	(8)	(175)
Financing expenses, net	25	**364**	445	498
Share-based compensation	26	**10**	12	27
Income taxes expenses	7	**346**	336	382
Change in trade and other receivables	6	**(10)**	342	(229)
Change in inventory		**(15)**	(21)	(19)
Change in trade and other payables	14	**59**	(54)	(41)
Change in provisions	15	**18**	24	(47)
Change in employee benefits	16	**(3)**	(91)	(65)
Change in other liabilities		**23**	18	(5)
Income taxes paid, net		**(269)**	(271)	(385)
Net cash derived from operating activities		**3,442**	3,491	2,826
Cash flows for investing activities				
Purchase of PP&E	9	**(1,333)**	(1,353)	(1,328)
Investment in intangible assets and deferred expenses	10,11	**(375)**	(346)	(363)
Investment transactions, net		**(245)**	223	(164)
Payment in respect of frequencies		**-**	(88)	-
Government grant in respect of frequencies		**-**	74	-
Proceeds from the sale of PP&E		**39**	40	278
Purchase of a subsidiary minus cash purchased		**(14)**	(9)	-
Interest received from bank deposits		**72**	23	8
Miscellaneous		**21**	16	(9)
Net cash used for investing activities		**(1,835)**	(1,420)	(1,578)
Cash flows for financing activities				
Issuance of debentures and receipt of loans	13	**1,015**	400	1,730
Repayment of debentures and loans	13	**(1,409)**	(1,416)	(2,072)
Purchase of non-controlling interests	12	**(37)**	(15)	-
Lease principal and interest payments	8	**(484)**	(420)	(387)
Buyback of Company shares	20	**(23)**	(121)	(16)
Interest paid	13	**(312)**	(307)	(333)
Dividend distributed to non-controlling interests	12	**(466)**	(392)	-
Early repayment fees	13	**-**	(26)	(34)
Payment for completed hedging transactions		**4**	(18)	(30)
Miscellaneous		**(3)**	-	(2)
Net cash used for financing activities		**(1,715)**	(2,315)	(1,144)
Net increase (decrease) in cash and cash equivalents		**(108)**	(244)	104
Effect of changes in foreign currency exchange rate		**(2)**	-	-
Cash and cash equivalents as of January 1		**754**	998	894
Cash and cash equivalents at the end of the year		**644**	754	998

The notes attached to the consolidated statements form an integral part thereof.

1. General

1.1. The reporting entity

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, 2023 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, 2023, the Company owned approximately 27.08% of Bezeq’s issued shareholder capital. As of the date of publication of the statements, the Company owns approximately 27.19% of the issued shareholder capital of Bezeq (see note 12.6).

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, 2023, Searchlight and the Forer Family own 66.24% and 12.54%, 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 2023 (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 the Company and former Chairman of the Bezeq Board of Directors, Mr. Shaul Elovich ("Elovich") regarding the purchase of shares in Yes TV and Communications Services Ltd. ("Yes") and the provision of satellite communication services to Yes, 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. Investigations by the Israel Securities Authority and the Israel Police (Cont.)

Further to a notice from the Tel Aviv District Attorney's Office (Taxation and Economics) dated December 23, 2020 regarding

the consideration to prosecute Bezeq and a summons to a hearing in Case 4000, according to which:

1.3.1.2. In respect of the suspected bribery offenses (an offense under Article 291 of the Penal Law, 5733-1973 along 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, along with Article 23 of the Penal Law, on February 1, 2024, an agreement was signed between the State of Israel (through the Tel Aviv District Attorney's Office (Taxation and Economy)) and Bezeq for a conditional termination of proceedings under the conditions in accordance with Point B of Chapter 91 of the Securities Law ("the Settlement").

In accordance with the Settlement, the State of Israel will not file an indictment in Bezeq's case in connection with any of the suspicions investigated in the investigation file, and this is subject to the suspect fulfilling its obligations according to the settlement as follows: (1) payment of an amount in the amount of NIS 800 thousand; (2) refraining from all A statement that is knowingly inconsistent with or contradicts the Settlement and the facts that Bezeq admitted as part of the Settlement (“Walla”).

As part of the Settlement, the State of Israel also informed Bezeq that it had decided to close the investigation file regarding the company Walla! Communications Ltd. (a company that was fully owned by Bezeq at the times relevant to the suspicions and received a similar notice regarding the consideration of filing an indictment against it for suspicions of the offense of bribery).

As part of the Settlement, Bezeq admitted the facts detailed in the settlement and these are:

A. In the relevant period, between the years 2012 and 2016, Shaul Elovich ("Elovich") was the controlling shareholder of the Bezeq Group. Walla, which during the relevant period was a wholly owned subsidiary of Bezeq, operated the "Walla NEWS!" website.

B. Elovich and other Bezeq representatives worked with the Director General of the Ministry of Communications Shlomo Filber to promote the issue of cancelling the structural separation in the Bezeq Group.

C. On December 22, 2016, Shlomo Filber ("**Filber**") sent Bezeq a letter titled "Cancellation of the structural separation obligation in the Bezeq Group", which was drafted by him in coordination with Bezeq representatives, with the knowledge of Elovich and the CEO of Bezeq at that time, Stella Handler ("**Handler**"). The letter included a misleading detail, according to which the fact regarding the obligation to hold a hearing prior to the cancellation of the corporate separation in Bezeq was omitted, and a misleading representation was made, according to which both the cancellation of the corporate separation and the cancellation of the structural separation are in an advanced stage and have a higher feasibility than in actuality.

D. On December 23, 2016, Bezeq reported in an immediate report to the public about the transmission of the letter and its contents. This report included the misleading detail contained in the Ministry of Communications letter. Elovich and Handler knew that the letter from the Ministry of Communications contained the misleading detail and that it would be reported to the public. The next day, the Ministry of Communications published a clarification according to which the cancellation of the corporate separation will be done after a hearing procedure and subsequently Bezeq published a report clarifying this part of the previous report.

It should be noted that, as appears from the settlement, the suspicions against Bezeq stem from the actions and/or omissions of Elovich and Handler, who were involved in the execution of the acts described in the settlement and who no longer serve at Bezeq.

1.3.1.3. On December 23, 2021, 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 Yes, Or Elovich, Amikam Shurer, Linor Yochelman, Ron Ayalon, and Mickey Neiman in the Yes 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 YES 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 Yes case was closed in the case of Stella Handler.

1.3. Investigations by the Israel Securities Authority and the Israel Police (Cont.)

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 Yes 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.

1.3.1.5. On July 13, 2023, the judgment of the Supreme Court was given in the appeal filed by the State against the aforementioned decision, according to which the State's appeal regarding all the respondents (with the exception of Eurocom Holdings (1979) Ltd.) was accepted and the case was returned to the District Court for further evidentiary investigation

1.3.1.6. As far as YES 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 Yes, 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 launching of the aforementioned investigations, a number of civil legal proceedings were opened against Bezeq and Yes, 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.

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 Company’s Board of Directors on March 12, 2024.

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 and investments in securities 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 material 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, revenue, 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
Provisions and contingent liabilities, including levies	Assessing the chances of claims against the Group companies and measuring the potential liabilities related to the claims	Cancellation or creation of a provision for a claim, recognition of income/expenses and recognition of profit or loss for said change, respectively	Notes 15,17
	Bezeq estimates of the payment to the authorities for levies on real estate in the "Sakia" complex	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 Yes for tax purposes will not be used	Recognition of a deferred tax asset and impact on income taxes 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	Consolidation of Bezeq's statements or treatment of investment in Bezeq using the equity method	Notes 12.4, 12.6

Subject	Key assumptions	Possible implications	Reference
	over the composition and distribution of the other shareholders in Bezeq and the restrictions applicable to these shareholders under the Communications Law		

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. Material 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 profit or loss and other comprehensive income among the shareholders

Profit or loss and any other component of comprehensive income is attributed to the Company's owners and non-controlling interests. The total profit or loss 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.

3.2. Foreign currency transactions

From time to time, the Group enters into transactions with suppliers abroad, mainly in dollar and euro currencies. 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.

At the time of initial recognition, financial assets are classified into one of the following measurement categories: amortized cost; or fair value through income.

The Group's debt instruments held as part of a business model aimed at collecting contractual cash flows in accordance with IFRS 9 mainly include short-term and long-term customers (see Note 6).

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.

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.

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.

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.

Financial assets at fair value through profit and loss are measured in subsequent periods at fair value. Net gains and losses, including interest or dividends revenue, are recognized in income.

3.3.2. **Derivative financial instruments including hedge accounting**

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 income 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.

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. In cases as mentioned, the Group performs economic hedging, and derivative instruments as mentioned are recognized at fair value; The changes in the fair value are immediately credited to the income statement, ***as financing income or expenses***.

3.3.3. **Non-derivative financial instruments**

Non-derivative financial liabilities include: debentures issued by the Group, loans and credit from banking corporations and other credit providers (see Note 13), suppliers and other beneficiaries (see Note 14).

After initial recognition, financial liabilities are measured at amortized cost in accordance with the effective interest method.

Financial liabilities are deducted when the Group's liability, as specified in the agreement, expires or when it is discharged or cancelled.

The value of index-linked financial liabilities, which are not measured according to fair value, is estimated in each period according to the actual increase/decrease rate of the index.

3.3. PP&E

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, contactor costs, and discounted 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.

Most spare parts, auxiliary equipment, and backup equipment are classified as fixed assets when they meet the definition of PP&E, since their useful duration is over a year in accordance with IAS 16.

When significant PP&E parts have different durations, they are treated as separate items (significant components) of the PP&E.

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.

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.

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.

Asset	**Years**
Landline and international network equipment (switching, transmission and power)	-220
Landline network	10-40
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.

3.4. Intangible assets and goodwill

3.4.1. The Group's intangible assets mainly include software and computer licenses and rights to use cellular communication frequencies (see Note 10).

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 the depreciation and amortization item in the income statement 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.

Amortization 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.

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.

3.4.2. 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 that is not currently amortized. Goodwill is examined for impairment at least once a year. See also Note 10.

3.6. Leases

The Group's lease agreements, the Group mainly leases cellular communication sites, buildings, and vehicles.

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.***

Since the interest rate inherent in the lease cannot be easily determined, the Group's additional interest rate is used.

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).

3.6.1. 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.

3.6.2. Variable lease payments

Most of the Group's leasing agreements include lease payments that are linked to the Consumer Price Index. These payments 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.

3.6.3. 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, 2023 (years)
Cellular communication sites	6.3
Structures	16.3
Vehicles	1.8

3.7. Impairment of non-financial assets

The Company performs an impairment test for its cash generating units once a year (see Note 10), or if there are indicators of impairment.

<u>Recoverable amount measurement</u>

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).

<u>Allocation of goodwill to cash generating units</u>

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.

<u>Recognition of an impairment loss</u>

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.

3.7. Impairment of non-financial assets (Cont.)

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.

3.8. Employee benefits

3.8.1. 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 vesting 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.

3.8.1. 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***.

3.8.2. 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 Bezeq 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).

3.9. 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.

3.9.1. 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 a legal 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.

The Group recognizes an indemnity asset only if it is practically certain that the indemnity would be received if the Company eliminates the liability. The amount recognized for the indemnity does not exceed the amount of the provision.

3.10. Revenues

Revenues in the Group are divided according to the activity segments (Note 21) as follows:

- Landline national interior communication - mainly internet services, telephony, transmission and data communication, and others.
- Cellular communication- cellular services and sale of end equipment.
- Multi-channel television
- Internet services (ISP, international communication, and ICT services)

3.10.1. The Group recognizes revenue when the customer obtains control over the promised goods or service. Revenue 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.

When there is a significant financing component in the contract, the **Bezeq 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 revenue 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, ***the Group applies the practical relief stipulated in the standard and does not separate a significant financing component.***

Measuring progress of performance obligation fulfilment

In most types of revenue, the Group recognizes revenue 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.

3.10.2. <u>Contract costs</u>

There are agreements in the group that include supplemental 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. These costs are recognized as an asset when it is expected that the Group will recover these costs.

3.10. Revenues (Cont.)

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 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.

3.11. Financing income and expenses

Financing income mainly includes interest revenue accrued using the effective interest method for the sale of terminal equipment in installments, interest revenue 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.***

3.12. Income taxes expenses

Income taxes expenses include current and deferred taxes. Income taxes expenses are imputed to the income statement or to other comprehensive income if they arise from items that are recognized in other comprehensive income.

<u>Current taxes</u>

The current tax is the amount of tax expected to be paid on the taxable revenue 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.

3.12. Income taxes expenses (Cont.)

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 revenue 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 revenue against which it will be possible to utilize them.

Offsetting deferred tax assets and liabilities

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 revenue 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.

Presentation of tax expenses as part of a cash flow statement

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.

3.13. 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 assembly). In cash flow statements, ***a dividend paid is presented as a financing activity.***

3.14. New standards adopted during the reporting period:

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 policy 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 immaterial.

4. Cash and cash equivalents

Cash and cash equivalents balance as of December 31, 2023 mainly includes deposits in banks for a period of up to 90 days as well as balances in current accounts.

5. Investments

	December 31, 2023	**December 31, 2022**
	NIS millions	**NIS millions**
Shekel deposits in banks (1)	**484**	*789
Investment in securities at fair value through income	**759**	159
Derivatives	**5**	15
Foreign currency deposits in banks (2)	**-**	*10
	1,248	973

* Reclassified

(1) Deposits in shekels in banks, due until December 2024.
(2) Deposits in US dollars in banks, due until March 2024.

6. Trade and other receivables

6.1. Composition of trade and other receivables:

	December 31, 2023	December 31, 2022
	NIS millions	NIS millions
Customers*		
Open debts and checks regarding it	**744**	673
Credit cards	**178**	191
Revenue receivable	**225**	242
Long-term customer current maturities	**329**	333
Relate parties and interested parties	**1**	1
	1,477	1,440
Other receivables and current tax assets*		
Current tax assets	**16**	28
Other receivables	**83**	224
Expenses in advance	**67**	37
	166	289
Long-term customers and other receivables*		
Customers – open debts	**275**	305
Long-term receivables and authorities (mainly for real estate sales)**	**171**	155
	446	460
	2,089	2,189

* 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 2023 are 5.51%-6.29% (in 2022: 2.36%-4.93%).

6.3. Expected exercise dates of long-term customers and receivables:

Expected repayment dates	December 31, 2023
	NIS millions
2025	**206**
2026	**69**
2027 onwards	**171**
	446

6.4. Aging of customer debts as of the reporting date:

	December 31, 2023		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	**1,560**	**(4)**	1,621	(7)
Arrears up to 1 year	**188**	**(24)**	141	(24)
Arrears 1-2 years	**35**	**(18)**	15	(7)
Arears over 2 years	**39**	**(24)**	32	(26)
	1,822	**(70)**	1,809	(64)

6.5. The transactions in the provision for predicted credit losses during the year is as follows:

	2023	2022
	NIS millions	NIS millions
Balance as of January 1	**64**	68
Loss recognized from impairment	**25**	29
Loan-loss	**(19)**	(33)
Balance as of December 31	**70**	64

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 index-linked guarantees in the amount of approximately NIS 131 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. On October 17, 2023, a judgment was issued rejecting the administrative appeal filed by Bezeq against the decision of the Appeals Committee. The Appeals Committee transferred the procedure to a decisive appraiser to determine the amount of the improvement levy, and ILA is liable to indemnify Bezeq in full for the amount of the levy. Accordingly, Bezeq recorded in the financial statements a liability of NIS 45 million for the additional estimated payment for the improvement levy, and at the same time, Bezeq recognized an indemnifying property in the same amount.

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 taxes

7.1. Corporate tax rate

The current taxes for the reporting periods and deferred tax balances as of December 31, 2023 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 Yes, the Tax Authority gave permission for tax purposes to perform a merger of Yes with and into Bezeq, in accordance with the provisions of Article 103b to the Income Tax Ordinance. According to the approval, Yes 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 revenue 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 Yes 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 10, 2023, 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 Yes 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, 2024, as long as there are no material developments in 2024 in regards to the cancellation of the structural separation between Bezeq and Yes.

Bezeq's position submitted to the Tax Authority is that it is entitled to an extension of the Tax Authority's approval in accordance with the terms of the taxation decision, and in any case, 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 in lieu of the aforementioned taxation decision. It should also be noted that Bezeq continues to work with the various regulatory bodies to eliminate the structural separation.

The balance of Yes losses for tax purposes, as of December 31, 2023, amounts to approximately NIS 5.2 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. Yes 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 2018.

7.3. Income taxes expenses

	Year ended December 31		
	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Current tax expenses			
Expenses for the current year	**337**	293	289
Adjustments for previous years	**1**	-	14
Total current tax expenses	**338**	293	303
Deferred tax expenses			
Creating and reversing other temporary differences	**8**	43	42
Creation of deferred taxes for losses for tax purposes from the sale of a subsidiary	**-**	-	37
Total deferred tax expenses	**8**	43	79
Income taxes expenses	**346**	336	382

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 before income taxes	**1,400**	1,227	1,378
Statutory tax rate	**23%**	23%	23%
Income taxes according to the statutory tax rate	**322**	282	317
Expenses that are not recognized for tax and other purposes, as well as losses for which deferred taxes were not incurred, net	**24**	54	65
Income taxes expenses	**346**	336	382

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	Other deferred taxes	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2022	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)**
Changes imputed to income:				
Creation and reversal of temporary differences	**10**	**(6)**	**(12)**	**(8)**
Changes imputed to other comprehensive income	**5**	**-**	**-**	**5**
Balance as of December 31, 2023	**237**	**(542)**	**(17)**	**(322)**

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 Yes. 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 Yes 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 Yes 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, 2022	1,262	1,194	331	2,787
Additions*	111	90	107	308
Subtractions for terminated or canceled agreements	(85)	(17)	(46)	(148)
Balance as of December 31, 2022	1,288	1,267	392	2,947
Additions*	**131**	**299**	**105**	**535**
Subtractions for terminated or canceled agreements	**(91)**	**(16)**	**(107)**	**(214)**
Balance as of December 31, 2023	**1,328**	**1,550**	**390**	**3,268**
Amortizations and impairment losses				
Balance as of January 1, 2022	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, 2022	585	393	223	1,201
Amortization for the year	**177**	**118**	**134**	**429**
Subtractions for terminated or canceled agreements	**(81)**	**(8)**	**(104)**	**(193)**
Changes in agreements and others	**(8)**	**(9)**	**(23)**	**(40)**
Impairment loss	**-**	**-**	**1**	**1**
Balance as of December 31, 2023	**673**	**494**	**231**	**1,398**
Book value				
As of January 1, 2022	752	896	180	1,828
As of December 31, 2022	703	874	169	1,746
As of December 31, 2023	**655**	**1,056**	**159**	**1,870**

* Additions for new agreements, linkage differences, 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, 2022	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
Additions*	**138**	**307**	**130**	**575**
Subtractions	**(10)**	**(8)**	**(3)**	**(21)**
Financing expenses for lease obligations	**21**	**36**	**6**	**63**
Lease payments	**(206)**	**(134)**	**(144)**	**(484)**
Balance as of December 31, 2023	**727**	**1,127**	**187**	**2,041**
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
Balance as of December 31, 2022	784	926	198	1,908
Book value as of December 31, 2023				
Current maturities of lease liabilities	**209**	**115**	**109**	**433**
Long-term lease liabilities	**518**	**1,012**	**78**	**1,608**
Total balance as of December 31, 2023	**727**	**1,127**	**187**	**2,041**

* 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, 2023
	NIS millions
Up to 1 year	**487**
1-5 years	**960**
Over 5 years	**1,083**
Total	**2,530**

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 was delivered in Q2/2023, and the second phase was expected to be delivered in March 2024. The term of the agreement is 15 years, and there are options for extension until 2047.

Following the hosting services agreement with Serverfarm that Bezeq International signed in October 2021, Bezeq International received during the second quarter as mentioned its share of the Bnei Zion server farm property. Bezeq International handles the hosting services agreement as a lease agreement for which Bezeq recorded in its financial statements an asset and a liability in the amount of NIS 197 million.

After the balance sheet date, in January 2024, Bezeq International signed an amendment to the hosting services agreement according to which, as of January 2024, the scope of the lease will be reduced by half of the area and the scope of the electricity supply to which Bezeq International committed in the original agreement. The effect of the amendment to the hosting agreement, which was treated as a leasing amendment, is the amortization of an asset and liability for a lease in the amount of NIS 97 and 104 million, respectively, and the recording of a profit from a lease amendment in the amount of NIS 7 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, 2022	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
Additions	**49**	**212**	**422**	**186**	**121**	**318**	**92**	**1,400**
Subtractions	**(3)**	**(160)**	**(22)**	**(3)**	**(113)**	**(334)**	**(79)**	**(714)**
Balance as of December 31, 2023	**1,360**	**2,791**	**13,153**	**3,735**	**1,341**	**1,795**	**594**	**24,769**
Depreciation and impairment losses								
Balance as of January 1, 2022	1,023	1,664	9,297	2,770	1,311	1,055	629	17,749
Amortization 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)	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
Amortization for the year	**32**	**221**	**187**	**159**	**37**	**328**	**55**	**1,019**
Subtractions	**(2)**	**(160)**	**(22)**	**(7)**	**(110)**	**(320)**	**(77)**	**(698)**
Impairment (cancellation of impairment)	**16**	**6**	**(2)**	**-**	**49**	**1**	**9**	**79**
Balance as of December 31, 2023	**1,105**	**1,529**	**9,633**	**3,083**	**1,205**	**1,017**	**369**	**17,941**
Book value								
As of January 1, 2022	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
As of December 31, 2023	**255**	**1,262**	**3,520**	**652**	**136**	**778**	**225**	**6,828**

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 amounts to approximately NIS 246 million as of December 31, 2023, and approximately NIS 234 million as of December 31, 2022.

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 was 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.

On August 14, 2023, the Minister of Communications approved Bezeq's request from June 4, 2023, in accordance with the provisions of Article 14e of the Communications Law, to impose on it an obligation to deploy an advanced network and provide an internet access service over it, in all incentive areas remaining after the first and second incentive tenders except in the Kfar Aqab area, and this Among other things, in light of Bezeq's compliance with its license conditions. The Bezeq license was amended accordingly (Bezeq's obligation to deploy in approximately 85% of households).

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.

9.8. In 2023, the Bezeq Group wrote off PP&E that were fully depreciated and are not used by Bezeq Group in the amount of approximately NIS 675 million.

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, 2022	3,069	2,779	566	7,479	81	13,974
Purchases or additions from self-development	9	229	-	-	7	245
Subtractions	-	(152)	-	(790)	-	(942)
Balance as of December 31, 2022	3,078	2,856	566	6,689	88	13,277
Purchases or additions from self-development	**-**	**242**	**4**	**-**	***28**	**274**
Subtractions	**-**	**(62)**	**-**	**-**	**-**	**(62)**
Balance as of December 31, 2023	**3,078**	**3,036**	**570**	**6,689**	**116**	**13,489**
Amortizations and impairment losses						
Balance as of January 1, 2022	1,510	2,421	353	6,358	81	10,723
Amortization for the year	-	137	21	-	-	158
Subtractions	-	(152)	-	(790)	-	(942)
Impairment	-	87	-	-	-	87
Balance as of December 31, 2022	1,510	2,493	374	5,568	81	10,026
Amortization for the year	**-**	**147**	**21**	**-**	**-**	**168**
Subtractions	**-**	**(62)**	**-**	**-**	**-**	**(62)**
Impairment (see below)	**-**	**77**	**-**	**-**	**-**	**77**
Balance as of December 31, 2023	**1,510**	**2,655**	**395**	**5,568**	**81**	**10,209**
Carrying amount						
As of January 1, 2022	1,559	358	213	1,121	-	3,251
As of December 31, 2022	1,568	363	192	1,121	7	3,251
As of December 31, 2023	**1,568**	**381**	**175**	**1,121**	**35**	**3,280**

* See Note 12.4.1.

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. Examination of impairment of cash generating units

For the purpose of testing for impairment, the goodwill was attributed to the Group's activity segments as follows:

	December 31, 2023	December 31, 2022
	NIS millions	**NIS millions**
Landline interior communication (Bezeq) (see Note 10.4)	**1,559**	1,559
Other (see Note 12.4.1 and Note 12.3.3)	**9**	9
	1,568	1,568

10.3. Examination of impairment of the cellular communications segment (Pelephone)

Due to the existence of an asset with an indefinite duration (brand), which is attributed to the cellular communication cash-generating unit, the Company examined the recoverable amount of the cellular communication cash-generating unit as of December 31, 2023.

The value in use of the cellular communication cash-generating unit as of December 31, 2023 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 revenue forecast is based on assumptions regarding the status of Pelephone subscribers, the average revenue per subscriber and the volume of end equipment sales. The operating expenses and the level of investments have been adjusted to the projected scope of Pelephone's activities.

The nominal discount rate used in the valuation is 11.25% after tax (14% before tax). In 2022 the discount rate was 10% after tax (12.4% before tax). Also, a permanent growth rate of 1.5% was assumed (in 2022 - 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 revenue 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 268 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 469 million).

The valuation was conducted by an external valuator. Based on the valuation as explained above, Pelephone's enterprise value amounted to approximately NIS 2,343 million, compared to the value in the Company's books of NIS 1,400 million. Therefore, the Company was not required to carry out an amortization in respect of the impairment of the cellular communication cash-generating unit.

10.4. Examination of impairment of landline interior communication goodwill (Bezeq)

The balance of goodwill attributed to the landline interior communication cash-generating unit in the Company's books is NIS 1,559 million. Therefore, the Company examined the recoverable amount of the landline interior communication cash-generating unit as of December 31, 2023.

The value in use 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 Bezeq'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 revenue 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 Bezeq's retail telephony services), growth in revenue 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 revenue from data communication and transmission (due to an expected decrease in transmission revenue from ISP companies and despite an expected consistent growth in revenue from data communication services), and moderate growth in cloud and digital revenue. The operating, sales, marketing and investment expenses were adjusted to the scope of the sector's activity and included assumptions regarding the status of Bezeq's employees and the wage and retirement expenses derived from them and assumptions regarding the rate of deployment of the fiber infrastructure.

The nominal discount rate used in the valuation is 9% after tax (before tax 11.4%). In 2022 the discount rate was 8% after tax (before tax 10.5%). Also, a permanent growth rate of 1% was assumed (in 2022 - 1%).

The valuation was conducted by an external valuer. Based on the valuation as explained above, Bezeq's enterprise value amounted to approximately NIS 16,467 million, compared to the value in the Company's books in the amount of NIS 10,760 million. therefore the Company 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 (Yes)

At the end of 2023, Yes updated its forecasts for the following years, paying attention to the trends and changes in its operation environment. The value in use of the multi-channel TV cash-generating unit as of December 31, 2023 was calculated using the method of discounting future cash flows (DCF), based on the Yes cash flow forecast up to and including the year 2028, and with the addition of scrap value (representative year). The nominal discount rate used in the valuation is 11% after tax (12.5% before tax) (in 2022 - 10% before and after tax). Likewise, a permanent growth rate of 1% was assumed (in 2022 - 1%).

The cash flow forecast was based, among other things, on Yes’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 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) accordingly. In addition, a gradual replacement of the satellite converters with IP converters was also assumed. As stated above, the forecast period reflects the period of transition from satellite transmission to the distribution of broadcasts based on the Internet until fully leaving the satellite.

Also, the forecast includes a deepening of Yes’s activity in the sale of combined television and internet packages. 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. It should be noted that the actual implementation of the outline is and will be carried out while constantly examining the conditions of the market, the competition, and the technological environment and making the necessary adjustments as a result.

As of December 31, 2023, the Yes’s enterprise value under the cash flow discounting approach is higher than the fair value of Yes’s assets and liabilities, net, and is therefore determined as the basis for determining Yes's recoverable amount.

It should be noted that the assessment of the value in use is sensitive to the net cash flow in the representative year in general, and to the assessment of the ARPU (average revenue per subscriber) level and the subscriber base 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 enterprise value in the amount of approximately NIS 60 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 80 million).

10.5. Impairment of the multi-channel TV segment (Yes) (Cont.)

The following are details regarding the value of Yes's activities and the fair value of the assets and liabilities, net as determined by an external valuator, and recognized impairment losses:

	Yes enterprise value (according to the DCF method)	Fair value of Yes assets and liabilities, net	Book value of Yes assets and liabilities, net before recognition of impairment	Impairment loss
	NIS millions	NIS millions	NIS millions	NIS millions
As of December 31, 2023 and for the period of three months that ended on that date	**(24)**	**(60)**	**16**	**(40)**
As of September 30, 2023 and for the period of three months that ended on that date (unaudited)	(131)	(51)	(14)	(37)
As of June 30, 2023 and for the period of three months that ended on that date (unaudited)	(129)	(85)	(27)	(58)
As of March 31, 2023 and for the period of three months that ended on that date (unaudited)	(159)	(145)	(76)	(69)
Total impairment recognized in 2023				**(204)**
As of December 31, 2022 and for the year that ended on that date	(103)	(88)		(275)

As of December 31, 2023, Yes's enterprise value under the cash flow discounting approach is higher than the fair value of Yes's assets and liabilities, net, and is therefore determined as the basis for determining Yes's recoverable amount.

It should be noted that the valuation of Yes'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 revenue 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 60 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 75 million).

10.5 Impairment of the multi-channel TV segment (Yes) (Cont.)

Below is a breakdown of the allocation of impairment loss to Yes's assets:

	2023	2022	2021
	NIS millions	**NIS millions**	**NIS millions**
Broadcast rights - minus used rights *	**103**	149	146
PP&E **	**62**	76	91
Intangible assets **	**37**	45	48
Other receivables (advance expenses) *	**(1)**	3	4
Rights-of-use of leased properties **	**3**	2	(1)
Total impairment recognized in the year	**204**	275	288

* The expense was presented as part of General and operating expenses
** The expense was presented as part of depreciation, amortization, and impairment expenses.

The following is information regarding the manner in which the Group determined the fair value (at level 3) of the 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.

10.5. Impairment of the multi-channel TV segment (Yes)

Intangible assets - No substantial fair value was assigned to YES's intangible assets, since most of the software and licenses of Yes were uniquely adapted to Yes 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 Yes for the maintenance of its systems, since most of the maintenance agreements were uniquely adapted to Yes and therefore have no substantial value in a transaction between a willing buyer and a willing seller.

10.6. Impairment of the Internet and international communication services and ICT solutions segment (Bezeq International)

At the end of 2023, 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, 2023 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 2023, and with the addition of scrap value (representative year). The nominal discount rate used in the valuation is 11.5% (after and before tax) (10.3% in 2022). Also, a permanent growth rate of 3% was assumed (3% in 2022).

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 revenue forecast is based on assumptions according to which Bezeq International's Internet subscriber base, as well as its revenue 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 Yes 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%).

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 enterprise value as of December 31, 2023 amounted to a negative amount of approximately NIS 194 million (as of December 31, 2022 a total negative enterprise value of NIS 166 million). In light of the negative enterprise value, the value of Bezeq International's non-current assets as of December 31, 2023 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, 2023 is negative in the amount of approximately NIS 23 million. Accordingly, the Group recognized in 2023 an impairment loss in the amount of approximately NIS 87 million.

10.6. Impairment of the Internet, international communication, network endpoint, and ICT solutions services segment (Bezeq International) (Cont.)

The following are details regarding Bezeq International's enterprise value 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, 2023 and for the period of three months that ended on that date	**(194)**	**(23)**	**7**	**(30)**
As of September 30, 2023 and for the period of three months that ended on that date (unaudited)	(162)	(4)	11	(15)
As of June 30, 2023 and for the period of three months that ended on that date (unaudited)	(162)	(27)	(6)	(21)
As of March 31, 2023 and for the period of three months that ended on that date (unaudited)	(162)	(5)	16	(21)
Total impairment recognized in 2023				**(87)**
As of December 31, 2022 and for the year that ended on that date	(166)	(22)		(104)

The following is a breakdown of the allocation of the total loss from the impairment in Bezeq International's assets:

	2023	2022	2021
	NIS millions	NIS millions	NIS millions
PP&E and intangible assets **	**57**	71	75
Short- and long-term advance expenses *	**17**	21	28
Rights-of-use of leased vehicle assets **	**1**	-	2
Long-term advance expenses for capacities **	**12**	12	17
Total impairment recognized in the year	**87**	104	122

* The expense was presented as part of General and operating expenses.

** The expense was presented as part of depreciation, amortization and impairment expenses.

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 Bezeq International 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.

10. Deferred expenses and non-current investments

	December 31, 2023	December 31, 2022
	NIS millions	NIS millions
Subscriber acquisition asset, net (see Note 11.1 below)	**166**	156
Investment in long-term bank deposits	**8**	27
Deferred expenses (see Note 11.2 below)	**15**	13
Bank deposit used to provide loans to Bezeq employees (see Note 11.3 below)	**32**	33
Derivative instruments	**31**	29
Broadcasting rights	**60**	57
	312	315

11.1. The following is a breakdown of subscriber acquisition assets:

	Subscriber acquisition assets
	NIS millions
Cost	
Balance as of January 1, 2022	479
Additions	127
Subtractions	(234)
Balance as of December 31, 2022	372
Additions	**132**
Subtractions	**(153)**
Balance as of December 31, 2023	**351**
Depreciation and impairment losses	
Balance as of January 1, 2022	328
Depreciation	122
Subtractions	(234)
Balance as of December 31, 2022	216
Depreciation	**122**
Subtractions	**(153)**
Balance as of December 31, 2023	**185**
Book value	
As of January 1, 2022	151
As of December 31, 2022	156
As of December 31, 2023	**166**

11.2. The balance of deferred expenses 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, 2023:

Bezeq the Israel Telecommunications Corp. Ltd.

Companies consolidated by Bezeq:

Pelephone Communications Ltd

Yes TV and Communications Services Ltd. (Yes) (see Note 12.2 below)

Bezeq International Ltd. (see Note 12.3 below)

Bezeq Online Ltd.

12.1.2. As of October 11, 2022, 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 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 Yes, and the ICT activity of Bezeq International to spin off into a new company wholly owned by Bezeq ("the merger/spin-off plan"), the Bezeq Board of Directors and the boards of Bezeq International and Yes decided, on March 16, 2022, 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 Yes 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, including, among other things, adapting the activity to the structure of the industry and the changing regulation, focusing on increasing revenue and growth, and increasing operational synergy and streamlining.

According to the alternative outline, Bezeq expects that the business objectives that were the basis of the spin-off/merger plan will be achieved, as Yes 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, the 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.

In June 2022, Yes received, following its request to the Ministry of Communications, a special license for Internet access services (ISP) and it began providing such services while focusing on selling combined Internet and TV plans to customers.

12.2. Yes TV and Communications Services Ltd. (Yes)

12.2.1. Yes is a wholly owned (100%) subsidiary of Bezeq. Bezeq consolidates the statements of Yes as of March 23, 2015.

Bezeq has an assessment agreement and taxation decision with the Tax Authority regarding financing income, owner loans, Yes losses and merger (see also Note 7.2).

12.2.2. As of December 31, 2023, Yes has accumulated a loss balance of NIS 8,134 million since its establishment, shareholder's equity balance of NIS 73 million, and a working equity deficit of NIS 150 million. Also, as of December 31 2023, Yes has off-balance sheet commitments in the cumulative amount of approximately NIS 938 million for the purchase of space segments, content, fixed assets and other assets up to and including the year 2027 (see Note 18).

Based on the valuation conducted as of December 31, 2023, Yes's total enterprise value is a negative value in the amount of approximately NIS 24 million (compared to a negative enterprise value of NIS 103 million as of December 31, 2022) (see Note 10.5), which results, among other things, from Yes's forecasts to continue accumulating operating losses in 2024 and beyond.

In March 2024, Bezeq's Board of Directors approved a credit facility or investment in Yes's equity in the amount of NIS 40 million, for a period of 15 months, starting on January 1, 2024 and ending on March 31, 2025, instead of previous commitments, the last of which was given in November 2023. It should be noted that during the year 2023, Yes did not make any use of the credit facilities provided by Bezeq.

Yes'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 Yes's operations until December 31, 2024.

12.2.3. See Note 10.5 regarding the impairment of assets recognized by Yes as part of the statements as of December 31, 2023.

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 has reduced the number of subscribers who do not use ISP services, and it is expected to bring about further reduction in next years.

The move, which is expected to continue 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, 2023.

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. Pelephone Ltd.

As part of Pelephone's activities and preparation for global trends in the roaming services market, which include, among other things, a more widespread use of eSIM technology in these services, on October 18, 2023, Pelephone’s Board of Directors approved the acquisition of full ownership in the company "Roamability", which specializes in providing solutions in the global roaming services market, including wholesale, and including the provision of a platform for managing and selling these services. Pelephone has completed the purchase of 100% of the control and ownership rights in Roamability (an American company and an Israeli company) in exchange for an amount that is immaterial at the Bezeq Group level. As of the date of publication of the consolidated financial statements, the surplus cost allocation (PPA) work has not yet been completed.

12.5. 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 Israeli institutional entity that wishes to increase its holding to over 7.5% 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.

12.6. Purchase of additional Bezeq shares by the Company

12.6.1. On December 28, 2022, the Company purchased 2,530,000 ordinary shares of the Bezeq subsidiary in a total amount of about NIS 15 million and at an average price of NIS 5.95 per share.

12.6.2. During the second quarter of 2023, the Company purchased 7,807,995 ordinary shares of the Bezeq subsidiary for a total amount of approximately NIS 37 million and at an average price of NIS 4.71 per share.

12.6.3. On January 31, 2024, after the balance sheet date, the Company purchased 3,120,000 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 4.82 per share.

After the aforementioned purchase and as of the date of the Statements, the Company owns 27.19% of the issued share capital and voting rights in Bezeq.

12.7. Dividend distribution by Bezeq

12.7.1. Bezeq’s dividend distribution policy

On March 12, 2024, Bezeq’s Board of Directors decided to update Bezeq's dividend policy so that Bezeq will distribute every six months 70% of the semi-annual profit (after tax) according to its consolidated statements starting with the next distribution (for the second half of 2023), 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 increase its dividend policy in the future, 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 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.

12.7.2. Dividends distribution

A. On April 20, 2023, the general assembly of Bezeq's shareholders approved (following the recommendation of Bezeq’s Board of Directors of March 13, 2023) the distribution of a cash dividend to Bezeq's shareholders in the total amount of NIS 246 million (which, as of the day determining the distribution, is NIS 0.088922 per share). The dividend was paid on May 11, 2023. The Company's share of the aforementioned dividend is approximately NIS 66 million.

B. On September 14, 2023, the general assembly of Bezeq's shareholders (following the recommendation of Bezeq’s Board of Directors of August 8, 2023) approved the distribution of a cash dividend to Bezeq's shareholders in a total amount of NIS 392 million (which, as of the day determining the distribution, is NIS 0.1416805 per share). The dividend was paid on October 11, 2023. The Company's share of the aforementioned dividend is approximately NIS 106 million.

C. On March 12, 2024, Bezeq's Board of Directors decided to recommend to the general assembly of Bezeq's shareholders to distribute a cash dividend to Bezeq's shareholders in the total amount of NIS 374 million. As of the date of approval of the statements, the aforementioned dividend had not yet been approved by Bezeq's general assembly. The expected share of the Company in the aforementioned dividend (if approved by Bezeq’s general assembly) is about NIS 102 million.

12.8. 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	**72.92**	**3,489**	**11,429**	**3,678**	**8,260**	**2,980**	**2,257**
2023	73.19	3,464	10,988	3,534	8,512	2,406	1,842

	Year ended December 31					
	Revenues	Net profit	Other comprehensive income	Comprehensive income	Profit attributed to non-controlling interests	Comprehensive income attributed to non-controlling interests
	NIS millions					
2023	**9,103**	**1,189**	**12**	**1,201**	**867**	**876**
2022	8,986	1,000	50	1,050	733	770
2021	8,821	1,182	36	1,218	867	893

	Year ended December 31				
	Cash flow from current operations	Cash flow from investing activities	Cash flow from financing activities (without dividend to non-controlling interests)	Dividend to non-controlling interests	Total increase (decrease) in cash and cash equivalent
			NIS millions		
2023	**3,440**	**(1,835)**	**(1,715)**	**(466)**	**(576)**
2022	3,503	(1,585)	(1,758)	(392)	(232)
2021	2,839	(1,646)	(1,060)	-	133

13. Debentures, loans and credit

13.1. Composition

	December 31, 2023	December 31, 2022
	NIS millions	NIS millions
Current liabilities		
Current debenture liabilities	**842**	835
Current loan liabilities	**232**	86
	1,074	921
Non-current liabilities		
Debentures	**5,823**	6,121
Loans	**2,006**	2,136
	7,829	8,257
Total debentures, loans and credit	**8,903**	9,178

13.2. Terms of Debentures and loans

	December 31, 2023		December 31, 2022		
	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	**799**	**799**	707	706	3.2% - 4.95%
Unlinked loans, bearing variable interest	**699**	**700**	698	700	Prime+ 0.11% - Prime+0.53%
Total banks loans at Bezeq	**1,498**	**1,499**	1,405	1,406	
Loans from financial institutions at Bezeq:					
Unlinked loans, bearing fixed interest	**740**	**740**	817	817	3.22%-4%
Total financial institutions loans of Bezeq	**740**	**740**	817	817	
Total loans in Bezeq	**2,238**	**2,239**	2,222	2,223	
Public debentures of the Company:					
Series C – unlinked, bearing fixed interest	-	-	480	497	3.85%
Series F – unlinked, bearing fixed interest	**1,940**	**2,010**	1,425	1,472	3.65%
Total public debentures of the Company	**1,940**	**2,010**	1,905	1,969	
Public debentures of Bezeq:					
Series 9 - unlinked, bearing fixed interest	**1,073**	**1,065**	1,616	1,597	3.65%
Series 10 - linked to the consumer price index, bearing fixed interest	**593**	**529**	861	794	2.2%
Series 11 - unlinked, bearing fixed interest	**839**	**835**	838	835	3.2%
Series 12 - linked to the consumer price index, bearing fixed interest	**1,378**	**1,269**	1,330	1,269	1.7%
Series 13 - unlinked, bearing fixed interest	**380**	**430**	198	200	2.79%
Series 14 - linked to the consumer price index, bearing fixed interest	**462**	**478**	208	200	0.58%
Total public debentures of Bezeq	**4,725**	**4,606**	5,051	4,895	
Total debentures	**6,665**	**6,616**	6,956	6,864	
Total loans and debentures	**8,903**	**8,855**	9,178	9,087	

13.2.1. On January 11, 2024, Bezeq completed a public offering of debentures (series 11 and 13) by way of expanding series traded on the stock exchange, according to a shelf offer report dated January 10, 2024, which was published according to a shelf prospectus published on May 9, 2023. In this framework, NIS 567,877,000 par value debentures (series 11) were issued to the public for a total of NIS 539 million and NIS 432,123,000 par value debentures (series 13) for a total of NIS 353 million.

13.3. Debentures issued by the Company

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.

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 removed from the stock exchange clearinghouse and deleted from the trading cycle.

On June 22, 2023, the Company issued to institutional entities and the public approximately NIS 538 million in series F debentures for approximately NIS 500 million net (after issuance expenses). The net proceeds of the issuance of the series F debentures were used by the Company for early full and final repayment of the balance of Series C debentures (plus accrued interest until vesting) on July 20, 2023.

In accordance with the terms of debentures series C and F, the Company undertook to deposit semi-annual interest for the various debenture series in an escrow account for the benefit of the bondholders. As of December 31, 2023, approximately NIS 36 million are deposited in the trust accounts for the benefit of the holders of Series C debentures.

As of December 31, 2023, the remaining par value of the series C debentures is NIS 497 million and the remaining par value of the series F debentures is NIS 2,010 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 will not cross the 75% threshold from December 1, 2023 until the date of the last debenture principal payment.

As of December 31, 2023, 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 70% for series F debentures.

C. Lien on Bezeq shares:
Series F debentures have a 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.

13.3. 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:

13.3.1. 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.

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.

13.3.2. In relation to Bezeq's public debentures, to loans from banks whose balance as of December 31, 2023 is approximately NIS 1.5 billion, and to loans from financial institutions whose balance as of December 31, 2023 is approximately NIS 0.7 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).

13.3.3. In relation to Bezeq's public debentures, as well as in relation to loans from financial institutions in the amount of approximately NIS 0.7 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.

13.3.4. 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.

13.3.5. In relation to debentures from Series 9-14, as well as in relation to loans from financial institutions in the amount of approximately NIS 0.7 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.

13.3.6. In addition to Series 9-14 debentures, and in relation to loans from financial institutions amounting to approximately NIS 0.7 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, 2023 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.

13.4. 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, 2022	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 derived 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
Changes as a result of cash flows from financing activities			
Proceeds from issuing debentures and receiving loans, minus transaction costs	**915**	**100**	**1,015**
Repayment of debentures and loans	**(1,326)**	**(83)**	**(1,409)**
Interests paid	**(219)**	**(93)**	**(312)**
Total net cash used for financing activities	**(630)**	**(76)**	**(706)**
Financing expenses imputed to the income statement	**336**	**98**	**434**
Balance as of December 31, 2023	**6,682**	**2,253**	**8,935**

14. Trade payables

	December 31 , 2023	December 31 , 2022
	NIS millions	NIS millions
Suppliers		
Open debts and expenses payable *	**894**	903
Total suppliers	**894**	903
Liabilities to employees and other liabilities for wages and salaries	**373**	367
Deferred revenue	**224**	171
Institutions	**95**	92
Derivate instruments	**4**	1
Accrued interest	**32**	29
Current tax liabilities	**72**	12
Others	**64**	23
Total current payables including derivatives	**864**	695
Total and current trade payables	**1,757**	1,598
Deferred revenue due to a government grant **	**47**	53
Deferred revenue	**92**	76
Derivatives	**3**	-
Others	**18**	22
Total non-current payables	**160**	151
Total current and non-current trade payables	**1,917**	1,749

* Of which the balance of suppliers who are related parties and interested parties as of December 31, 2023 is NIS 1 million (as of December 31, 2022 - NIS 2 million).
** See Note 10.1.

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, 2023	87	75	43	205
Provisions created	**14**	**21**	**2**	**37**
Provisions exercised	**(16)**	-	-	**(16)**
Provisions cancelled	**(1)**	**(75)**	**(10)**	**(86)**
Balance as of December 31, 2023	**84**	**21**	**35**	**140**
Presented in the statement on the financial position as follows:				
Current provisions	**84**	**21**	**6**	**111**
Non-current provisions	-	-	**29**	**29**
Total	**84**	**21**	**35**	**140**

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

		2023	2022
	Note	NIS millions	NIS millions
Current liabilities for:			
Vacation		**109**	108
Sickness	16.4	**112**	114
Provision for early retirement plan at Bezeq	16.5.1	**66**	93
Provision for early retirement of employees transferred from working for the State at Bezeq	16.5.2	**-**	10
Provision for streamlining and early retirement plan at Pelephone, Bezeq International, and Yes	16.5.3-16.5.5	**38**	67
Current maturity of benefits for retirees	16.3.3	**7**	7
Total current liabilities for employee benefits		**332**	399
Non-current liabilities for:			
Provision for amendment of employee agreement	16.1.1	**70**	-
Liabilities for benefits to retirees	16.3.3	**102**	107
Severance pay, net (see composition below)	16.3.1	**50**	52
Early notice and pension	16.3.2	**29**	28
Provision for streamlining and early retirement plan at Pelephone, Bezeq International, and Yes	16.5.3	**-**	14
Total non-current liabilities for employee benefits		**251**	201
Total liabilities for employee benefits		**583**	600
The following is the composition of the liability for severance pay:			
Liability for severance pay		**200**	201
Fair value of plan assets		**(105)**	(149)
		50	52

16.1.1. On August 6, 2023 and on August 8, 2023, the Audit Committee of the Bezeq Board of Directors and the Bezeq Board of Directors (respectively) approved an amendment to the collective agreement between Bezeq and the Employees Organization and the Histadrut (“the Amendment"). The Amendment states, among other things, that a special bonus will be paid to Bezeq employees in the amount of NIS 75 million, for past services, most of which is conditional on the dates and conditions stipulated in the agreement depending on the change in the percentage of holdings of the current control permit holders in Bezeq (or the expiration/cancellation/transfer of the control permit) ("the Conditions"). The Amendment to the agreement was approved by the general assembly of Bezeq's shareholders on September 14, 2023. As a result of the signing and approval of the Amendment to the agreement, Bezeq recorded a one-off provision of NIS 75 million for the full amount of the special grant. During the month of December 2023, Bezeq paid approximately NIS 5 million as part of the agreement.

16.2. Defined deposit plans

Lability for benefits for employees of retirement age for their period of service in Bezeq 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.

	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Deposits recognized as an expense for a defined deposit plan	**220**	211	218

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 Note 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 sick leave

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 2021, 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 13, 2023, Bezeq's Board of Directors approved, as part of the implementation of Bezeq's streamlining plan, the retirement of approximately 50 permanent and veteran employees on an early retirement track at a total cost of up to approximately NIS 55 million. In light of the above, Bezeq recorded in its statements for Q4/2023 an expense of approximately NIS 55 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.

In 2023, the Group recognized expenses in the amount of approximately NIS 7 million in respect of retirement expenses.

16.5.4. Labor relations at Bezeq International are regulated by a collective agreement signed between Bezeq International and the New General Workers' Union ("Histadrut") and the Workers' Committee at Bezeq International. The agreement applies to all Bezeq International employees, with the exception of senior managers and certain employees in pre-defined positions.

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 additional rights. In 2023 and 2022, the Group recorded voluntary retirement expenses of approximately NIS 12 million and approximately NIS 62 million, respectively.

16.5.5. Yes 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, 2023 is approximately NIS 3 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 2023-9-18 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, 2023	December 31, 2022
	Average discount rate	Average discount rate
Severance pay	**5.9%**	5.2%
Retiree benefits	**5.6%**	5.2%

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 2024 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 Yes	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 4%.

16.6.5. Detailed weighted average duration of liabilities for key post-employment benefits:

	December 31, 2023	December 31, 2022
	Years	Years
Severance pay	**11**	11
Retiree benefits	**13**	14

16.6 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, 2023	December 31, 2022
	NIS millions	NIS millions
Discount rate - 0.5% addition	**(18)**	(20)
Future salary increase rate - 0.5% addition	**20**	22
Employee turnover rate - 5% addition	**14**	5
Mortality rate assumption - 5% increase	**(2)**	(2)

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, 2023, 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 1.8 billion. In addition, there is additional exposure in the amount of approximately NIS 2.6 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.

17.1. The following is a description of the contingent liabilities of the Group in effect as of December 31, 2023, 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.	**84**	**1,701**	**787**
Enterprise and company claims	Lawsuits in which liability of the Group companies is claimed in connection with their operation and/or investments.	**(2) 20**	**68**	**(1) 1,808**
Claims by employees and former employees of the group companies	Mainly individual claims filed by employees and former employees of the Group concerning various payments.	**-**	**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, suppliers, etc.	**1**	**23**	**4**
Total lawsuits against the Company and the consolidated companies[3]		**105**	**1,794**	**2,599**

(1) Including 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 Yes's 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, 2024.

(2) On May 23, 2023, the Company signed a settlement agreement in the amount of approximately USD 5.5 million in respect of two motions for the approval of class actions filed in June 2017, among other things, against the Company, Bezeq, officers in the Bezeq Group, as well as companies from the then controlling group of the company and Bezeq regarding the purchase transaction of Yes shares By Bezeq from Eurocom DBS Ltd. The settlement amount does not include offsetting the insurance company's participation by virtue of the officers' insurance.

At this stage, the settlement agreement has been submitted to the District Court in Tel Aviv (Economic Department) for approval, and it is uncertain that it will be approved. To the extent that the settlement agreement is approved, this will end the involvement of the Company and Shaul Elovich (only in his capacity as controlling shareholder and former Chairman of the Company's Board of Directors) and Or Elovich (in his capacity as a former director in the Company only) in the motions for approval.

The provision in the Company's books for the aforementioned settlement minus the expected receipt from the insurance company in the amount of approximately NIS 19 million was credited to other expenses in the income statement in the second quarter of 2023.

(3) In addition, see Note 6.6.

18. Contracts

18.1. Yes is bound by agreements for the purchase of space segments (as detailed in Note 18.2 below), content and copyrights, until the end of 2027 onwards. The amounts of future contracts as of December 31, 2023 are as follows:

	Space segments	**Content and copyrights**	**Total**
Year ended December 31	**NIS millions**	**NIS millions**	**NIS millions**
2024	**91**	**225**	**316**
2025	**69**	**124**	**193**
2026	**11**	**87**	**98**
2027	**-**	**88**	**88**
	171	**524**	**695**

18.2. According to an agreement with Space Communications Ltd. (hereafter - "Space") from 2013, as amended (including an amendment from January 2023), Yes leases space segments in "Amos" series satellites (hereafter - "Space Agreement").

In accordance with the provisions of the Space Agreement, Yes 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 Yes until February 2025 (or until the end of its life, whichever is earlier).

Leased space segments - according to the Space Agreement, and subject to unavailability events, until the end of the "Amos 7" lease period, Yes 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 Yes 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, 2023, Pelephone 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. As of the reporting date, Pelephone is in the process of extending the contract agreement for another year until March 31, 2025.

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. During the first quarter of 2023, Bezeq International signed a new agreement for the purchase of capacity usage rights service for a period of 10 years with the supplier. 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 11.7 million (in 2021 - USD 5.9 million).

18.6. The Bezeq Group companies have contracts for December 31, 2023 for the purchase of end equipment, PP&E, intangible assets and other assets in the amount of approximately NIS 448 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, Yes, and Bezeq International are obligated to pay a rate of 0.5% of their annual revenue 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. On July 31, 2023, the Communications Order (Bezeq and Broadcasting) (Rate of Annual Payment to the Incentive Fund) (Provisional Order), 5783-2023 was published, according to which, following the examination carried out by the Ministry of Communications, it was determined within the framework of a provisional order, that in 2023 the payment rate of the entities liable to the incentive fund will be at a rate of 0% instead of 0.5%. Further to the provisional order, there will be a decrease of approximately NIS 40 million in the Group's expenses in 2023 compared to 2022.

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 132 million (of which approximately NIS 59 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 NIS 220 million (including a guarantee in the amount of approximately NIS 131 million 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, unless the consent of the Minister of Communications has been given under the terms determined by him, 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, as long as the licensee is obligated to provide these services under the provisions of 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 Yes's 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 Yes 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 Yes 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. Shareholders' equity

Ordinary shares NIS 0.1 par value each

	Ordinary shares	
	December 31, 2023	**December 31, 2022**
Registered share capital	**300,000,000**	300,000,000
Issued and paid up share capital	**116,335,793**	116,335,793
Treasury shares	**(10,673,530)**	(9,080,317)
Issued and paid up share capital, net	**105,662,263**	107,255,476

20.1.1. During the year 2022, the Company purchased a total of 7,603,514 of its shares as part of buyback plans for a total amount of approximately NIS 121 million.

20.1.2. On August 8, 2023, the Company's Board of Directors approved a buyback plan of the Company's shares up to NIS 30 million. As part of the aforementioned buyback plan, the company purchased 1,593,213 of its shares for approximately NIS 23 million.

20.1.3. On March 12, 2024, the Company's Board of Directors approved an additional purchase plan of the Company's shares in the amount of up to NIS 25 million, which will begin on March 17, 2024 and end: (1) upon purchase in the amount of 25 million NIS; or (2) on June 30, 2024, whichever is earlier.

20.1.4. As of December 31, December 2023, Searchlight and the Forer family about 66.24% and 12.54%, respectively, of the Company's issued and paid-up share capital.

21. Revenues

	Year ended December 31		
	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Landline national interior communication - Bezeq Fixed Lines			
Internet - infrastructure	**1,907**	1,729	1,562
Data transmission and communication	**974**	897	844
Landline telephony	**632**	762	891
Cloud and digital services	**349**	331	318
other services	**295**	261	230
	4,157	3,980	3,845
Cellular communication - Pelephone			
Cellular services and end equipment	**1,724**	1,755	1,606
Sale of end equipment	**585**	604	643
	2,309	2,359	2,249
Multi-channel TV - Yes	**1,308**	1,277	1,270
Internet services (ISP) and international communication services and ICT solutions - Bezeq International	**1,139**	1,183	1,186
Others	**190**	187	271
	9,103	8,986	8,821

21.1. Contract with customer recognized 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). It should be noted that as of the reporting date, Partner insists on exercising the right of use to the extent of approximately 80%.

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 practice, Partner has already implemented the first 4 tranches in 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		
	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Connectivity and payments to communication operators in Israel and abroad	**762**	743	717
End equipment and materials	**825**	782	803
Content costs	**530**	567	553
Marketing and general	**439**	539	546
Structure and site maintenance	**257**	247	238
Services and maintenance by subcontractors	**504**	454	348
Vehicle maintenance*	**64**	64	60
	3,381	3,396	3,265

* General and operating expenses are presented minus expenses charged in 2023 to investments in PP&E and intangible assets in the amount of NIS 51 million (approximately NIS 51 million in 2022 and approximately NIS 49 million in 2021).

23. Salaries

	Year ended December 31		
	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Total salaries and related expenses	**2,468**	2,395	2,416
Share-based compensation	**10**	12	27
Minus salaries credited to investments in PP&E and intangible assets	**(552)**	(530)	(555)
	1,926	1,877	1,888

24. Other operating expenses (income), net

	Year ended December 31		
	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Capital gains (mainly from the sale of real estate)	**(2)**	(8)	(175)
Receipts from settlement agreement	**-**	-	(5)
Expenses for termination of employee-employer relations in early retirement at Bezeq (see Note 16.5.1)	**57**	78	95
Expenses due to the termination of employer-employee relations with early retirement and a streamlining agreement at Pelephone, Bezeq International and YES (see Notes 16.5.3 and 16.5.4)	**17**	102	37
Provision (cancellation of provision) for claims	**44**	55	(23)
One-off provision - amendment of collective agreement with the employees (see Note 16.1.1)	**75**	-	-
Other income	**(11)**	(7)	(6)
Other operating expenses (income), net	**180**	220	(77)

25. Financing expenses, net

	Year ended December 31		
	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Interest expenses for financial liabilities	**344**	309	395
Financing expenses for employee benefits	**10**	-	7
Costs due to early repayment of loans and debentures (see Note 13)	**-**	26	34
Linkage and exchange rate differentials	**92**	125	49
Financing expenses for lease obligations	**63**	43	40
Other financing expenses	**9**	19	8
Change in fair value of financial assets measured at fair value through income	**-**	8	-
Total financing expenses	**518**	530	533
Income due to credit grossing in sales	**22**	20	28
Financing income for employee benefits *	**-**	40	-
Other financing income	**121**	49	16
Change in fair value of financial assets measured at fair value through income	**26**	23	11
Total financing income	**169**	132	55
Financing expenses, net	**349**	398	478

* Financing income 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 become vested in four annual tranches where a different exercise price is determined for each grant.

During the year 2023, Bezeq allocated approximately 3 million additional options to officers, managers, and senior employees in Bezeq and its subsidiaries. The options were granted in 4 grants. Each grant will become vested 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
	2023	2022
	Millions	Millions
Balance in circulation at the beginning of the period	**57**	60
Options granted during the year	**3**	7
Options realized	**(5)**	-
Options forfeited during the year due to the departure of the bidders	**(3)**	(10)
Balance in circulation at the end of the period	**52**	57
Exercisable at the end of the period (subject to compliance with the share exercise price conditions)	***15**	28

* As of the date of approval of the financial statements, approximately 14 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.

The fair value of the options granted during the year 2023, which was estimated by an external appraiser applying the Monte Carlo model, is approximately NIS 3 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		
	2023	2022	2021
	NIS millions	NIS millions	NIS millions
Salary expenses	**10**	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		
	2023	2022	2021
	NIS thousands	NIS thousands	NIS thousands
Salary expenses	**400**	520	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:

	2023	2022	2021
Net profit attributable to the Company's shareholders (NIS millions)	**187**	158	129
Weighted average of ordinary shares			
Balance as of January 1 (millions)	**107**	115	116
Effect of buyback of shares	**(1)**	(4)	-
Basic weighted average of ordinary shares as of December 31 (millions)	**106**	111	116
Effect of share-based compensation	**-**	1	-
Diluted weighted average of ordinary shares as of December 31 (millions)	**106**	112	116
Basic profit per share (NIS)	**1.75**	1.42	1.11
Diluted profit per share (NIS)	**1.74**	1.41	1.11

28. Segment 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 and international communication services and ICT solutions (information and communication systems) (hereinafter - "Bezeq International Services Sector");
4. Yes TV and Communications Services Ltd. (Yes) - 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). 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 (proforma). 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, intangible assets, and deferred expenses.

28.2. Operating segments

	Year ended December 31, 2023						
	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
Revenues from externals	4,157	2,309	1,139	1,308	190	-	9,103
Inter-segmental revenues	255	39	73	1	2	(370)	-
Total revenues	4,412	2,348	1,212	1,309	192	(370)	9,103
Depreciation, reductions and impairments	1,019	549	137	244	6	(88)	1,867
Segment results - operating profit (loss)	1,451	196	39	(4)	(1)	68	1,749
Financing expenses	370	35	17	8	-	88	518
Financing income	(114)	(48)	(7)	(17)	-	17	(169)
Total financing expenses (income), net	256	(13)	10	(9)	-	105	349
Segment profit (loss) before income taxes	1,195	209	29	5	(1)	(37)	1,400
Income taxes	294	50	-	1	1	-	346
Segment results - net profit (loss)	901	159	29	4	(2)	(37)	1,054
Segment assets	9,311	2,832	991	1,231	88	332	14,785
Goodwill	-	-	9	-	-	1,559	1,568
Segment liabilities	9,189	1,448	779	445	30	2,016	13,907
Investments in PP&E, intangible assets and deferred expenses	1,155	365	100	192	5	-	1,817

* 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 Yes's statements.

28.2. Operating segments (Cont.)

	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
Revenues from externals	3,980	2,359	1,183	1,277	187	-	8,986
Inter-segmental revenues	326	40	56	-	6	(428)	-
Total revenues	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
Financing expenses	424	42	9	8	-	47	530
Financing income	(92)	(68)	(8)	(14)	-	50	(132)
Total financing expenses (income), net	332	(26)	1	(6)	-	97	398
Segment profit (loss) after financing expenses, net	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 Yes's statements.

28.2. Operating 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
Revenues from externals	3,845	2,249	1,186	1,270	271	-	8,821
Inter-segmental revenues	337	40	51	-	6	(434)	-
Total revenues	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
Financing expenses	357	23	5	4	-	144	533
Financing 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
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 Yes’s statements.

28.3. Adjustments for reporting segments of revenue, income, assets and liabilities

	Year ended December 31		
	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Revenues			
Revenues from reporting segments	**9,281**	9,221	8,978
Revenues from other segments	**192**	193	277
Cancellation of revenues from inter-segmental sales	**(370)**	(428)	(434)
Consolidated revenues	**9,103**	8,986	8,821
Operating profit			
Operating profit for reporting segments	**1,682**	1,575	1,771
Financing expenses, net	**(349)**	(398)	(478)
Adjustments for the multi-channel TV segment	**98**	56	72
Profit (loss) for activities classified in the Other and other adjustments category	**(31)**	(6)	13
Consolidated operating profit	**1,400**	1,227	1,378

	December 31, 2023	December 31, 2022
	NIS millions	**NIS millions**
Assets		
Assets of reporting segments	**14,374**	15,109
Assets associated with activities classified in the Other category	**88**	90
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	**(925)**	(2,128)
Assets and cost overruns that are not attributed to a reporting segment	**1,257**	1,225
Consolidated assets	**16,353**	15,855
Liabilities		
Liabilities of reporting segments	**11,861**	13,067
Liabilities associated with activities classified in the Other category	**30**	32
Minus inter-segmental liabilities	**(210)**	(1,311)
Liabilities related to non-reporting segments	**2,226**	2,171
Consolidated liabilities	**13,907**	13,959

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	
	2023	**2022**
	NIS millions	**NIS millions**
Related parties, net	**-**	(1)
Right-of-use assets	**2**	2
Current lease liability maturities	**(1)**	(1)
Non-current lease liabilities	**(1)**	(2)

29.3. Transactions with interested parties and related parties

	Year ended December 31		
	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Revenue			
From related parties	**8**	4	10
From affiliates	**-**	-	1
Expenses			
To related parties	**27**	24	33
To affiliates			
PP&E	**1**	1	-
To related parties	**8**	4	10

29.3.1. Classification of transactions with officers and controlling shareholders in the 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.

<u>Transactions listed in Article 270 (4) of the Companies Law that are not considered negligible transactions</u>

There were no such transactions during the reporting period.

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 2021-2023 include:

	Year ended December 31		
	2023	**2022**	**2021**
	NIS thousands	**NIS thousands**	**NIS thousands**
Number of key management personnel *	**6**	6	5
Salaries **	**10,147**	9,872	9,403
Grant ***	**6,910**	*** 7,262	7,780
Share-based compensation	**5,619**	6,197	13,530
	22,676	23,331	30,713

* Key management personnel in the Group in the reporting year include the Chairman of the Company's Board of Directors, the Company's CEO, the former Chairman of Bezeq's Board of Directors, the CEO of Bezeq, the CEO of Pelephone, and the CEO of Pelephone and Yes, as well as the CEO of Bezeq International.

** In 2023, the changes in other provisions (included in the total salaries) mainly include a decrease in provisions for advance notice to the Bezeq CEO in the amount of approximately NIS 1.1 million, offsetting an increase in the provision for advance notice to the former Chairman of the Bezeq Board of Directors in the amount of approximately NIS 0.2 million.

In 2022, the changes in other provisions (included in the total salary) mainly include provisions for advance notice to the CEO of Pelephone, Bezeq International, and Yes 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.

*** The amount includes an annual discretionary grant approved by Bezeq's general assembly 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		
	2023	**2022**	**2021**
	NIS thousands	**NIS thousands**	**NIS thousands**
Compensation for the members of the Board of Directors *	**805**	645	635
Number of directors receiving compensation **	**6**	6	6

* The directors' compensation of the Company's CEO, who also served as a director of the Company until November 29, 2021, as well as the compensation of the Chairman of the Company's Board of Directors, are presented in Note 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 28, 2023 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 compensation policy for the period until December 1, 2024.	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 421,825. 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 banking and non-banking corporations, and there are also investments in short-term loans and financial funds.

<u>Trade and other receivables</u>
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.

<u>Investments in financial assets</u>
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, proactive activity is carried out to minimize the risk.

Regarding the terms of debentures issued and loans received by the Group companies, 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, 2023, including estimated interest payments (based on consumer price index data and interest known as of December 31, 2023):

	As of December 31, 2023						
	Book value	Predicted cash flow	H1/2024	H2/2024	2025	2026 to 2028	2029 onwards
	NIS millions						
Non-derivative financial liabilities							
Trade payables	**1,540**	**1,540**	**1,529**	**11**	**-**	**-**	**-**
Loans	**2,238**	**2,680**	**254**	**58**	**366**	**1,271**	**731**
Securities	**6,666**	**7,500**	**80**	**922**	**992**	**3,571**	**1,935**
	10,445	**11,720**	**1,863**	**991**	**1,358**	**4,842**	**2,666**
Financial liabilities in respect of derivative instruments	**3**	**3**	**-**	**-**	**-**	**3**	**-**

	As of December 31, 2022						
	Book value	Predicted cash flow	H1/2023	H2/2023	2024	2025 to 2027	2028 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

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, 2023:

	As of December 31, 2023				
	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	593	-	51	-	644
investments	1,199	44	5	-	1,248
Trade receivables	1,430	-	47	-	1,477
Other receivables	53	39	9	65	166
Inventory	1	-	-	81	82
Total current assets	3,276	83	112	146	3,617
Non-current assets					
Trade receivables	275	171	-	-	446
Right-of-use assets	-	-	-	1,870	1,870
PP&E	-	-	-	6,828	6,828
Intangible assets	-	-	-	3,280	3,280
Deferred expenses and non-current investments	8	31	-	273	312
Total non-current assets	283	202	-	12,251	12,736
Total assets	3,559	285	112	12,397	16,353
Current liabilities					
Debentures, loans and credit	779	295	-	-	1,074
Current maturities of lease liabilities	11	422	-	-	433
Trade payables	1,269	77	192	220	1,758
Employee benefits	329	-	3	-	332
Provisions	91	-	20	-	111
Total current liabilities	2,479	794	215	220	3,708
Non-current liabilities					
Loans and debentures	5,620	2,209	-	-	7,829
Lease liabilities	30	1,575	3	-	1,608
Employee benefits	214	-	37	-	251
Derivatives and other liabilities	-	-	3	157	160
Deferred tax liabilities	-	-	-	322	322
Provisions	29	-	-	-	29
Total non-current liabilities	5,893	3,784	43	479	10,199
Total liabilities	8,372	4,578	258	699	13,907
Total disclosure in the statement of financial position	(4,813)	(4,293)	(146)	11,698	2,446
The scope of index and foreign currency risk hedging transactions is as follows:					
Forward contracts (see Note 30.6)	(1,197)	700	497	-	-

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
Trade receivables	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
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	-	226	315
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	-	-

30.5.2. Data regarding the Consumer Price Index:

In 2023, the known Consumer Price Index increased by 3.3% (in 2022 an increase of 5.3% and in 2021 a decrease of 2.4%).

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, 2023, 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	
	2023	**2022**
	NIS millions	**NIS millions**
Fixed interest instruments		
Financial assets (mainly deposits and customers)	**1,389**	1,673
Financial liabilities (loans and debentures)	**(8,274)**	(8,544)
	(6,885)	(6,871)
Variable interest instruments		
Financial assets (loans and debentures)	**(699)**	(698)

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, 2023					
Debentures Series 10	**12.2023 to 12.2025**	**2**	**150**	**8**	**3**
Debentures Series 12	**6.2026 to 6.2030**	**10**	**550**	**20**	**8**
		12	**700**	**28**	**11**
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

30.6.2. Economic hedging

A. Bezeq is involved in forward transactions in order to reduce exposure to changes in the dollar exchange rate. The net fair value of these transactions as of December 31, 2023 is an asset of approximately NIS 1 million (in 2022 - an asset of approximately NIS 8 million).

B. Yes is involved in forward transactions in order to reduce their exposure to changes in the dollar exchange rate. The net fair value of these transactions as of 12.31.2023 is a liability of approximately NIS 1 million (as of December 31, 2022 an asset of approximately NIS 4 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, 2023	December 31, 2022
	NIS millions	**NIS millions**
Level 1 - Investment in marketable securities measured at fair value through income	**759**	*159
Level 2 – Forward contracts (see Note 30.7.2)	**25**	42

* Reclassified.

30.7.2. 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, 2023			As of December 31, 2022		
	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)	**1,546**	**1,500**	**4.31**	1,530	1,462	5.14
Public debentures (index-linked)	**2,436**	**2,387**	**2.15**	2,402	2,373	1.82
Public debentures (unlinked)	**4,238**	**4,148**	**4.82**	4,569	4,386	4.95
	8,220	**8,035**		8,501	8,221	

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, 2023	**December 31, 2022**
	NIS millions	**NIS millions**
Gross balance of trade and other receivables	**68**	96
Offset amounts	**(65)**	(84)
Balance of trade receivables presented in the statement of financial position	**3**	12
Gross supplier balance	**73**	98
Offset amounts	**65**	(84)
Balance of suppliers presented in the statement of financial position	**8**	14

31. Summary of selected data from the statements of Bezeq the Israel Telecommunications Corp. Ltd., Pelephone Communications Ltd., Bezeq International Ltd. and Yes TV and Communications Services Ltd.

31.1. Bezeq the Israel Telecommunications Corp. Ltd.

Data from the statement of financial position:

	December 31, 2023	December 31, 2022
	NIS millions	NIS millions
Current property	**2,155**	2,086
Non-current property	**9,226**	10,002
Total property	**11,381**	12,088
Current liabilities	**2,317**	2,148
Non-current liabilities	**6,868**	8,317
Total liabilities	**9,185**	10,465
Equity	**2,196**	1,623
Total liabilities and equity	**11,381**	12,088

Data from the statement of income:

	Year ended December 31		
	2023	2022	2021
	NIS millions	NIS millions	NIS millions
Revenues	**4,412**	4,306	4,182
Operating expenses			
Salaries	**1,028**	970	934
Depreciation and amortization	**1,019**	1,005	938
General and operating expenses	**769**	759	667
Other operating expenses (income), net	**145**	112	(105)
Total Operating expenses	**2,961**	2,846	2,434
Operating profit	**1,451**	1,460	1,748
Financing expenses (income)			
Financing expenses	**370**	424	357
Financing income	**(114)**	(92)	(15)
Financing expenses, net	**256**	332	342
Profit after financing expenses, net	**1,195**	1,128	1,406
Share in profits of investees, net	288	151	120
Profit before income taxes	**1,483**	1,279	1,526
Income taxes	**294**	279	343
Profit for the year	**1,189**	1,000	1,183

31.2. Pelephone Communications Ltd.

Data from the statement of financial position:

	December 31, 2023	December 31, 2022
	NIS millions	NIS millions
Current property	**722**	865
Non-current property	**2,110**	3,215
Total property	**2,832**	4,080
Current liabilities	**659**	684
Non-current liabilities	**789**	879
Total liabilities	**1,448**	1,563
Equity	**1,384**	2,517
Total liabilities and equity	**2,832**	4,080

Data from the statement of income:

	Year ended December 31		
	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Revenues			
Revenues from services	**1,756**	1,791	1,642
Revenues from sale of end equipment	**592**	608	647
Total revenues from services and sales	**2,348**	2,399	2,289
Operating expenses			
General and operating expenses	**1,278**	1,327	1,346
Salaries	**323**	314	315
Depreciation and amortization	**549**	532	577
Total operating expenses	**2,150**	2,173	2,238
Other operating expenses, net	**2**	33	9
Operating profit	**196**	193	42
Financing expenses (income)			
Financing expenses	**35**	42	23
Financing income	**(48)**	(68)	(65)
Financing income, net	**(13)**	(26)	(42)
Profit before income taxes	**209**	219	84
Income taxes	**50**	54	20
Profit for the year	**159**	165	64

31.3. Bezeq International Ltd.

Data from the statement of financial position:

	December 31, 2023	December 31, 2022
	NIS millions	NIS millions
Current property	**406**	396
Non-current property	**594**	364
Total property	**1,000**	760
Current liabilities	**391**	431
Non-current liabilities	**388**	139
Total liabilities	**779**	570
Equity	**221**	190
Total liabilities and equity	**1,000**	760

Data from the statement of income:

	Year ended December 31		
	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Revenue	**1,212**	1,239	1,237
Operating expenses			
Operating, general and depreciation expenses	**800**	827	799
Salaries	**216**	237	237
Depreciation, amortization and impairments	**137**	134	173
Other operating expenses, net	**20**	71	6
Total operating expenses	**1,173**	1,269	1,215
Operating profit (loss)	**39**	(30)	22
Financing expenses (income)			
Financing expenses	**17**	9	5
Financing income	**(7)**	(8)	(3)
Financing expenses, net	**10**	1	2
Profit (loss) before income taxes	**29**	(31)	20
Income taxes	**-**	1	12
Profit (loss) for the year	**29**	(32)	8

31.4. Yes TV and Communications Services Ltd. (Yes)

Data from the statement of financial position:

	December 31, 2023	December 31, 2022
	NIS millions	NIS millions
Current property	**235**	196
Non-current property	**283**	241
Total property	**518**	437
Current liabilities	**385**	395
Non-current liabilities	**60**	74
Total liabilities	**445**	469
Equity (deficit in equity)	**73**	(32)
Total liabilities and equity (deficit in equity)	**518**	437

Data from the statement of income:

	Year ended December 31		
	2023	2022	2021
	NIS millions	NIS millions	NIS millions
Revenues	**1,309**	1,277	1,270
Operating expenses			
Operating, general and depreciation expenses	**861**	867	835
Salaries	**193**	200	188
Depreciation, amortization and impairments	**166**	199	203
Other operating expenses (income), net	**(5)**	3	12
Total operating expenses	**1,215**	1,269	1,238
Operating profit	**94**	8	32
Financing expenses (income)			
Financing expenses	**8**	8	4
Financing income	**(17)**	(14)	(3)
Financing expenses (income), net	**(9)**	(6)	1
Profit before income taxes	**103**	14	31
Income taxes	**1**	1	1
Profit for the year	**102**	13	30

32. Material events during and after the reporting period

32.1. Regarding additional purchase of Bezeq subsidiary shares by the Company after the balance sheet date, see Note 12.6.

32.2. On January 25, 2024, Bezeq's Board of Directors approved Bezeq's entry into the field of electricity supply and Bezeq's engagement with PowerGen Ltd. ("PowerGen"), a company wholly owned by Generation Capital Ltd., which coordinates the fund's energy activities, in a non-binding memorandum of understanding regarding strategic cooperation and the establishment of a joint venture in the field of electricity supply ("the MOU").

32.3. See Note 12.7 above regarding the decision of Bezeq's Board of Directors dated March 13, 2023 regarding 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.

32.4. Regarding the approval of another plan for the buyback of the Company's shares from March 12, 2024, see Note 20.1.3.

Separate Financial Information for the Year Ended December 31, 2023

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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, 2023 and 2022 and for each of the three years the last of which ended on December 31, 2023. 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 transfer of the investigation file to the District Attorney's Office, 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 a 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 the Bezeq Group, which attributes to the defendants obtainment by fraud, 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, 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 12, 2024

Separate Statement of Financial Position as of December 31,

	Note	2023 NIS millions	2022 NIS millions
Assets			
Cash and cash equivalents		**81**	13
Short-term investments and deposits	**3**	**43**	63
Other receivables		**3**	1
Total current assets		**127**	77
Long-term deposits		**8**	27
Investment in equity-accounted investee	**4**	**2,022**	1,864
Total non-current assets		**2,030**	1,891
Total assets		**2,157**	1,968
Liabilities			
Payables and credit balances	**5**	**8**	9
Provisions	**6**	**20**	-
Total current liabilities		**28**	9
Debentures	**7**	**1,940**	1,905
Total non-current liabilities		**1,940**	1,905
Total liabilities		**1,968**	1,914
Shareholders' equity	**8**	**189**	54
Total liabilities and shareholders' equity		**2,157**	1,968

Darren Glatt Chairman of the Board of Directors	**Tomer Raved** CEO	**Itzik Tadmor** CFO

Date of approval of the financial statements: March 12, 2024

The notes attached to the financial information constitute an integral part thereof.

Income Statement for the year ended December 31

	Note	2023 NIS millions	2022 NIS millions	2021 NIS millions
Operating expenses				
Salaries		**4**	5	5
General and operating expenses		**7**	7	8
Other expenses	**6**	**19**	-	-
Total operating expenses		**30**	12	13
Operating loss		**(30)**	(12)	(13)
Financing expenses (income)	**9**			
Financing expenses		**110**	106	184
Financing income		**(5)**	(9)	(10)
Financing expenses, net		**105**	97	174
Loss after financing expenses, net		**(135)**	(109)	(187)
Share in net profit of equity-accounted investee		**322**	267	316
Net profit for the year		**187**	158	129

Comprehensive income for the year ended December 31

	2023 NIS millions	2022 NIS millions	2021 NIS millions
Net profit for the year	**187**	158	129
Other comprehensive income, net of tax	**3**	13	10
Total comprehensive income for the year	**190**	171	139

The notes attached to the financial information constitute an integral part thereof.

Cash Flows Statement for the year ended December 31

	2023	2022	2021
	NIS millions	NIS millions	NIS millions
Cash flows from current activity			
Net profit for the year	**187**	158	129
Adjustments to profit:			
Share in profits of equity-accounted investee, net	**(322)**	(267)	(316)
Financing expenses, net	**106**	94	174
Share-based compensation	*	1	-
Change in trade payables	**(1)**	2	-
Change in other receivables	**(3)**	3	10
Change in provisions	**20**	-	-
Net cash used for current activities	**(13)**	(9)	(3)
Cash flows from investing activities			
Change in deposits and investments, net	**40**	163	66
Investment in an affiliate	**(37)**	(15)	-
Dividend received from subsidiary	**172**	143	-
Interest and dividend received in cash	**4**	2	1
Net cash derived from investing activities	**179**	293	67
Cash flows from financing activities			
Issuance of debentures	**500**	-	1,035
Repayment of debentures	**(497)**	(100)	(1,015)
Buyback of shares	**(23)**	(121)	(16)
Interest paid	**(76)**	(75)	(79)
Early repayment fees	**-**	-	(19)
Net cash used for financing activities	**(96)**	(296)	(94)
Increase (decrease) in cash and cash equivalents	**70**	(12)	(30)
Effect of changes in foreign currency exchange rate	**(2)**	-	-
Cash and cash equivalents at the beginning of the period	**13**	25	55
Cash and cash equivalents at the end of the period	**81**	13	25

(*) Amount lower than NIS 1 million.

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, 2023 (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 2023 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, revenue, comprehensive profit, 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.

2.2. New standards implemented during the period of the report

Regarding new standards implemented during the reporting period, see Note 3.14 to the Consolidated Statements.

3. Short-term investments and deposits

	December 31, 2023	December 31, 2022
	NIS millions	NIS millions
Investments in marketable securities	**14**	8
Short-term deposits (1)	**29**	55*
	43	63

* Reclassified

(1) The deposits are due until December 2024.

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, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	%	%	NIS millions	NIS millions
Bezeq	**27.08%**	26.81%	**2,022**	1,864
			2,022	1,864

4.1. Investment in Bezeq

A. On December 28, 2022, the Company purchased 2,530,000 ordinary shares of the subsidiary Bezeq in 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 Bezeq.

B. During the second quarter of 2023, the Company purchased 7,807,995 ordinary shares of the subsidiary Bezeq for a total amount of approximately NIS 37 million and at an average price of NIS 4.71 per share. After the aforementioned purchase, the Company held 27.08% of the issued share capital and voting rights in Bezeq.

C. On January 31, 2024, after the balance sheet date, the Company purchased 3,120,000 ordinary shares of the subsidiary Bezeq in exchange for payment of a total amount of approximately NIS 15 million and at an average price of NIS 4.82 per share. After the aforementioned purchase and as of the date of the financial statements, the Company holds 27.19% of the issued share equity and voting rights in Bezeq.

4.1. Bezeq’s dividend distribution policy

On March 12, 2024, Bezeq’s Board of Directors decided to update Bezeq's dividend policy so that Bezeq will distribute every six months 70% of the semi-annual profit (after tax), according to its consolidated statements, starting with the next distribution (for the second half of 2023), 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.

4. Consolidated companies (Cont.)

Also, Bezeq will strive to increase its dividend policy in the future, subject to maintaining its 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 taking into account the expected cash flow, Bezeq's needs and obligations, Bezeq's cash balances, 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, as stipulated in Bezeq regulations.

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 maximize value for 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 maximize value for its shareholders through regular dividend distribution.

Bezeq's Board of Directors was presented, among other things, with Bezeq's and Bezeq Group's forecasts, as well as sensitivity analyses 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.

4.1. Dividend distribution by Bezeq

A. On April 20, 2023, the general assembly of Bezeq's shareholders (following the recommendation of the Bezeq’s Board of Directors of March 13, 2023) approved the distribution of a cash dividend to Bezeq's shareholders in the total amount of NIS 246 million (which, as of the day determining the distribution, constitutes NIS 0.088922 per share). The dividend was paid on May 16, 2022. The Company's share of the aforementioned dividend is approximately NIS 66 million.

B. On September 14, 2022, the general assembly of Bezeq's shareholders (following the recommendation of the Bezeq Board of Directors of August 8, 2023) approved the distribution of a cash dividend to Bezeq's shareholders in a total amount of NIS 392 million (which, as of the day determining the distribution, is 0.1416805 NIS per share). The dividend was paid on October 11, 2023. The Company's share of the aforementioned dividend is approximately NIS 106 million.

C. On March 12, 2023, the Bezeq Board of Directors recommended to the general assembly of Bezeq's shareholders to distribute a cash dividend to Bezeq's shareholders in a total amount of NIS 374 million. As of the date of approval of the Statements, the aforementioned dividend has not yet been approved by Bezeq's general assembly. The Company's expected share of the aforementioned dividend (if approved by Bezeq’s general assembly) is approximately NIS 102 million.

5. Trade payables

	December 31, 2023	December 31, 2022
	NIS millions	NIS millions
Trade and other payables	**2**	3
Interest payable	**6**	6
	8	9

6. Contingent liabilities

On May 23, 2023, the Company signed a settlement agreement in the amount of approximately USD 5.5 million in respect of two motions for the approval of class actions filed in June 2017, among other things, against the Company, Bezeq, officers in the Bezeq Group, as well as companies from the then controlling group of the company and Bezeq regarding the purchase transaction of Yes shares By Bezeq from Eurocom DBS Ltd. The settlement amount does not include offsetting the insurance company's participation by virtue of the officers' insurance.

At this stage, the settlement agreement has been submitted to the District Court in Tel Aviv (Economic Department) for approval, and it is uncertain that it will be approved. To the extent that the settlement agreement is approved, this will end the involvement of the Company and Shaul Elovich (only in his capacity as controlling shareholder and former Chairman of the Company's Board of Directors) and Or Elovich (in his capacity as a former director in the Company only) in the motions for approval.

The provision in the Company's books for the aforementioned settlement minus the expected receipt from the insurance company in the amount of approximately NIS 19 million was credited to other expenses in the income statement in the second quarter of 2023.

See also Note 17 in the Company's consolidated financial statements.

7. Debentures

	December 31, 2023		December 31, 2022	
	Carrying amount	Par value	Carrying amount	Par value
	NIS millions	NIS millions	NIS millions	NIS millions
Debentures issued to the public:				
Debentures Series C	**-**	**-**	480	497
Debentures Series F	**1,940**	**2,010**	1,425	1,472
Total debentures	**1,940**	**2,010**	1,905	1,969

7.1. 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.

7.2. 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).

7.3. 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.

7.4. On June 22, 2023, the Company issued to institutional entities and the public approximately NIS 538 million in series F debentures for a net of approximately NIS 500 million (after issuance expenses). The net proceeds of the issuance of the series F debentures were used by the Company for early full and final repayment of the balance of series C debentures (plus accrued interest up to the maturity date) on July 20, 2023.

7.5. For more details, see Note 13 to the Consolidated Statements.

8. Shareholders' equity

Ordinary shares of NIS 0.1 par value

	Ordinary shares	
	December 31, 2023	**December 31, 2022**
Registered share capital	**300,000,000**	300,000,000
Issued and paid-up share capital	**116,335,793**	116,335,793
Treasury shares	**(10,673,530)**	(9,080,317)
Issued and paid-up share capital, net	**105,662,263**	107,255,476

8.1. During the year 2022, the Company purchased a total of 7,603,514 of its shares as part of buyback plans for a total amount of approximately NIS 121 million.

8.2. On August 8, 2023, the Company's Board of Directors approved a buyback plan of the Company's shares up to NIS 30 million. As part of the aforementioned buyback plan, the Company purchased 1,593,213 of its shares for approximately NIS 23 million.

8.3. On March 12, 2024, the Company's Board of Directors approved an additional buyback plan of the Company's shares in the amount of up to NIS 25 million, which will begin on March 13, 2024 and end: (1) upon purchase in the amount of NIS 25 million; or (2) on June 30, 2024, whichever is earlier.

8.4. As of December 31, 2023, Searchlight and the Forer family held 66.24% and 12.54%, respectively, of the Company's issued and paid-up share capital.

9. Financing expenses

	Year ended December 31	Year ended December 31	Year ended December 31
	2023	**2022**	**2021**
	NIS millions	**NIS millions**	**NIS millions**
Interest expenses	**108**	98	165
Exchange rate differences	**2**	-	-
Change in fair value of financial assets measured at fair value through income		8	-
Early repayment fees	**-**	-	19
Total financing expenses	**110**	106	184
Profits from investments in marketable securities and bank deposits	**4**	2	3
Change in fair value of financial assets measured at fair value through income	**1**	-	7
Income from debenture exchange	**-**	7	-
Total financing income	**5**	9	10
Financing expenses. Net	**105**	97	174

10. Income tax

The Company has final tax assessments until 2018.

11. 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		
	2023	**2022**	**2021**
	NIS thousands	**NIS thousands**	**NIS thousands**
Salaries expenses	**400**	520	280

12. 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, 2023):

	December 31, 2023					
	Carrying amount	Contractual cash flow	Q1/2024	Q2/2024	2025	2026
	NIS millions					
Non-derivative financial commitments						
Trade and other payables	8	8	8	-	-	-
Debentures	1,940	2,223	31	36	73	2,083
Total	1,948	2,231	39	36	73	2,083

13. Events during and after the reporting period

13.1. Regarding the additional purchase of shares of the subsidiary Bezeq by the Company after the balance sheet date, see Note 4.1.

13.2. Regarding the investigation by the Securities Authority and the police, see Note 1.3 to the Consolidated Statements.

13.3. For information regarding the decision of the Bezeq Board of Directors dated March 12, 2024 regarding the update of Bezeq's dividend distribution policy and the decision of the Bezeq Board of Directors to recommend to the Bezeq general assembly on the distribution of a dividend, see Note 4.3.

13.4. Regarding the approval of another plan for the buyback of the Company's shares from March 12, 2024, see Note 8.3.

13.5. For information regarding material events during and after the reporting period, see Note 32 to the Consolidated Statements.

Chapter D

Additional Details about the Corporation and Corporate Governance Questionnaire

for the Period ended December 31, 2023

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

According to the Company's shelf prospectus dated January 7, 2021[1], on June 22, 2023 (Ref.: 2023-01-007660), the Company published a shelf offer report for the issuance and registration of up to NIS 621,520,000 par value debentures (series 6), by way of expansion of a traded series that was issued for the first time according to a shelf offer report dated July 5, 2021. The total (gross) expected proceeds from the aforementioned offer is in the amount of approximately NIS 504 million, and the Company intends to use the proceeds from the issue for partial or full early repayment of the debentures (series C) of the Company. On June 22, 2023, the Company announced that upon the completion of the issuance of the Company's debentures (series 6) as mentioned above, the Company will make a full early redemption of the debentures (series 3) and that the redemption will be carried out on July 20, 2023 (Ref.: 2023- 01-058786). For more details about the expansion of the Company's debentures (series 6) and early redemption of the Company's debentures (series 3), 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 Telecommunications Corporation Ltd. ("Bezeq")	The Company	Ordinary NIS 1 par value	752,411,708	752,411,708	27.19%	27.19%	2,022

[1] Which was extended until January 7, 2024, as published in the Company's immediate report dated February 13, 2023, (Ref.: 2023-01-016701), which is included in this report by way of reference.

Regulation 12: Changes in investments in subsidiaries during the reported period

A. On April 3, 2023, the Company purchased 2,100,000 ordinary shares of NIS 1 par value of Bezeq, in transactions during trading on the stock exchange, in exchange for payment of a total amount of approximately NIS 10 million and at an average price of NIS 4.75 per Bezeq share.

B. On May 28, 2023, the Company purchased 1,417,995 ordinary shares of NIS 1 par value of Bezeq, as part of stock exchange trading transactions, in exchange for payment of a total amount of approximately NIS 6.8 million and at an average price of 4.77 per Bezeq share.

C. On May 30, 2023, the Company purchased 2,090,000 ordinary shares of NIS 1 par value of Bezeq, as part of stock exchange trading transactions, in exchange for payment of a total amount of approximately NIS 10 million and at an average price of 4.79 per Bezeq share.

D. On June 28, 2023, the Company purchased 1,100,000 ordinary shares of NIS 1 par value of Bezeq, as part of stock exchange trading transactions, in exchange for payment of a total amount of about NIS 5 million and at an average price of 4.542 per Bezeq share.

E. On January 31, 2024, the Company purchased 3,120,000 ordinary shares of NIS 1 par value of Bezeq, as part of stock exchange trading transactions, in exchange for payment of a total amount of approximately NIS 15 million and at an average price of 4.82 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 revenue
Bezeq	1,189	1,201	638	-	-

Regulation 20: Trading on the stock exchange

On June 22, 2023, the Company issued 538,000,000 par value debentures (series 6), according to a shelf offer report, in exchange for NIS 503,568,000. The proceeds of the net issuance of the debentures (series 6) were used by the Company for full early redemption of debentures (series C), as detailed below.

On July 20, 2023, the company made a full early redemption of the bonds (series C). For more details, see immediate reports published by the company on June 22, 2023 and July 20, 2023 (Refs.: 2023-01-058351 and 2023-01-068611, respectively), which are included in this report by way of reference.

Regulation 21: Compensation for related parties and senior officers

The following is a breakdown of the compensation paid by the Company, or paid by the companies under its control (including commitments to provide compensation), during the year 2023: (1) to each of the five holders of the highest compensation among the senior officers 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 compensation in the Company itself, which were given to them in connection with their office in the Company.

Details of compensation persons					Compensation (NIS thousands)				Total (NIS thousands)	Section below
Name	Position	Sex	Job volume	Holding rate in the corporation equity	Salary[2]	Bonus[3]	Share-based payment	Other	Total	
Tomer Raved	CEO[4]	Male	Full-time	-	1,454	410	384	381	2,629	A
Itzik Tadmor	CFO	Male	Full-time	-	708	264	16	-	987	B
Ilan Chaikin	Internal auditor	Male	Full-time	-	56	-	-	-	56	C
Gil Sharon[5]	Bezeq Chariman	Male	Full-time	-	2,421	2,228	765	-	3,884	D
Ran Guron[6]	Bezeq CEO	Male	Full-time	-	2,639	2,099	879	-	5,617	E
Directors	Director	-	Full-time	-	908	-	-	-	908	F

[2] 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.

[3] Regarding senior executives at Bezeq , the bonus amounts listed in the table are as recognized in the 2023 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 compensation policy. The performance-dependent bonus that appears in the table is for the year 2023 (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 2023, bonuses were paid to the above officers for 2022, the amount of which [including a contingent portion not paid in practice in 2022, but paid in practice in 2024 (if any) is included in the corresponding table in Bezeq's annual statements for 2021 (as published on March 23, 2022).

[4] As of January 1, 2024, he also serves as the Chairman of Bezeq's Board of Directors. For more details, see immediate report published by the Company (Ref.: 2023-01-110518).

[5] Ceased to serve as chairman of Bezeq's Board of Directors as of January 1, 2024. For more details, see immediate report published by Bezeq (Ref.: 2024-01-000288).

[6] His term is expected to end on March 31, 2024, or at another date agreed between him and Bezeq. For more details, see immediate report published by the Company (Ref.: 2024-01-016624).

The group did not pay any of the office bearers listed in the table above payments for the year 2023 which were not listed in the aforementioned table and which were not recognized in the statements for the reporting year.

The following is a breakdown of the terms of engagement with the stakeholders and officers listed in the table above:

a. Tomer Raved

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, as a director in Bezeq starting in May 2020, and as of January 1, 2024, Mr. Raved serves as Chairman of Bezeq’s Board of Directors. According to the employment agreement with Mr. Raved, which was approved at the Company's general assembly on February 13, 2020, Mr. Raved is entitled to a monthly salary as well as social and ancillary benefits as accepted by the Company and in accordance with the Company's compensation policy (recovery fees, training fund, pension, sick pay, vacation days, mobile phone, business expenses and national insurance, excluding vehicle expenses).

In addition, Mr. Raved is entitled to an annual bonus of up to 12 salaries subject to meeting the targets, where according to the Company's approved compensation policy, a rate of 65% of the aforementioned annual bonus will be paid subject to meeting the target of improving the debt-to-asset ratio (LTV) of at least 5% compared to last year; rate of 10% of the annual bonus will be paid subject to meeting budget targets set by the Company's Board of Directors and 25% of the annual bonus will be paid at the discretion of the Company's Board of Directors. In this regard, it should be noted that following Mr. Raved's appointment as Chairman of Bezeq’s Board of Directors, on March 12, 2024, Mr. Raved announced to the Company that he is waiving the grant rate conditional on the debt-to-asset ratio improvement target for 2023 and as long as he also serves as Chairman of the Bezeq Board of Directors.

In addition, in respect of his office as a director in Bezeq, Mr. Raved is entitled to an annual compensation and a participation fee in the amount determined by an external expert in accordance with the Compensation 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. According to the employment agreement with him, in addition to his monthly salary, Mr. Tadmor is entitled to social and ancillary benefits as customary (vacation days, executive insurance, study fund, etc.). In accordance with the employment agreement with him, he is entitled to a retention grant for his work in the Company until December 2023. Starting in 2024, Mr. Tadmor will be entitled to a grant of up to 6 salaries conditional on meeting the targets to be set.

Also, Mr. Tadmor is entitled to be included in the directors' and officers' liability insurance arrangement and indemnity as is customary in the company, like the other officers in the company.

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.

The employment agreement with Mr. Tadmor can be terminated at any time with 3 months notice by either party.

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 2023, Mr. Chaikin’s fee amounted to approximately NIS 56K. For further details, see Section 2.5 of the Company's Board of Directors' report as of December 31, 2023, in Chapter B of the periodic report.

d. Gil Sharon

Gil Sharon served as 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 and until December 31, 2023[7]. The employment agreement with Mr. Gil Sharon, dated December 10, 2020, was for an unlimited period with the right of either party to terminate it at any time and for any reason, with 3 months' advance notice by any of the parties.

For his office, Mr. Gil Sharon was entitled to the main conditions mentioned in the "general terms of employment for officers" above; entitled to a monthly salary (gross) in the amount of approximately NIS 170K (linked to the Consumer Price Index, starting on January 1, 2023)[8]; as well as a possibility of eligibility for an annual performance-dependent cash grant (starting in 2022).[9]

On January 18, 2021, Bezeq's general assembly approved to grant 12,000,000 options to Mr. Gil Sharon. For additional details regarding the terms of office and employment of Mr. Gil Sharon as Chairman of the Company’s Board of Directors, see the Bezeq 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 amended 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. On January 31, 2024, upon the termination of Mr. Sharon's employment relationship, and in accordance with Bezeq's capital compensation plan, 3,000,000 options of the total number of options as mentioned expired.

Mr. Sharon's annual performance-dependent grant targets for 2023[10] as Chairman of the Bezeq

[7] The advance notice period of the Chairman of the Board of Directors is from November 1, 2023, and ended, in accordance with his employment agreement, at the end of three months from that date, that is, from January 31, 2024.

[8] For details about the approval of the shareholders’ assembly to link the salary of the Chairman of the Board of Directors to the consumer price index, see the Bezeq general assembly convening report dated June 22, 2023, which is hereby included by way of reference.

[9] For details about the addition of the annual performance-based cash bonus component to the Chairman of the Bezeq Board of Directors, see the Bezeq general assembly summons report dated March 14, 2022, as well as the revised report dated April 14, 2022, which are hereby included by way of reference.

[10] In accordance with the amendment of the compensation policy and the terms of office and employment of the Chairman of the Bezeq Board of Directors, as approved by the Bezeq general assembly on April 28, 2022 (for

Board of Directors were determined in advance as part of the compensation policy for officers approved by the general assembly and by the Bezeq Board of Directors in December 2022 and included: Group-adjusted EBITDA[11] target weighing 50% in the grant 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 grant targets for 2023 amounted to approxmately 118%. The threshold condition for eligibility to the annual performance-dependent grant was that the Group-adjusted EBITDA results (neutralizing the effects of IFRS16) for 2023 (NIS 3,441.5 million) did not decrease by more than 40% of the Group-adjusted EBITDA results (neutralizing the effects of IFRS16) in 2022 (NIS 3,404.8 million) – this condition has been met.

The ceiling of the performance-dependent grant to the Chairman of the Bezeq Board of Directors is limited in accordance with the provisions of Bezeq's compensation policy at up to 75% of the annual base salary (9 salaries). Accordingly, the grant that was approved for the Chairman of the Bezeq Board of Directors for the year 2023 is 75% of the annual salary. For the purpose of calculating the achievement of targets for the year 2023, in accordance with Bezeq's compensation policy, the Compensation Committee and Bezeq's Board of Directors approved the exclusion of the following events from the calculation of performance for the purpose of the grant: the update of the collective wage in the economy, the decision of the Board of Directors to increase the investment budget for the establishment of a joint server farm for the Company and Pelephone and to increase the fiber deployment target of Bezeq for this year, the awarding of a "reserve grant" to the Group's employees who were recruited for reserve service during the war, and also, the effects of the "Iron Swords" war on the results of 2023.

In accordance with the terms of employment, Mr. Sharon is entitled to a non-compete period for two months after the end of the employee-employer relationship. For this period, Mr. Gil Sharon was awarded a non-compete grant in the amount of two monthly salaries (gross), including social conditions. During this period, Mr. Sharon will not compete with Bezeq’s activity that exists at that time or with its businesses (including the businesses of the Company's subsidiaries or affiliates), and will refrain from founding, managing, operating, or having control over any entity whose main activity is similar to or competes with Bezeq's activities at the time of termination of the contract.

On February 5, 2024, the Bezeq general assembly approved an appreciation grant in the amount of three monthly salaries (gross) to Mr. Gil Sharon, as a token of appreciation and gratitude for his performance and contribution to Bezeq. For more details about the grant, see the Bezeq general meeting summons report dated December 28, 2023, as well as a revised report dated February 1, 2024, which are hereby included by way of reference.

more details, see the general assembly convening report of March 23, 2022, as amended on April 14, 2022, which is hereby included by way of reference).

[11] Adjusted EBITDA for the purposes of determining compensation - calculated as EBITDA neutralizing other operating expenses/revenue (net), losses/gains from depreciation/appreciation (including losses from continuous impairment), the effects of implementing the international financial reporting standard IFRS16 "Leases", and neutralizing expenses for payments in respect of an equity compensation plan.

e. Ran Guron

Mr. Guron serves as CEO of Bezeq as of June 19, 2022. Mr. Ran Guron's employment agreement, dated May 8, 2022, is for an unlimited period, with either party eligible to terminate it at any time with six months' advance notice. February 25, 2024, Mr. Guron announced the end of his term as CEO of Bezeq. The end date of his term is expected to be on March 31, 2024, or at another date agreed between the parties[12].

In respect of his term in office, Mr. Guron is entitled to the main terms as stated in the "General Terms of Employment for Officers" above; Entitled to a monthly salary of approximately NIS 153K (adjacent to the Consumer Price Index); For more details about the terms of office and employment of Mr. Ran Guron as CEO of Bezeq, see the Bezeq general assembly convening report dated August 10, 2022, which is hereby included by way of reference.

On December 10, 2020, during his office as CEO of the subsidiaries - Pelephone, Yes, and Bezeq International, the Bezeq Board of Directors, and each of the Boards of Directors of the aforementioned subsidiaries, approved the allocation of 9,000,000 options to Mr. Guron. The aforementioned options were granted on January 18, 2021, after Bezeq's general assembly's approval to increase Bezeq's registered shareholders' equity. For more details about the terms of the options, see Bezeq's amended report regarding the outline for granting options employees and the material private offer report dated May 9, 2022. The fair value of the options at the time they were granted (calculated according to the Monte Carlo model) is about NIS 6.9 million. On August 25, 2024, with the termination of Mr. Guron's employment relationship, and in accordance with Bezeq's equity compensation plan, 782,877 options of the total number of options as mentioned will expire.

The goals of the annual performance-based bonus of Mr. Gouraon for 2023 as CEO of Bezeq were determined in advance by the Company's Board of Directors in December 2022 and included: an adjusted EBITDA target for the Company (solo) that weighs 50% in the calculation of the grant; Adjusted profit after tax target for the Company (Solo) that weighs 20%; Adjusted free flow target (FCF)[13] for the Company (solo) that weighs 20%; and a manager evaluation target that weighs 10%. The threshold condition for receiving the grant was that the adjusted EBITDA results for 2023 (NIS 2,501.9 million) did not decrease by more than 40% from the adjusted EBITDA results for 2022 (NIS 2,474.8 million) - this condition was met.

Bezeq's CEO's compliance rate with the annual performance-dependent grant targets for the year 2023 was 108%. Accordingly, the rate of the Bezeq CEO's annual grant for the year 2023 is approximately 108% of his annual salary. For the purpose of calculating the achievement of targets for the year 2023, in accordance with Bezeq's compensation policy, the Compensation Committee and Bezeq's Board of Directors approved the exclusion of the following events from the calculation of performance for the purpose of the grant: a collective wage agreement in the economy, which was not included in the Company's budget for 2023, the Board of Directors' decision to increase the investment budget for the establishment of a joint server farm for Bezeq and Pelephone and increasing Bezeq's fiber deployment target for this year, awarding a "reserve grant" to Bezeq employees who were drafted into reserve service during the war.

[12] The advance notice period of the CEO of the Company is from February 25, 2024 and will end, in accordance with his employment agreement, at the end of 6 months from this date, that is, on August 25, 2024.

[13] Adjusted free cash flow (FCF) - calculated as cash generated from current operations, deducting cash for the purchase/sale of PP&E and intangible assets (net), and deducting payments for leases.

Retirement arrangements: On March 3, 2024 and on March 12, 2024, the Compensation Committee and the Bezeq Board of Directors, respectively, decided to grant Mr. Guron a retirement grant in the amount of 3 gross monthly salaries for his great contribution to Bezeq Group during his 18 years of office in the Group in various senior positions. Also, the Compensation Committee and Bezeq's Board of Directors decided to approve, in accordance with Bezeq's compensation policy, the release of the conditional parts of the performance-dependent grant for the year 2023 to Mr. Guron.

f. Directors

Each director (including the Chairman of the Board of Directors) is entitled to an annual compensation and a participation compensation for each meeting, in the maximum amount, in accordance with the Company’s classification under to the Compensation 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 compensation, as stated in the Compensation 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 2023, compensation was paid to the directors of the Company in accordance with the Compensation 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 78.78% 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 October 5, 2023 (Ref.: 2023-01-092227), 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 December 13, 2023 (Ref.: 2023-01-113020) included in this report by way of reference.

Regulation 24b: Register of shareholders

For the Company's shareholder register, see immediate report dated December 13, 2023 (Ref.: 2023-01-113020) 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	238248730	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, 4703006	48 Hanasi Ben Zvi St., Herzliya, 4639948	Arlington, Old Dominion Drive, 4868, 22207	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 Berkeley University	Degree in International Relations and English, The Hebrew University; Degree in Public Policy - Management and Finance, Tel Aviv University	B.A., Social Studies, Harvard University; J.D Law Studies, University of Chicago Law School	B.A. In Economics and Accounting from Tel Aviv University. Israeli CPA license (1993), American CPA license (New York State) (1995).	BSc in Business and Financial Economics from Leeds University, KPMG.
Occupation for the past five years	Partner in the Searchlight Capital Partners and head of investments in infrastructure,	CEO of bullet Trade Services, Partner in Searchlight Capital Partners.	VP of Business Development at the Neopharm Group, Business Development Manager at Celgene	CEO of the Peres Center for Peace and Innovation.	Partner in Searchlight Capital Partners. Chairman of the FCC	Jewelry Designer (Independent Business). Director in the following companies:	CFO and VP of Operations at Ocean Outdoor Group (LSE: OOUT).

	communications, media and technology. Director in the following companies: Bezeq, Mainstream Fiber Network (Chairman), Wecom Fiber (Chairman), All Points Broadband (Chairman), Adams Outdoor Advertising. Formerly, also a director in the following companies: Rackspace, MediaMath, Ocean Outdoor, 160over90, Charter Communications, PatientPoint, Veritable Maritime, Core Media.		Corporation.			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).	
Serves as a director in other corporations	Bezeq, Mainstream Fiber Network, Webcom Fiber, All Points Broadband, Adams Outdoor Advertising	Roots Corporation, Care Advantage, Bullet Trade Services, TouchTunes	Bezeq, ADO Group, Advisory Board of the Tel-Aviv University Alumni Organization		All Points Broadband, Mainstream Fiber Networks, Wecom Fiber, Ziply Fiber, America's Public Television Stations, EdgeQ		Atoll Holdco Ltd, 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, Ocean Brands 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. Visual Art USA Inc, Visual Art Germany GmbH, Visual Art Finland Oy

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; Compensation Committee;	No	The Committee for the Examination of Financial Statements; The Audit Committee; Compensation Committee;	The Committee for the Examination of Financial Statements; The Audit Committee; Compensation 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 and Chairman of the Board of Directors of Bezeq	Internal Auditor
Date of birth	February 14, 1981	April 18, 1985	November 21, 1954
Education	BA in Accounting and Economics, Tel Aviv University. MBA in Business Administration, 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.	The Company's CEO and Chairman of the Board of Directors of 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 resolutions of the directors before the general meeting, and their resolutions that do not require the approval of a general meeting in matters specified in Regulation 29(a)

A. On June 20, 2023, the Company's Board of Directors approved a full early redemption, at the company's initiative, of the remaining debentures (series C) of the Company, subject to the completion of the issuance of additional debentures (series F) of the Company according to the shelf offer report. On June 22, 2023, the Company announced the existence of the precondition for full early redemption of the Company's debentures (series C), and accordingly, that the redemption will take place on July 20, 2023. For details, see the Company's reports of June 21, 2023 and of June 22, 2023 (Refs.: 2023-01-058162 and 2023-01-058786).

B. On August 8, 2023, the Company's Board of Directors approved a buyback plan of the Company's shares in the amount of up to NIS 30 million, which will begin on August 13, 2023 and end upon: (1) purchase in the amount of NIS 30 million; or (2) the end of the trading day on November 1, 2023, whichever is earlier. In accordance with the aforementioned buyback plan, the Company purchased shares for a total amount of approximately NIS 23 million. For more details, see the Company's report dated August 9, 2023 (Ref.: 2023-01-073822) , 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

During the reporting period, no resolutions were made at a special general assembly of the Company's shareholders.

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 12, 2024	______________________________
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 debenture 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 of Directors 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 of Directors 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 debenture 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 plan was implemented in the reporting year: ☒ Yes ☐ No (Mark x in the appropriate box)		√	
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]: 47. 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 (2023): 3 Second quarter: 6 Third quarter: 4 Fourth quarter: 5	_____	_____
		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	_____	_____

See H.S. 2.[11]

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 **Compensation 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	94%				
Phil Bacal	89%				

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	100%						
			Stephen Joseph	83%	100%	75%	100%			
			Michael Clare	83%	100%	100%	100%			
			Efrat Makov	100%	100%	100%	100%			
			Ajit Pai	67%						
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 debenture 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 did not serve -		_____	_____
		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.		The 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: <u>3 days when approving the periodic statements and 2 days when approving the quarterly statements</u>.	_____	_____
	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 2023): <u>1 day</u>. Second quarter statements: <u>5 days</u>. Third quarter statements: <u>5 days</u>.	_____	_____

		Annual statements: <u>1 days</u>.		
	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 2023): <u>5 days</u>. Second quarter statement: <u>5 days</u>. Third quarter statements: <u>5 days</u>. Annual statements: <u>4 days.</u>		
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.		______	______

COMPENSATION 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 Compensation Committee in the reporting year are in accordance with the Companies Regulations (Rules regarding Compensation and Expenses for an External Director), 5769-2000.		√	
30.		In the reporting year, on the Compensation 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 Compensation Committee unless the chairman of the Committee determined that either of them was required to present a particular subject.		√	
32.	The Compensation 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 compensation policy, despite the opposition of the general assembly. 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 by 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.	√	

INTERESTED PARTY 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). <u>See note at the end of the questionnaire</u>. 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).	√	

<u>Closing notes to the questionnaire</u>:

1. **<u>Meetings of the Board of Directors (and convening a general assembly)</u>**
   <u>Section 11B</u> - 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 considered, 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. **<u>Stakeholder transactions</u>**
   <u>Section 38</u> - 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, 2023

(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, Comptroller.

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, are 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);
2. The process of editing and closing the reports;
3. General controls of information systems (ITGC);
4. Controls over cash and debt management process;

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 concluded that the internal control over the financial reporting and disclosure in the Corporation as of December 31, 2023 is effective.

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 the investigations (mainly regarding transactions related to the previous controlling shareholder of the Company and Bezeq and the former chairman of the Bezeq Board of Directors, Mr. Shaul Elovich, regarding the purchase of Yes shares and the provision of satellite communication services to Yes), their content, materials, and the 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, and although on February 1, 2024, an agreement was signed between the State of Israel and Bezeq for the conditional cessation of proceedings). 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.

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(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 2023 (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 12, 2024

____

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 2023 (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 12, 2024

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Itzik Tadmor, Chief Financial Officer