Convenience translation into English of Cellcom Israel Ltd.'s Annual Report for the year ending on December 31 2022 **("Annual Report")** filed with the Israeli Securities Authority, on March 9 2023

In any case of inconsistency, the Annual Report in Hebrew shall prevail.

Cellcom Israel Ltd.

Periodic Report for 2022

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Chapter A – Description of the Company's Business

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1. Definitions

For purposes of convenience, hereunder are definitions of the main terms appearing in this Chapter:

"**Company**" or "**Cellcom**"	-	Cellcom Israel Ltd.
the **"Group**"	-	The Company together with its subsidiaries.
"**DIC**"	-	Discount Investment Company Ltd.
"**Bezeq**" or "**Bezeq Group**"	-	Bezeq the Israeli Telecommunication Corp. Ltd. and its subsidiaries.
"**Golan**"	-	Golan Telecom Ltd.
"Dynamica"	-	Dynamica Communications Chain Stores Ltd.
"Financial Statements"	-	The Company's consolidated financial statements as of December 31, 2021, which are included in Chapter C of this Periodic Report.
"Board of Directors' Report"	-	The board of directors' report on the corporation's state of affairs as of December 31, 2021, which is included in Chapter B of the Periodic Report.
"**Hot" or "Hot Group"**	-	Hot – Telecommunications Systems Ltd. and its subsidiaries.
"**Hot Mobile**"	-	Hot Mobile Ltd.
"**Permit**"	-	The general permit applying to the entity registered in the registry by virtue of the permit regulations.
"**IRU Agreement**"	-	Indefeasible Right of Use Agreement
"**Consumer Protection Law**"	-	The Consumer Protection Law, 5741-1981, and the regulations promulgated thereunder.
"**Radiation Law**"	-	The Non-Ionizing Radiation Law, 5766-2006.
"Planning and Building Law"	-	Planning and Building Law, 5725-1965.

"Communications Law"	-	Communications (Telecommunications and Broadcasting) Law, 5742-1982.
"IPCS"	-	International phone call service (international operator).
"MNO"	-	Mobile network operator, cellular communication operator with infrastructure and frequencies.
"Virtual Operator" or "MVNO"	-	A cellular operator that does not possess infrastructure and frequencies, and purchases hosting services from an operator with infrastructure.
"**Wecom**"	-	Wecom Mobile Ltd. (formerly Marathon 018 Xfone Ltd.)
"Cellcom TV"		Internet television services (OTT) including television channel broadcasts, video on demand (VOD) services, and other advanced features.
"Pelephone"	-	Pelephone Communications Ltd.
"Telegraph Ordinance"	-	The Wireless Telegraph Ordinance [New Version], 5732–1972
"Partner"	-	Partner Communications Company Ltd.
"End Equipment"	-	Different types of mobile phones, Bluetooth and accessories, tablets, laptop computers, modems, speakers, smart watches, and other electronic accessories.
"Unified License"	-	A general license for providing telecommunications services that allows providing different kinds of services, granted to Cellcom Fixed Lines Communications L.P.
"Wholesale Market"	-	As detailed in Section 22.6.2.
"Cellcom Partnership"	-	Cellcom Fixed Line Communications Limited Partnership.
"IBC Partnership"	-	IBC Unlimited Holdings Limited Partnership.
"IBC"	-	IBC Israel Broadband Company (2013) Ltd.

"Permit Regulations"	-	Communication (Telecommunication and Broadcasting) Regulations (General Permit for Providing Telecommunication Service), 5783-2022 (the "**Permit Regulations**")
"IIF"	-	Israel Infrastructure Fund III L.P.
"GSM"	-	Digital cellular network technology accepted in most countries of the world.
"GPRS"	-	Data communications standard using GSM network, which enables content transfer and internet access.
"EDGE"	-	Data communications standard using GSM network, which is an upgrade of GPRS.
"HSPA"	-	High Speed Packet Access – a wireless cellular communications protocol designated for a spatial communications network that connects between municipal networks and local networks.
"HSPA +"	-	Upgrade of HSPA technology.
"IOT Solutions"	-	Internet of Things solutions, which enable connection of different end products to the internet, such as "smart city" solutions.
"LTE"	-	Radio technology standard – mobile phone which enables fast-paced data transfer.
"OTT"	-	Over The Top, technology that uses public internet infrastructure to supply video on demand television services.
"UMTS"	-	Universal Mobile Telecommunication System, or worldwide mobile telephone system, 3G cellular telephone technology. HSPA technology using UMTS network constitutes one of the dominant 3G standards.

"VOB"	-	Voice Over Broadband, IP telephone service on fixed-line broadband access.
"IP"	-	Internet Protocol, internet protocol which enables coherence between voice, data and video on the same network.
"VOIP"	-	Voice Over IP, general term for different technologies and systems for voice transfer using IP networks, such as the internet.
"RSUs"	-	Restricted Share Units.
"SAR Level"		For mobile phones held near the body, the level of non-ionizing radiation emitted from the phone is measured based on the level of specific absorption in an animal's body, the Specific Absorption Rate.
"SDH"	-	Synchronous Digital Hierarchy, technological standard for the transfer of data using optic media.
"Ethernet Carrier"	-	Network for transfer of transmission and data using IP technology.

Part One: Description of the General Development of the Company's Business

This chapter presents a description of the business of Cellcom Israel Ltd. and its development during the year 2022 ("**Report Period**"). Unless explicitly stated otherwise, data in this report is correct as of December 31, 2022.

2. The Group's Activity and Description of the Development of its Business

2.1. General

Cellcom is an Israeli telecommunications group that provides a wide range of telecommunication services in Israel in two areas, cellular communication and fixed-line communication. The Group is Israel's largest provider of cellular services with a significant presence both in the private and business sectors. The Company was incorporated in Israel as a company limited by shares on January 31, 1994, where in February 2007 its shares were listed for trading on the New York Stock Exchange ("**NYSE**") for the first time, and in July 2007 its shares were dually listed for the first time on the Tel Aviv Stock Exchange ("**TASE**").

Over the years of its operations Cellcom led significant revolutions in the Israeli communications market, starting from breaking Bezeq's monopoly in the cellular market, through establishing a business transmission network, and presenting an innovative solution for internet-based television (OTT). Cellcom continued to develop and grow through mergers in the communications market, the main such mergers include: The acquisition of the fixed-line operations of 013 Netvision Ltd. and its merger with the cellular activity into a communications group, an investment together with IIF – Israel Infrastructure Fund in IBC, while reducing dependency on the fixed-line infrastructure providers, acquiring Golan in 2020 and strengthening the group's standing as the country's largest cellular provider, and entrance of Hot as a partner in IBC as a lever for expanding and developing the fiber-optic infrastructure and the network Sharing Agreement with Wecom, as detailed in this chapter below.

On February 8, 2021, the Company's shares were voluntarily delisted from the New York Stock Exchange ("**Delisting Date**"), and on May 9, 2022, the Company applied to the United States Securities and Exchange Commission ("**SEC**") for deregistration of the Company's shares in the NYSE and ending its reporting obligations to the SEC,. the Company's shares were deregistered and its reporting obligations to the SEC ended. From the Delisting Date, the Company transitioned to a reporting format under the provisions of Chapter F to the Securities Law 5728-1968 (the "**Securities Law**"), which apply to corporations reporting in Israel, while up to the Delisting Date the Company had been filing reports in Israel under the provisions of Chapter E3 of the Securities Law, which apply to dual listed companies.[1]

2.2. **<u>Control of the Company</u>**

2.2.1. On June 29, 2022, DIC, the indirect controlling shareholder of the Company, reported that DIC's board of directors resolved, among other things, to instruct DIC's management to examine liquidation of all or part of DIC's holdings in the Company in one or several transactions. DIC later updated that in August 2022 it contractually engaged with an investment bank that will act for it in the examination and sale process of the Company's shares.

2.2.2. On August 11, 2022, the Company updated that DIC reported that it had sold shares of the Company representing 9.9% of the issued and paid-up capital of the Company to several entities not related to DIC in over-the-counter transactions. For the percentage of DIC's holdings in the Company's shares as of the date of publication of the report, see article 21A in Chapter D (Additional Details on the Corporation) of this periodic report.

2.2.3. On September 1, 2022, DIC updated the Company that it had received a number of initial inquiries that it was considering, and that one of the preliminary inquiries it received (the "**Inquiry**"), and it is possible that the same will apply to additional inquiries, expressed interest in purchasing all of the Company's shares and not only in purchasing DIC's portion. DIC emphasized that this is a non-binding indicative inquiry that

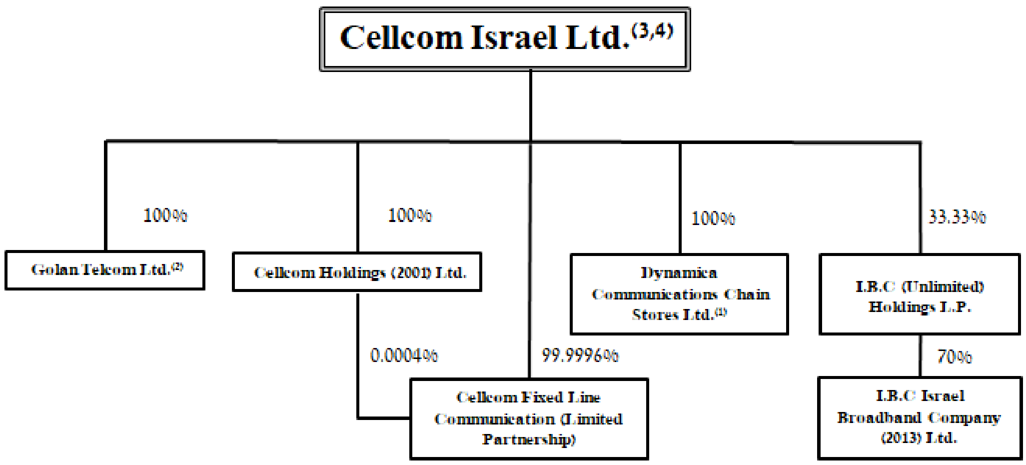
[1] It will be noted that until the date of suspension of the Company's reporting obligations to the SEC on February 9, 2022, the Company continued to submit reports to the SEC in accordance with US securities regulations because its shares continued to be registered.

is subject to various checks and stipulations, and it has not yet formulated a position in such respect. It should be clarified that there is no certainty that the Inquiry (or other inquiries if received as aforesaid) will mature into negotiations or into the execution of a binding agreement (or agreements) and completion, and there is no certainty as to the feasibility, timing and conditions of such a sale transaction, and that such transaction, if and when it materializes, shall be subject to receiving approvals required by law.

2.2.4. On February 5, 2023, DIC reported that on February 2, 2023, approval was received from the Ministry of Communications for the sale of up to an additional 9.5% of DIC's holdings (indirect) in the Company, such that DIC's holdings in the Company after such sale will not fall below 26% of each of DIC's means of control in the Company. DIC clarified in its report that as of the date of its report there is no certainty whether it shall sell all or part of its holdings in the Company as aforesaid.

2.3. **<u>The structure of the Group's material holdings</u>**

Below is a chart depicting the structure of the Group's material holdings as of the publishing date of the report:



(1) Dynamica sells and markets End Equipment to private customers (end customers) and business customers (end customers and points of sale), in Israel, including: (a) cellular products such as smartphones, tablets, smart watches and complementary accessories; (b) other electronic and electrical products such as computers, gaming and gaming accessories, audio, multimedia, gadgets, televisions, drones and vacuum cleaners. The products sold by Dynamica are mainly from Apple, Samsung, as well as from several other manufacturers such as Xiaomi, One Plus and more. The marketing and sale of Apple and Samsung products is done through an agreement between Dynamica and the Company (for more details regarding the Group's agreements with Samsung and Apple, see section 16 below)..

(2) Golan provides cellular services as well as an international operators service (IPCS) through a fully owned subsidiary. For details see section 22.4.2 (2) below.

(3) The chart does not include the Company's holdings in the general partner of IBC. For details about the Group's holdings in IBC, see section 18.1 below.

(4) The chart does not include the Group's holdings in C.M.G. Network Limited Partnership (the "**Joint Corporation**") – the joint corporation through which Cellcom shares the radio network with Wecom, which the parties hold in equal share (50-50%).

3. Areas of activity

As of the publication date of the report, the Group is engaged in two areas of activity, as follows:

3.1. Cellular communications

In the framework of cellular communications, the Group provides a wide variety of cellular communication services in Israel under a license granted by the Ministry of Communications or registration in a designated registry (administrated by the Ministry of Communications) pursuant to the Permit

Regulations (the "**Registry**"). Similarly, the Group provides its customers with overseas roaming services and cellular communication services to customers of foreign operators that visit Israel. As of December 31, 2022, the Group provides cellular services to approximately 3.45 million subscribers,[2] on a number of countrywide networks,[3] which include calls, sending and receiving messages (SMS, MMS), and internet browsing and data transfer as well as accompanying services.[4] In addition, the Group sells (mainly through Dynamica) its customers cellular End Equipment and warranty and repair services for End Equipment. Moreover, the Group provides construction, operation, and maintenance services to the radio network that it shares with Wecom. For additional details about the area of activity see Section 8 below.

3.2. **Fixed-line communications**

In the area of fixed-line communications, the Group provides internet services, including internet service provider (ISP) and infrastructure service (broadband services, based on Bezeq's copper-wire and fiber optic infrastructure within the wholesale market; and IBC fiber optic), internet television services (Cellcom TV), international phone services (IPCS) and domestic operator services, and transmission services for business customers (including international transmission services) and communication operators on the basis of Bezeq infrastructure as well as the Group's independent infrastructure. Similarly, the Group provides additional services such as: Conferencing services, cloud services, hosting services and servers, information security services and IOT solutions. In addition, the Group sells End Equipment in the area of fixed-line communication. For additional details about the area of activity see Section 9 below.

[2] See definition in Section 4.4 of the board of directors' report.

[3] Except for the 5G network that is in the process of being deployed in selected regions.

[4] It is clarified that not all networks and not all handsets support all the technologies and all the services provided by the Group. Similarly, there are services that are tailored to the business customers.

4. <u>Investments in the Company's equity and transactions in its shares during the years 2021 and 2022 until the date of publishing the Report</u>

4.1. **<u>Examining the sale of the Company's shares by the controlling shareholder of the Company</u>**

For details regarding examination of the sale of the Company's shares by the controlling shareholder of the Company, see section 2.2 above.

4.2. **<u>Changes in the holdings of interested parties in the company's shares</u>**

For details about changes in the holdings of interested parties in the Company's shares during the years 2021 and 2022 and until the date of publication of this report, in transactions on and off the stock exchange, see the Company's immediate reports.

5. <u>Distribution of dividends</u>

5.1. **<u>Dividends distribution</u>**

5.1.1. In 2021 and 2022, and until the date of publishing the Report, the Company did not distribute any dividends to its shareholders.

5.1.2. As of December 31, 2022, the Company has distributable profits (as defined in Section 302 of the Companies Law) in the amount of NIS 1,297 million.

5.2. **<u>Dividends distribution policy</u>**

The Company has a dividends distribution policy whereby it shall set itself a goal to distribute to its shareholders at least 75% of its annual profit after tax, on a quarterly basis, provided the distribution of dividends does not adversely affect the Group's cash needs and the plans that were approved by the board of directors. All subject to the restrictions set forth in law and in contractual restrictions that the Company has assumed/shall assume (as set forth in Section 4.4 below). Notwithstanding the foregoing, the Company's board of directors may, at its discretion, not distribute dividends or distribute dividends in scope different than the foregoing.

5.3. **Restrictions on dividends distribution**

For details about the Company's undertakings towards lending entities and holders of the Company's debentures with respect to compliance with financial covenants and restrictions on distribution that could affect its ability to distribute dividends, see Section 19.4 below, and also see the equity limit within the cellular license in section 22.4.1 (1) below.

Part Two: Other Information

6. Financial information regarding the Company's areas of activity

6.1. Hereunder financial information with respect to the Company, according to area of activity for the year ended December 31, 2022 (NIS millions):

	Cellular communications area	Fixed-line communications area	Adjustments to consolidated*	Consolidated
Sales revenues from outside factors	2,887	1413	-	4,300
Revenues from other activity areas	14	141	(155)	-
Total revenues	2901	1,554	(155)	4,300
Costs not attributed to revenues of another activity area	2,516	1,426	-	3,942
Costs constituting revenues of another activity area	141	14	(155)	-
Total costs	2,657	1,440	(155)	3,942
Variable costs**	1,420	641	-	-
Fixed costs**	1,237	799	-	-
Total costs	2,657	1,440	(155)	3,942
Profit (loss) from operation	244	114	-	358
Adjusted EBITDA	768	429	-	1,197
Total assets	3,756	2,152	1,091	6,998
Total liabilities	717	333	3,844	4,894

* Adjustments to consolidated derive from transaction between the different activity areas.
** Variable costs are costs that the Group has control over in the short term and are affected also by sales turnover. Fixed costs are not flexible in the short term and the Group shall incur them even in case of decrease in revenues.

6.2. Hereunder financial information with respect to the Company, according to area of activity for the year ended December 31, 2021 (NIS millions):

	Cellular communications area	Fixed-line communications area	Adjustments to consolidated*	Consolidated
Sales revenues from outside factors	2,769	1,331		4,100
Revenues from other activity areas	13	141	(154)	-

	Cellular communications area	Fixed-line communications area	Adjustments to consolidated*	Consolidated
Total revenues	2,782	1,472	(154)	4,100
Costs not attributed to revenues of another activity area	2,507	1,385		
Costs constituting revenues of another activity area	141	13	(154)	-
Total costs	2,648	1,398	(154)	3,892
Variable costs**	1,419	607	-	-
Fixed costs**	1,228	791	-	-
Total costs	2,648	1,398	(154)	3,892
Profit (loss) from operation	134	74	-	208
Adjusted EBITDA	684	449		1,133
Total assets	2,089	3,675	806	6,570
Total liabilities	351	679	3,618	4,648

* Adjustments to consolidated derive from transaction between the different activity areas.
** Variable costs are costs that the Group has control over in the short term and are affected also by sales turnover. Fixed costs are not flexible in the short term and the Group shall incur them even in case of decrease in revenues.

6.3. **Hereunder financial information with respect to the Company, according to area of activity for the year ended December 31, 2020 (NIS millions)**:

	Cellular communications area	Fixed-line communications area	Adjustments to consolidated*	Consolidated
Sales revenues from outside factors	2,349	1,327	-	3,676
Revenues from other activity areas	15	153	(168)	-
Total revenues	2,364	1,480	(168)	3,676
Costs not attributed to revenues of another activity area	2,252	1,447	-	3,699
Costs constituting revenues of another activity area	153	15	(168)	-
Total costs	2,405	1,462	(168)	3,699
Variable costs**	1,292	643	-	-
Fixed costs**	1,113	819	-	-
Total costs	2,405	1,462	(168)	3,699

	Cellular communications area	Fixed-line communications area	Adjustments to consolidated*	Consolidated
Profit (loss) from operation	(41)	18	-	(23)
Adjusted EBITDA	525	393	-	918
Total assets	3,728	2,123	1,306	7,157
Total liabilities	624	364	4,289	5,277

* Adjustments to consolidated derive from transaction between the different activity areas.
** Variable costs are costs that the Group has control over in the short term and are affected also by sales turnover. Fixed costs are not flexible in the short term and the Group shall incur them even in case of decrease in revenues.

6.4. For the board of directors' explanations regarding the Company's financial information appearing in the Financial Statements, see the board of directors' report.

7. General environment and the effect of external factors on the Group's activity

Below are factors of the macro-economic environment that affect or may affect the Group's activity:

7.1. Regulation and dependency on licenses or permits

The Israeli communications market is characterized by extensive and dynamic regulatory involvement, and the regulatory changes may have a material effect on the Group's activity.

The Group's activity is subject, *inter alia,* to the provisions of the Telegraph Ordinance, the Communications Law and the regulations promogulated thereunder and of the licenses granted to the Group by the Ministry of Communications and to its registration in the registry.

These licenses and permits set forth, *inter alia,* conditions and restrictions that the Group must comply with in the framework of its business activity. The licenses and permits can be changed according to the terms set forth therein, including in defiance of the Group's position. A material violation of the provisions of the licenses and permits may lead to their cancellation. Similarly, violating the conditions of the licenses and permits may lead to imposing significant financial sanctions on the Group. In addition, the manner and effectiveness of the Ministry of Communication's oversight of other operators active in the communications market also affects the Group's activity and the competition in the communications market.

The Company's activity is also subject to additional laws, such as: Planning and building laws (in connection with the construction of cell sites and other installations), the Radiation Law, competition law, securities law, consumer law, privacy protection law, labor law, and the regulatory and court decisions that apply to each of these and other areas. For additional details about restrictions and oversight of the Group's activity, including the licenses granted to the Group, including details about the reform of telecommunication services licensing in Israel which transferred some of the entities providing telecommunication services from regulation via license to regulation via registration in the Registry; see Section 22 below.

7.2. **Competition**

The Group is active in a competitive market in all areas of its operations. For additional details see Section 12 below.

7.3. **Technological changes and technological dependency**

The communications area is a highly dynamic and competitive field, which is characterized by a fast pace of technological changes, which require appropriate preparation and capital-intensive investments in telecommunications infrastructure, in order to meet the changing needs of consumers and to retain the competitive position of the players active therein. Accordingly, the Group is required to invest in advanced technologies in order to remain competitive. For additional details see Section 27.2.7 below. In addition, the activity in the area of communications establishes a dependency of the parties active therein on the communications infrastructure, and on data systems and complex technological systems, while the lack of an independent infrastructure means being dependent on the various infrastructure providers. Malfunctions in such technologies may adversely affect the Group's ability to provide services and products to the customers, adversely affect the Group's goodwill, and expose it to claims. For details regarding the technological changes and the technological systems in the area of mobile communications and in the area of fixed-line communications, see Sections 8.1.4 and 9.1.3 below.

For additional details about the Group's investment and the Group's dependency on infrastructure and the networks, see Sections 13.2 and 27.3.2 below.

7.4. **Environmental risks**

For details regarding the possible effect of environmental risks on the Group's activity, see Section 21 below.

7.5. **Covid-19 pandemic**

For details regarding the effect of Covid-19 on the Group's activity, see Section 1 of the board of directors' report.

7.6. **Inflation and interest in the economy**

For details regarding the effects of inflation in the domestic and global economy, as well as regarding the effects of the increase in interest rates in the economy on the Group's activities, see section 1.4 of the board of directors' report.

Part Three: Description of the Group's Business According to Area of Activity

8. Cellular communications

In addition to that set forth in Section 3.1 above, below is a description of trends, events, and developments in the macro-economic environment of the Group that have or may have an effect on the area of mobile communications:

8.1. Structure of the area of activity and changes to the scope of activity in the area

8.1.1. General

The area of activity includes cellular communication services and related services, as well as merchandise, warranty and repairs for cellular equipment, as set forth in Section 8.2 below. The cellular telecommunication services are provided by MNO – the owners of the infrastructure, and MVNO who are hosted on the MNO infrastructure.

In August 2020, the Group completed the acquisition of Golan and strengthened its position as a market leader.

In recent years, the cellular telecommunications market has been characterized by fierce competition, which led to frequent and extensive transfers of subscribers between the various cellular operators, which led to erosion of the Group's average revenue per cellular subscriber and harming the Group's profitability. However, in 2022 there was a decrease in transfer of subscribers between the different cellular operators and a decrease in the average customer churn rate, and this came at the same time as an increase in the Group's average income per mobile subscriber. For details regarding the increase during the lifetime of a customer in the field of cellular communication, see note 2.d. to the financial statements.

However, the cellular end equipment market is still characterized by intense competition between the various providers (cellular operators, importers, retail chains, additional private shops, e-commerce websites, etc.), which sell cellular end equipment, including through parallel imports.. In the report period, in light of measures taken by the Group to focus and expand its activity in the area, the Group succeeded in improving the gross profitability rate compared to 2020 alongside increasing the activity turnover. For additional details see Section 1.4 of the board of directors' report.

8.1.2. Limitations, legislation, standardization and special constraints that apply to the area of activity

For details about regulatory restrictions that apply to the Company, including the area of cellular communication activity, see section 22 below.

8.1.3. The developments in the markets of the area of activity, or changes in the characteristics of its customers

The cellular telecommunications market is characterized by low growth rates, due to a saturated penetration[5] and mobility rates between the various operators (at lower rates than in the past). In recent years cellular telecommunications became a central means of day-to-day conduct of private customers and businesses. The users are expanding the usage methods and transferred from using the communication services mainly for the purpose of phone calls, to an expanding use of the communication services, especially the cellular surfing services, use of applications, and use of connected equipment (IOT). The Company believes that this trend shall continue and get stronger, mainly with the entry of 5G and the development of 5G based apps and uses.

8.1.4. Technological changes that could affect the area of activity

The cellular communications market is characterized by frequent and significant technological changes, for which the cellular operators are required to continuously invest in development and adjustments to advanced technologies. In recent years there have been two main

[5] The penetration rate - the ratio between the total subscribers in the cellular market and the total population of Israel, not including foreign workers and Palestinians, even though they are included in the number of subscribers.

technological changes that have an impact on the area of activity as detailed below:

(1) Efficient data traffic through upgrading and expanding the 4G and 5G network deployment - continuous growth in the scope of cellular data traffic, which in recent years has been occurring on the cellular and fixed-line communication networks, dictates the necessity of upgrading the networks as foregoing, and it requires the purchase of ever-increasing capacity for providing the connectivity service to the internet and the Group's infrastructure. In the Group's estimate, such growth in data traffic shall *inter alia* continue due to the development of content and television services in high resolutions, which rely on internet communication, and also bearing in mind increasing uses that require fast and efficient data traffic.

    In order to respond to the increasing demand for cellular data traffic and in order to allow greater capacity and faster data transfer capability, the Group is *inter alia* required to continue its investments to upgrade and expand deployment of the 4G and 5G network and adjusting them to new frequencies allocated in frequencies tenders. In this context, it should be noted that in December 2022, the Ministry of Communications published the 5G tender documents in the area of 26 MHz frequencies ("5G Tender"), in which 25 cut-off bands with a bandwidth of 100 MHz each are offered (total 2,500 MHz) in the 26 GHz frequency range for a period of 10 years. For more details about the 5G Tender, see the Company's immediate report of December 8, 2022 (reference number: 2022-01-148915), which is provided here by way of reference.

    In August 2022, the Ministry of Communications published a hearing for the allocation of frequencies for a non-public wireless access network to an entity (that does not hold a cellular license or a general license to provide domestic operator services) that wishes to provide telecommunication service in a non-public network in a specified geographic area and for a specific project, inviting applications to the Ministry of Communications for allocation of frequencies from a designated band at 26 GHz and 2.1 GHz. In addition, the Ministry of Communications published, in August 2022, another hearing, which would allow third parties that are not cellular companies to establish an infrastructure of radio centers (cellular sites) to be operated only by the cellular companies when such use would be additional to the coverage obligations stipulated in the companies' licenses.

For additional details about the Group's rights to use the frequencies, the Company winning the 2020 tender, and the requirement of the Ministry of Communications to replace frequencies, see Section 14.5 below.

(2) Use of e-SIM technology

e-SIM (embedded sim) technology, which has been around for several years, replaces the need to install a physical SIM on the mobile device and enables digital mobility between operators. As of the date of publication of the report, no e-SIM-only mobile devices have yet been launched in Israel (the iPhone 14 was launched in Israel with an integrated solution and in several other countries abroad it was launched as e-SIM-only) and the major telecommunications companies (the Company included) have yet to launch an e-SIM service for cellular phones (so that at this time, e-SIM technology is used in Israel only in smart watches). e-SIM technology allows subscribers who own e-SIM-supporting cellular devices an alternative to the existing method of purchasing local numbers from foreign operators (using the e-SIM technology), and may replace the purchase of roaming packages exclusively from the operator with other outside alternatives when Israeli customers travel abroad. In addition, application of the technology by telecommunication operators in Israel may facilitate the mobility of cellular customers to these operators.

In the Company's estimation, the increasing use of e-SIM technology in Israel may cause an erosion of the Company's income from roaming services. As of the date of publication of the report, the Group cannot assess whether and when the technology will become widespread among the Israeli public and is therefore unable to estimate the impact this will have (if any) on the market and the results of the Company's operations.

The Company is continuously examining the technologies in the market and the need to upgrade the technology of its current networks, according to the state of market competition and the economic feasibility of investing in technological upgrades.

8.1.5. <u>The critical success factors in the area of activity and the changes applicable thereto</u>

In the Company's estimate, the critical success factors in this area of activity are as follows:

(1) A nationwide deployment of a quality and advanced cellular network, including the ability to maintain the network at a high level and to continuously make significant investments in the cellular infrastructure, both for purpose of optimal coverage across the country and for purpose of being able to provide large capacity to the customers and to enable technologically advanced services;

(2) The ability to offer competitive prices and a variety of packages and pricing plans;

(3) Extensive and varied sale and distribution channels;

(4) The ability to deal with the effects of regulatory decisions;

(5) Quality, fair, and efficient customer service, including the ability to offer technical support and customer service through a variety of physical, telephonic and digital channels;

(6) A well-known and leading brand;

(7) Managing a wide range of communication services for homes and its customers under one roof, and the ability to provide the customers with a comprehensive response;

(8) Professional and skilled manpower.

8.1.6. Main entry and exit barriers

In the Group's estimate, the main barriers to entry into the area of activity are:

(1) The need to obtain a general license from the Ministry of Communications for providing cellular telecommunication services, while complying with the conditions set forth in the Communication Law and obtaining a right from the state to use the appropriate frequencies, which involves high financial costs;

(2) The need for financial means in large scopes and vast knowledge for purpose of making the significant investments that are required in the technological infrastructure, the establishment of a network and a countrywide deployment of sites, an operating system, sales system, and broad support and service;

(3) Burdensome regulation and oversight in the area of cellular communications, compliance with which and with the changes made thereto may require substantial investments. For additional details see Section 22.5 below and also see Section 22.2.1 (4) below in relation to Amendment No. 76 to the Communications (Telecommunication and Broadcasting) Law, 5742-1982 reforming the licensing system for telecommunication services in Israel, some of which were transferred to regulation via registry (instead of license);

(4) The need for constructing cell sites (which are also known as cellular antennas) with countrywide deployment, which involves many difficulties due to the difficulty in renting space for constructing cell sites and the licensing of the sites, which

frequently encounters opposition from the local authorities and in whose territory the site is established and from their inhabitants. For additional details (including the possibility of establishing exempt cell sites) see Section 21.4 below.

It is noted that most of the barriers to entry described above do not constitute an entry barrier for virtual operators; however, one of the main barriers to entry for virtual operators is entering into a hosting agreement with a cellular license holder (for use of the cellular network).

In the Group's estimate, the main exit barriers from the area of activity are:

(5) The Minister of Communications' approval for ceasing the provision of the service, which may be contingent upon an arrangement for continued provision of the service that is provided to the customers by the operator asking to exit the area;

(6) The Cellular License sets forth restrictions, *inter alia* on transferring shares from corporations that hold such license and on transferring or charging assets that are used by the Group for fulfilling the terms of the license (for details see section 22.4.2 below);

(7) Material investments that require a long time for a return on investment.

8.1.7. The structure of the competition in the area of activity and the changes that apply to it

For more details about the competition structure in the area of activity, see section 12.3 below.

8.2. **Products and services**

As of the Report publication date, the Group is Israel's largest cellular service provider based on the number of subscribers and estimated market share.

As of the Report publication date, the Group is providing cellular communication services to approximately 3.4 million subscribers in Israel, who constitute an estimated market share of approximately 31% of the cellular telecommunications market.

8.2.1. The Group offers its subscribers a wide range of services in this area of activity, including:[6]

(1) Cellular calling (voice) service in Israel and related services, such as: Call waiting, caller ID, voicemail, tracking and conference calls;

(2) Message delivery and receipt service (SMS and multimedia messages (MMS));

(3) Web browsing and data communication services - internet browsing services;

(4) These services also include 5G packages that offer extended data packages.

(5) Roaming services for its subscribers when outside Israel, and roaming services for visitors to Israel, who may use the Company's cellular network;

(6) Value-added services, such as: data security services, "music-on-hold" services (where you hear a different waiting tone per the customer's choice than the normal dial tone), workforce management applications, fleet management, cloud computing services, hosting and backup of servers and websites (for business customers), and comprehensive communication solutions (for business customers), etc.;

(7) Internet of things (IOT) services – advanced end to end solutions in the area of IOT (such as "smart city" solutions);

(8) Warranty and repair services for cellular equipment - in exchange for monthly payment that entitles the customer to repair services

[6] See footnote 3 above.

and/or in exchange for a non-recurring payment upon the repair.

Similarly, the Group is continuously examining the offering of additional products and services to its customers and offers cellular subscribers a broad range of pricing packages and plans.

The Group offers two payment methods: Advance payment (prepaid) and retroactive payment (post-paid). In the framework of the retroactive payment, the subscriber provides a payment method in the form of a bank account debit order or a credit card charge. Services for advance payment are usually paid by purchasing physical or virtual "Talkman" cards. Most of the Group's sales in this area are made by way of retroactive payment. According to the applicable regulation, the cellular service packages do not include an undertaking to purchase the Group's services for a predefined period, except in connection with agreements with large business entities. For additional details about restrictions and oversight in the area of cellular communication, see Section 22.5 below.

8.2.2. According to the network sharing agreement with Wecom, the Group provides Wecom with domestic roaming services and subcontractor services to the Joint Corporation. For additional details about such sharing agreement, see Section 24.1 below.

8.2.3. Equipment

The Group makes sales on a wide range of sale channels, including in physical shops (including the Dynamica chain that constitutes the Group's retail arm) and on the websites, a wide range of cellular phones, accessories, and additional electronic equipment, such as tablets, laptops, gaming consoles, loudspeakers, earphones and smart watches. The Group offers a variety of payment plans for such equipment. The consideration is paid in one payment or in a number of payments, according to the customer's choice. The vast majority of the Group's cellular phone sales in 2021 and 2022 were from the Samsung and Apple brands (for additional details regarding the Group's agreements with Samsung and Apple, see Section 16 below). The cellular handset models sold by the Company support the Hebrew, English, Russian and Arabic languages (in most models).

8.3. Breakdown of revenues from products and services

Below is the data about customer revenue in the area of cellular communication, the rate of which constitutes 10% or more of the Company's total revenue (as presented in the Company's consolidated financial statements) for 2020 and 2022 (in NIS millions)[7]:

	2022		2021		2020	
	Revenues	**Rate (*)**	**Revenues**	**Rate (*)**	**Revenues**	**Rate (*)**
Cellular communication services (**)	879	43.7	1775	43.3	1558	42.4
Equipment	929	21.6	915	22.3	704	19.2

(*) Calculated rate of the Company's total revenue in the consolidated financial statements of every period.

(**) Including revenue from Wecom and Golan (Golan until its purchase in August 2020) for the sharing agreement. For details see Section 24.1 below.

9. Fixed-line communications

In addition to that set forth in Section 3.2 above, below is a description of trends, events, and developments in the macro-economic environment of the Group that have or may have an effect on the area of fixed-line communications:

9.1. Structure of the area of activity and changes in the scope of activity, developments in the markets of the area, and changes in the characteristics of its customers

The area of activity includes a variety of fixed-line communication services, including internet services (connectivity and infrastructure), OTT television services, domestic and international (IPCS) fixed-line operator services, fixed-line telephone services, transmission services that are offered to the Group's business customers (including international transmission services) and various

[7] It should be noted that in terms of revenue, as of September 30, 2022, the Group is a market leader in the sale of equipment in the field of cellular communications.

communication operators and communication solutions, such as IOT solutions and the sale of End Equipment in the area of activity, such as computing and communication equipment (servers, routers and switches, etc.), software and integration of information security products.. For details see Section 9.2 below.

Communication operators that own fixed-line infrastructure with nationwide deployment, such as Bezeq, generally provide communication services to their customers through their independent infrastructure, and whichever communication operators that do not own fully independent infrastructure, such as the Group, also use infrastructure of the infrastructure owners for purpose of providing their services, including in the framework of the services and costs provided in the framework of the Wholesale Market. As mentioned, in general, the Group provides fixed-line communications to its business customers through independent infrastructure that it owns alongside Bezeq infrastructure (as part of the Wholesale Market) while services to its private customers are provided through IBC infrastructure and Bezeq infrastructure (in the framework of the Wholesale Market).

9.1.1. Limitations, legislation, standardization and special constraints that apply to the area of activity

The Group's dependence on the owners of fixed-line infrastructure – the Group's investment in IBC, including the partnership with the Hot group in IBC, allows IBC to significantly increase the deployment of its fiber-optic infrastructure and thus decrease the Group's dependence on the other fixed-line infrastructure owners. For additional details see Section 18.1 below.

Regulation - For details about regulatory restrictions that apply to the Company, including the area of fixed-line communications, see section 22 below.

9.1.2. Developments in the markets of the area of activity, or changes in the characteristics of its customers

(1) **Internet**

This market includes internet connectivity services and internet infrastructure. For details see Section 9.2.2 (1) below.

In recent years, the internet market recorded an increased use and scope of data movement transferred on the communication networks.

As of the publication date of the Report, the Hot group and Bezeq are the only entities in the State of Israel that own countrywide (or nearly countrywide) fixed-line infrastructure. Bezeq's infrastructure is based on the deployment of copper wires alongside fiber-optics, whereas Hot's infrastructure is cable-based alongside a fiber-optics upon completion of the IBC investment transaction. With respect to copper-wire and cable-based infrastructure those companies are imposed with a duty of universal (or nearly so) deployment.[8]

IBC has fiber-optic based infrastructure in select areas, which mainly serves private customers. Part of that is deployed on the electricity infrastructure of the Israel Electric Corporation, and part of that through using the Wholesale Market (mostly through Bezeq's physical infrastructure and partially through Hot's physical infrastructure).

For additional details about IBC's investment and the IRU agreement for the Group's use of IBC's network, see Section 18.1 below.

The Group has fiber-optic infrastructure deployed between the industrial areas and business centers in Israel, which is used for the provision of transmission services and domestic operators to business customers and telecommunication operators, as well as infrastructure between the Group's communication sites.

[8] To complete the picture, it should be noted that in September 2022 the Ministry of Communications published a call for comments regarding policy principles for shutting down the copper-wire networks, in which it presented the advantages of shutting down the copper-wire network, the challenges it entails, the engineering implications and the principles for formulating the policy.

It should be noted that Partner also has fiber-optic based infrastructure in selected areas. In December 2022, Bezeq and Partner announced an agreement whereby Partner acquired from Bezeq the indefeasible rights of use (IRU) for a period of 15 years in 120,000 infrastructure lines in buildings connected to Bezeq's fiber optic infrastructure, with an option to extend for two additional five-year periods each. Based on the reports of Bezeq and Partner on the matter, the Ministry of Communications considers this agreement as a shelf offer to anyone interested in it.

Bezeq group has its own fiber-optic network, anticipated, according to duties set forth in its license and according to the Minister's decision from October 2022 that allowed Bezeq to expand its service deployment areas, to reach deployment at 84.7% of households in Israel by 2027. Bezeq has begun operating its fiber-optic network (which it previously deployed) in March 2021.

The February 2023 announcement from the Ministry of Communications stated that the deployment obligations of almost 100% of the households have been completed. The ministry's announcement also stated that at the time of the notice, the rate of access to fiber optic stands at over 70% of households in Israel (with 40% of them actually subscribed to fiber optics).

As of the publication date of the Report, the Company is dependent on the broadband services of Bezeq, Hot and IBC for purpose of providing internet service to its private customers. The increasing demand on the part of the Company's customers for data capacity increased the Company's dependency on these services.

In 2015 the Israeli Wholesale Market in the area of internet infrastructure services was officially launched, and to a certain extent also in the area of certain physical infrastructure being used by operators that do not own infrastructure. The Wholesale Market allowed the internet connectivity providers who do not have internet infrastructure or internet connectivity providers that have internet infrastructure that is not country-wide, including the Group (among others through IBC), to compete with the Bezeq and Hot groups and to provide service plans that include internet connectivity and internet infrastructure.

Even though the Wholesale Market also formally applies with respect to the infrastructure of the Hot group, implementation of the wholesale services on the Hot network was delayed for various reasons, *inter alia* due to tariffs that are higher than the wholesale tariffs of the Bezeq network. Until the Report publication date, the usage of the wholesale services on the Hot network was extremely limited.

For details regarding additional developments in the Wholesale Market, see Section 22.6.2 below.

For additional details pertaining to the prices of the wholesale internet infrastructure on the Bezeq network, see Section 22.6.2 below.

(2) **Television services**

Until the Group's entry into the multi-channel television market in December 2014, the multi-channel television market was controlled by Hot (a declared monopoly in this field) and Yes (of Bezeq group), which provided television services mainly through cable and satellite technologies, respectively. Cellcom for the first time in Israel presented an innovative streaming television broadcasting method (OTT) which was a significant milestone in developing the audiovisual market for consuming programs on the internet. The Group's OTT service presented innovation in additional parameters, including the option to simultaneously view broadcasts using an application (without a converter), view content on a number of mobile and stationary handsets, continue viewing content across devices, concentrated recording that enables viewing content that was broadcast on the commercial channels a week back ("catch-up"), and more, alongside a variety of Israeli and international content and sport content. Since the Group presented the OTT service in Israel, additional players adopted the solution. In recent years there has been noticeable entry into the market of international VOD content providers on internet infrastructure , such as Netflix and Disney, which market their services directly to consumers and through cooperation with television services providers. In addition, in June 2022, the Council of the Second Authority for Television and Radio approved Keshet's request to establish an online multi-channel broadcasting platform (for details, see section 12.4.2(1) below).

(3) **Fixed-line telephony (domestic operator)**

The Group offers fixed-line telephony services to business customers and fixed-line telephone services through VOB technology to its private customers.

(4) **International calls (international operators)**

The international calls services market is extremely competitive, and the competition is mainly based on the operator's ability to offer attractive pricing and an integrated service plan with additional services, such as cellular services. In recent years, the use of free and alternative communication technologies over the internet (such as voice over IP) led to a reduction of the telephony market, in particular the international telephony services and revenue thereof. This trend is also expected to continue in the future.

9.1.3. Technological changes that could affect the area of activity

The fixed-line communication market, similar to the cellular communication market, is a dynamic field, in light of the fast pace of technological changes and vast competition, which require appropriate assessments and investment in advance technologies in order to remain competitive.

In recent years there has been major growth in fixed-line data traffic, which requires the Group to upgrade its networks and to purchase larger capacities and higher speeds for the internet services (connectivity and infrastructure) that it offers. Transferring to new technologies and using new equipment naturally involves financial investment and certain risks (related, inter alia to malfunctions and operational difficulties).

In order to meet demand for fixed-line network data traffic, the Group invested in upgrading and adjusting the communication and connectivity systems vis-à-vis the operators in Israel and abroad. In addition, the Company invested many resources in deploying independent infrastructure and thereafter through IBC, in order to find more profitable alternatives for the purchase of infrastructure services. For details about technological changes and dependency on technology as a risk factor in the Group's activity, see Section 27.2.7 below.

9.1.4. <u>The critical success factors in the area of activity and the changes applicable thereto</u>

In the Group's estimate, the critical success factors in this area of activity are as follows:

(1) The ability to offer reliable telecommunication services at competitive prices, while adjusting to the frequent changes in the fixed-line communications market, with an emphasis on responding to the increasing need for bandwidth and data traffic speed;

(2) Accessibility to a quality and advanced network with a broad deployment, including the ability to reduce dependency on external fixed-line infrastructure owners;

(3) The ability to deal with regulatory decisions;

(4) Efficient and quick installation of the infrastructure connection and related equipment at the customer's home;

(5) Quality and efficient customer service, including the ability to offer technical support and customer service through a variety of physical, telephonic and digital channels;

(6) The ability to offer a wide range of services for home and business;

(7) The ability to make substantive investments;

(8) Extensive and varied sale and distribution channels;

(9) A well-known and leading brand;

(10) Professional and skilled manpower.

9.1.5. Main barriers to entry and exit

(1) In the Group's estimate, in light of the possibility to operate as a provider with no infrastructure, the main barriers to entry into the area of activity are low. Nevertheless, in order to operate as a provider with infrastructure in the area of activity, large capital investments in infrastructure are necessary for the purpose of establishing such and for the purpose of maintaining, upgrading, and continuously operating it.

In February 2022 the Ministry of Communications decided to allow operators under special license for providing broadband infrastructure services to purchase services of using passive broadband infrastructure from domestic operators according to the terms of the service file in this regard and this only in incentivized areas. In July 2022, the Minister of Communications decided on a reduced rate for the use of Bezeq's passive infrastructure that exists in the incentive zones and in the area beyond the incentive zone. For details regarding incentivized areas see Section 22.6.1 below.

It is noted that as of the publication date of the Report, the provision of internet television services does not require a license, but there is a need for financial means in large scopes, including the need to engage in agreements for purchasing content and technological infrastructure. For details regarding the draft bill of the Principles of Regulation for the Provision of Audiovisual Content to the Public, 5782-2022, which sets forth proposed regulation with respect to providing audiovisual content, see section 22.6.3 below.

(2) In the Group's estimate, the main exit barrier from the area of activity, except in the matter of providing internet television services, is the Minister of Communications' approval for ceasing the provision of the service, which may be contingent upon an

arrangement for continued provision of the service that is provided to the customers of the operator asking to exit the field.

(3) The Uniform License sets forth restrictions, *inter alia* on transferring shares from corporations that hold such license and on transferring or charging assets that are used by the Group for fulfilling the terms of the license.

9.1.6. The structure of competition in the area of activity and the changes that apply to it

For more details about the competition structure in the area of activity, see section 12.4 below.

9.2. **Products and services**

9.2.1. With respect to fixed-line communications, the Group provides internet services that include internet service (ISP) as well as infrastructure service (broadband services, based on Bezeq's copper-wire and fiber-optic infrastructure within the Wholesale Market; and IBC's fiber-optic), internet television ("Cellcom TV"), international fixed-line phone services (IPCS) and domestic operator services and transmission services for business customers and communication operators based on Bezeq's infrastructure[9] as well as the Group's independent infrastructure, deployed mainly between the industrial areas and business complexes, for the provision of transmission services to business customers. Fixed-line communication services are provided by virtue of a license or permit granted to the Group by the Ministry of Communications (with the exception of internet television services which do not require a license). The Group also provides additional services such as conference call services, cloud computing services, server hosting services, data security services and IOT solutions. In addition, the Group sells end-user equipment associated with the fixed-line sector such as computing and

[9] Along with the use of Bezeq infrastructures as mentioned, the Company also uses Hot infrastructures, to a negligible extent.

communication equipment (servers, routers and switches, etc.), software and integration of data security products.

The internet infrastructure services that the Group provides to private customers are based on Bezeq's copper-wire Wholesale Market infrastructure as well as fiber-optic infrastructure which is mostly based on IBC's fiber optic infrastructure and the rest on Bezeq's Wholesale Market.

The Group offers packages of such services to its customers, which includes internet (connectivity and infrastructure) and television services.

According to industry regulation, the service plans do not include an undertaking to purchase the Group's services for a predefined period, except in connection with agreements with large business entities. For additional details about restrictions and oversight in the area of mobile and fixed-line telecommunications, see Section 22.6 below.

The Group from time to time considers and assesses the option of offering additional products and services to its customers.

For details about the effects of Covid-19 on demand for the Group's products, see Section 1.3 in the board of director's report.

9.2.2. Below is a reference to the main products and services within the area of activity:

(1) **Internet (connectivity and infrastructure)**

The Group is a primary provider of internet services. The infrastructure provider is responsible for connecting the customer from the home's first outlet to the infrastructure. The internet connectivity services provider is responsible for providing the customer with an internet connection, from the infrastructure of the infrastructure provider, through its network, to the local and global internet network.

The Group provides internet services, including the supply and support of end-user equipment, in a number of ways:

a. Provision of ISP without infrastructure service. This sale was made in recent years mainly as part of a reverse bundle (infrastructure providers Bezeq and Hot marketed their infrastructure services together with the Group's ISP service). In recent years, the main activity has been focused on ISP together with infrastructure service and therefore separate ISP sales have decreased significantly. In 2022, such method of sale was discontinued in light of the decision of the Ministry of Communications regarding the cancellation of the separation between the broadband infrastructure service and the ISP. As part of this decision, Bezeq and Hot were allowed to provide an ISP together with an infrastructure service (for more details see section 12 of this chapter below).

b. Providing an integrated package that includes internet connectivity service together with internet infrastructure service: Since May 2015, the Group has been providing end to end internet services to customers in residential areas through copper-wire infrastructure of the Bezeq group (on the basis of the Wholesale Market), and since 2017 until its sale to IBC, also through independent infrastructure. After selling the independent infrastructure to IBC (in 2019), the Group has also offered internet services through IBC's fiber-optic infrastructure, and starting from July 2021, also through Bezeq's fiber-optic infrastructure on the basis of the Wholesale Market. It should be noted that during 2022, following the decision of the Ministry of Communications to cancel the existing policy and separation between broadband infrastructure service and internet access service, which required a customer wishing to connect to the Internet to purchase these two complementary services for subscribers (business and private) in a private service configuration only.

In addition, the Group offers value added services to its internet subscribers, which include information security services, personnel management applications, vehicle fleet management, cloud computing services, hosting, and backup of servers and websites (for business customers), general communication solutions (for business customers) and the like.

(2) **Multi-channel OTT television services**

Since December 2014, the Group has been offering private customers multi-channel internet television services (OTT service) branded as "Cellcom TV". In the framework of the service, a package is offered that includes linear channel broadcasts, additional commercial channels and a VOD library. In addition, the customer can watch a movie with per-view payment (TVOD) or join additional channels for additional payment (such as sport channels, foreign language channels, and more). The television service also includes additional advanced services such as cloud recording and the Catch Up feature which allows viewing content that was broadcast on the service channels a week back (according to the agreements with the content copyright holders).

In December 2022, the Council for Cable and Satellite Broadcasting approved the Company's registration in the Content Providers Registry in accordance with the Law on the Distribution of Broadcasts through Digital Broadcasting Stations, 5772-2012, with regards to the Cellcom TV service.[10]

(3) **International operator services**

The Group is one of the main players in the international operators market in Israel. The main service in this market is outgoing and incoming telephone calls with global coverage of

[10] A content provider registered in the aforementioned registry is entitled to receive consent and a license to broadcast the broadcasts of a broadcaster on the internet.

a significant and extensive scope. The Group provides this service mainly to customers who pay retroactively, but also to customers who pay in advance, mainly through selling calling cards. Most of the customers who pay in advance are foreign workers in Israel.

In addition, the Group provides hubbing services to international operators that are not Israeli operators, whose role is to connect two international operators that are not Israeli. The Group provides these services while there is no direct connection between the two operators, or when the pricing differences in the different places make the connection services profitable.

(4) **Fixed-line local telephone services**

The Group offers business customers advanced telephony services which include calls and the transfer of data, and a PBX cloud service. Similarly, the Group offers private customers basic fixed-line telephony services through VOB technology. Fixed-line telephony services allow the end-user to manage telephone calls with another end-user who is using a fixed-line, mobile phone, or computer, in Israel or abroad.

(5) **Transmission services**

The Group provides business customers and communication operators with transmission services and data communications based on the Group's independent infrastructure and through other service providers, connectivity service, as well as added value services such as information security services and IPVPN service (private network).

(6) **Internet of Things (IOT)**

The IOT technology enables the connection between different devices to the internet. The Group, together with strategic partners, offers IOT solutions, mainly to business customers, that are based on a variety of communication solutions which include fixed-line communication and cellular communication, including "smart city" solutions.

(7) **Information system and communication solutions**

The Group provides it business customers with server and website hosting solutions, cloud computing services, including value added services (such as monitoring and control), information security services, and IT solutions (such as system networking, cyber & information security). The Group constitutes a "one stop shop" for the customer (a comprehensive solution for one point) and the services and solutions partially include specification and adjustment of a specific solution for the customer, installation and ongoing support, as well as the sale of accessories and maintenance and warranty services.

(8) **Electricity supply and charging stations**

In addition to the Company's activity in the area of activity as detailed above, the Company has an activity of an immaterial scope, which is in the initial stages, wherein it provides electricity to business and private customers (by virtue of a license received by the Company for electricity supply),[11] and in addition it sells and installs electrical infrastructure and smart charging stations for electric vehicles (and provides services in connection with these stations), mainly in the private sector. For details see section 22.13 below.

9.3. **<u>Breakdown of the revenue from products and services</u>**

Below is the data about customer revenue in the area of fixed-line communications, the rate of which constitutes 10% or more of the Group's total

[11] This activity is performed collaboratively between the Company and Meshek Energy-Renewable Energies Ltd.

revenue (as presented in the Company's consolidated financial statements) for 2020, 2021 and 2022 (in NIS millions):

	2022		**2021**		**2020**	
	Revenue	**Rate (*)**	**Revenue**	**Rate (*)**	**Revenue**	**Rate (*)**
Revenue from plans (such as internet, television, and domestic operator) (**)	927	21.6%	878	21.4	826	22.5%

(*) Calculated rate of the Company's total revenue in the consolidated financial statements of every period.

(**) Mix of services included in the plans may vary according to marketing and competitive needs.

Part Four: Matters Pertaining to the Group's Activity as a Whole

10. Customers

Below is data about the Group's revenues distribution from private customers and business customers:[12]

Type of customer	2022		2021		2020	
	Total revenue (NIS millions)	% of total revenues	Total revenue (NIS millions)	% of total revenues	Total revenue (NIS millions)	% of total revenues
Private customers	2,947	68.5%	2,835	69.1%	2,556	69.5%
Business customers	1,110	25.8%	1,009	24.6%	940	25.6%
Other	243	5.6%	256	6.2%	180	4.9%
Total	4,300	100%	4,100	100%	3,676	100%

As of the publication date of the Report, the Group is not dependent on a specific customer the loss of whom would materially impact its activity or any of its areas of activity.

11. Marketing and distribution

11.1. Sale and customer service

11.1.1. The Group consolidates its customer service and sale efforts, in order to maximize the Group's opportunities, alongside maximum efficiency and quality customer service.

The Group's customer service department is the central channel for maintaining long-term relationships with the Group's customers, while focusing efforts to cultivate customer loyalty through providing quality

[12] Even though Wecom (and also Golan until its acquisition by the Company) is included in the consolidated financial statements in the customers section, and most of the revenue therefrom is presented on the revenue row in the Company's consolidated financial statements for the relevant period, we are not dealing with a customer, but rather with a business partner. For additional details see Section 24.1 below and Note 31D to the Financial Statements.

service. In addition, the Group allows its customers to comfortably join its services (in person, by phone and self-service-based digital means).

The Group offers marketing plans, complementary services, equipment and related services through a variety of sale methods, with the purpose of attracting new customers and cultivating the loyalty of current customers.

The Group acts both through independent resellers and through workers that it employs. All Company representatives (both internal and independent) who directly interface with customers, undergo intensive training at the beginning of their employment, and during the period of their employment, in order to ensure quality service.

The Group continuously performs initiated quality controls, in order to guarantee quality service and to identify areas for improvement, and it continuously acts for the implementation of means to avoid and reduce the rate of leaving customers.

11.1.2. The Group's sale activity and customer service is mainly performed in the following channels:

(1) Physical points of sale

The Group distributes its products and services through thousands of nationwide physical points of sale, most of which are operated by external marketers, and some of which are directly and independently operated by the Group.

As of 31 December 2022, the Group independently operated approximately 70 countrywide points of service and sale (About 50 points are of Dynamica). According to most, the service and sale points are located in central locations or in locations with high customer traffic, which allow for easy and comfortable access to the Group's customers and potential customers. Most service and sale points offer the entire range of the Group's products and services, and they offer a repair service for mobile handsets (and in some of them also additional equipment) or serve as delivery points for depositing them for repair and receiving them after the repair (in the same center or through delivery to the customer's home), while the repair service itself is performed at the in-person branches of the Group or at a central laboratory[13]. In addition, the Group provides repair services to the customer's home, which allows ordering a repair for the mobile device in a simple and convenient way with the arrival of a technician to the customer's home.

In addition, in the framework of the Group's efforts to expand in certain sectors in order to amplify the Group's sale potential and points of contact with customers and potential customers of the Group, the Group is engaging with distributors with proven expertise in those sectors.

(2) Call centers

The call centers operated by the Group focus on providing private and business customer service in financial matters, services, overseas plans, technical support in cellular, fixed-line, and television, and telephone sale efforts to current and potential customers. The Group's sales representatives offer the Group's customers a wide range of products and services, both proactively and in response to their requests. The Group's call center service is divided into sub-centers (for example: general services; technical services; charges; sales; etc.). The Group is continuously examining the efficiency of the service, and it also operates a multi-purpose call center that provides all the services.

(3) Business customers

A designated sales team maintains regular contact with the Group's large and medium business customers. In addition, the Group provides a telephone support and sale system to small and medium business customers, a service center for large and medium-sized business customers, and a support center for fixed-line communication customers. The Group's expertise in the various communication areas allows it to fully treat the needs of the business customers, including personally

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[13] In this regard, it should be noted that the Group operates dozens of countrywide laboratories.

adjusted solutions, when needed. It is noted that the process of selling to large business customers and to government and local authorities sometime involves the Group's participation in a tender process.

(4) Independent service and online sales

The Group offers its customers the option of purchasing products and services and to receive details regarding the Group's website. Similarly, the Group provides its current and potential customers with various self-service channels, such as an interactive voice response service (IVR), a website, and a chat via WhatsApp and the Group's app. The self-service channels allow the Group's customers to *inter alia* clarify details and purchase end equipment and overseas plans on the website, track data usage, receive digital monthly invoices, self-service tutorials, online help for problems with the internet service, and chat with a service representative. The Group invests resources in directing its customers to the self-service channels.

(5) Service through technicians

The customer service for Cellcom TV service and the Group's internet infrastructure is also provided through technicians (who are employed by the Company and through external contractors) who provide the services at the customers' homes.

In addition, the Group's business customers are serviced through professionals in the fields of information security solutions, communication services, IOT and more.

(6) Providing service to people with disabilities

The Group invests efforts in adjusting its services for people with disabilities. Along with making the website accessible as lawfully required, the Group provides customers with disabilities with comfortable access to the physical points of sale and adjusted services that include text to speech and support service through a chat. The Group trains the service representatives to provide accessible service to all its customers.

11.2. **Marketing**

The Group's marketing strategy emphasizes the Group being a leading, fair, and initiating communications group, which provides great value to the customer in consideration for its money and has the ability to provide an extensive solution for all communication needs, through plans and a wide array of services. In the Group's view the provision of service plans strengthens the customers' loyalty and increases their satisfaction.

The Group seeks to be a fair and quality service provider for its customers.

The Group's marketing activity is based on parameters that are important to its customers, as these are manifested in surveys the Group conducts from time to time.

The Group leverages interactions with its customers for providing the requested service, for selling products and services according to the customer's needs, market trends and profitability considerations. All this mainly through an advanced customer relationship management system (CRM), for maximizing the customer's satisfaction and increasing its loyalty.

As of the date of publication of the Report, the Group has no dependence on a certain marketing channel, the loss of which would adversely affect its area of activity materially or cause the Group a substantial cost increase as a result of the need to replace it.

12. **Competition**

The Israeli telecommunications market is an extremely competitive market in many of its areas. For details regarding the level of competition in cellular and fixed-line communications, see sections 8.1 and 9.1 above, respectively.

The main competitive factors in the telecommunications market are the services included in the service plans that are offered to customers, price perception of the services and equipment, brand perception, network quality perception and level of customer service. Thus, both the variety of cellular handsets and the additional end equipment, the need to adjust them to the customer's requirements, and the variety and quality of the television content affect the increased level of competition in this market.

12.1. **<u>Telecommunication groups and structural separation</u>**

12.1.1. The competition in the Israeli telecommunications market has in recent years been characterized by competition between telecommunication groups, which are at the same time active in a number of market activity segments. It is noted that in the Group's areas of activity there are also competitors that do not belong to any telecommunications group. As of the Report publication date, there are four telecommunication groups active in Israel - the Cellcom group, Bezeq group, Hot group, and Partner group.

12.1.2. Since the Bezeq and Hot groups are monopolies in each of their core businesses - the Bezeq group in the fixed-line telephony market and in the internet infrastructure market, and the Hot group in the multi-channel television market – an obligation of certain structural separation is imposed on them, and accordingly various restrictions apply to them in connection with the sale of telecommunication plans. The restrictions applicable to the Bezeq group *inter alia* include a requirement that Bezeq separately offer some of the services included in the service plans, at the same terms as in the plan, which would allow its competitors to offer their services in the framework of service plans at identical terms (if the plans include internet connectivity services, fixed-line internet based calls, or overseas calls).

The Bezeq group was granted reliefs in the structural separation that allow it to offer plans together with its subsidiaries, subject to a few conditions. Similarly, Bezeq's subsidiaries were allowed to sell and market the services of one another, including in the framework of their service plans. Notwithstanding that, Hot too is imposed with requirements to structurally separate the multi-channel television services, internet connectivity services, cellular services and fixed-line telephony services, Hot was allowed to offer fixed-line telephony plans, multi-channel television and internet infrastructure services. Similarly, Hot and Hot Mobile are allowed to sell and market each other's services and exchange information with one another.

In 2018, Bezeq partially merged the activity of its subsidiaries and thus strengthened its ability to compete with the fixed-line plan offered by the Group. As for the Hot group – by virtue of various concessions granted to it by the Ministry of Communications in recent years, as a rule, it is able to market the services of Hot and its subsidiaries to customers without significant restrictions.

In addition, the Hot group is allowed to market a "joint services basket" that would in addition to the home internet and broadcasts also include the cellular (quattro) and international operator. According to the Ministry of Communications decision in this regard, Hot group would be required to obtain the Ministry of Communication's advance approval for each services basket, and with respect to the services basket to be offered by some of the companies from the Hot group, it would be required to also offer services of competitors that are not from the Hot group.

In June 2021, the Ministry of Communications decided to terminate the policy and separation existing between the broadband infrastructure service and the internet connectivity service, and decided that Bezeq and Hot may themselves provide internet connectivity services together with infrastructure services. Starting from April 2022 with respect to Bezeq and in August 2022 with respect to Hot, they were permitted to provide internet connectivity services only together with the infrastructure services to new customers, while being prohibited from providing separate infrastructure services to new private subscribers. Accordingly, during Q4 2022 Yes began marketing integrated TV and Internet packages (based on Bezeq infrastructure) to its customers.

12.2. **<u>The Group's coping with competition in the telecommunications market and factors that affect its competitive standing</u>**

12.2.1. In the Group's estimate, its ability to successfully cope with competition in the telecommunications market is partially dependent on constant diligence and striving for providing quality service to customers, as well as its ability to predict and respond to trends and events that affect the market, including presenting new services and technologies, changes to the customers' preferences, demographic trends, economic conditions, pricing strategies of competitors, and changes in the legal and regulatory environment.

In order to cope with competition in the telecommunications market, the Group implements a few measures and strategies that *inter alia* include: (1) Executing opportunities that maximize its advantages as a telecommunications group, and whilst doing so provide television services and internet services on a Wholesale Market basis and fiber-optic infrastructure through IBC, and IOT services; (2) focusing on offering service plans such as the integrated internet (based on copper-wire or fiber infrastructure) and television plans, together with marketing of complementary end equipment, which strengthen customer retention and increase the scope of its purchase from the Group; (3) investment and reinforcement of Company brand value as one putting the customer first; (4) engaging in network and hosting sharing agreements with Wecom, which allow for a more efficient cost structure for networks, their operation and investments therein; (5) investing in IBC, selling the Group's independent fiber-optic infrastructure in residential areas to IBC, and engaging in an IRU agreement with IBC, which reduced the Group's costs for fiber purchase by the Group in 2020 and 2022 (compared to such purchase costs from Bezeq) and its dependency on Bezeq, and engaging with Hot in investment agreements in IBC with the purpose of significantly expanding the deployment of IBC's fiber, and to at an accelerated pace turn IBC into an extensive alternative for Bezeq; (6) investing in the Group's networks with the purpose of guaranteeing quality and advance cellular and fixed-line services, including 5G; (7) increasing the service and sale activity in the digital channels, to increase the customers' satisfaction and saving on costs, and (8) expanding the product range and developing tangent areas of activity and more.

12.2.2. In the Group’s estimate, among the negative factors that affect or may affect its competitive standing, are the following factors: (1) The Group’s high debt which decreases the free capital available for financing and developing its business, and which may decrease the flexibility of its response to changes in the market and economy, and impose heavy financial costs on them, something which may harm the ability to pursue investments required by the Group’s networks and its business in general; (2) insofar as regulation shall apply that would burden the OTT services offered by the Group to its customers (for details regarding a hearing document, which anchors the proposed regulation with respect to providing audio-visual content, see section 22.6.3 below; (3) termination and/or granting additional reliefs in the structural separation obligation of Bezeq and/or Hot; (4) providing fiber-optic based internet infrastructure services by Hot and/or Bezeq and/or Partner (including by virtue of an IRU agreement between Partner and Bezeq; for more see section 9.1.2(1) above; (5) the inability to turn IBC into the owner of extensive fiber-optic infrastructure form which the Group would be able to purchase services, or an adverse change to IBC’s competitive abilities; (6) malfunctions and/or cyber-attacks that would harm the provision of telecommunication services by the Group and its image; (7) the provision of telecommunication services by the State of Israel or granting entities the option to provide telecommunication services to themselves and/or allocating frequencies (if any) to entities that are not cellular companies, in favor of providing local cellular services;[14] (8) short and medium-term implications on the Group from terminating or changing the sharing agreement with Wecom; (9) a decrease in the scope of roaming services marketed by the Group, including as a result of increasing use of e-SIM technology (for details, see section 8.1.4(2). above); (10) the introduction of a new platform in the multi-channel television market in Israel, which is expected during 2023, insofar as it happens, which is expected to

[14] In this regard, it should be noted that in August 2022, the Ministry of Communications published a hearing regarding the allocation of frequencies to private networks (parties that are not cellular operators or operators of a general fixed-line telephony service). For details, see section 8.1.4(2) above.

increase the level of competition in the market (for details see section 12.4.2 below); and (11) reducing barriers to entry in the communications market and reducing regulation on technology and business development (for details see Section 22.2.1 below).

12.3. **Competition in the cellular telecommunications market**

There is lively competition in all aspects of the Israeli cellular telecommunications market, with penetration rates of approximately 119% which represent 11.1 million cellular users as of December 31, 2022, and an average churn rate of approximately 29% in 2022, a slightly higher churn rate compared to the churn rates in other developed countries. The Group's churn rates in 2021 and 2020 stood at 31% and 40.2%, respectively.

As of the Report publication date, the Group is active alongside four mobile network operators that own infrastructure (MNO): Partner, Pelephone, Hot Mobile, and Wecom, and several virtual operators (MVNO) with the most prominent among them being Rami Levy Hashikma Marketing Communication Ltd. and Azi Communications Ltd.

In the Group's estimates, the subscriber market shares of the various cellular operators, as of December 31, 2022, are: The Group approximately 31%, Partner approximately 27%, Pelephone approximately 24%, Hot Mobile approximately 13%, Wecom approximately 7.2%, and the virtual operators together approximately 3%.[15]

In the equipment market the Group is competing with many providers, among them cellular operators, importers, retail chains, additional private stores, ecommerce sites and the like), which sell cellular end equipment, including parallel imports. The Group expects this trend of competition to continue and include more players. The Company cannot estimate its market share in the equipment market.

12.4. **Competition in the fixed-line telecommunications market**

[15] This estimate is based on reports that were made public by other operators and on the Company's estimates regarding operators that do not publish reports.

The activity in the area of fixed-line communications includes activity in a few sub-areas, mainly transmission and internet (infrastructure and connectivity) services, local and international telephony services, and television services. Wholesale Market implementation allowed for the entry of additional operators that do not own infrastructure into addition sub-areas and led to an expansion of competition in all activities and to increased offerings of service plans from a few areas to the customer.

12.4.1. Internet services (connectivity and infrastructure)

(1) The Hot group and Bezeq are the only entities in the State of Israel that own countrywide (or almost countrywide) fixed-line infrastructure. These groups are the main internet infrastructure providers for the private sector in Israel, and they also provide internet infrastructure services to operators that do not own infrastructure in the framework of the Wholesale Market. Per Bezeq's statements, as of September 30, 2022, Bezeq has been providing internet infrastructure services (copper-wire and fiber-optics) to approximately one million households and has deployed fiber-optic infrastructure to approximately 1.5 million households. The Company cannot estimate Hot's market share in the area of internet services.

IBC offers wholesale internet infrastructure services over fiber-optics to operators that do not have fiber-optic or other infrastructure, including to the Group and to Hot. As of December 31, 2022, IBC has deployed fiber-optic infrastructure to approximately 1.1 million households, and it intends to continue expanding deploying infrastructure to about 2 million households.

Similarly, Partner offers internet infrastructure services to the private sector on an independent fiber-optic network deployed in selected residential areas (according to Partner's reports, as of September 30, 2022, Partner has deployed fiber infrastructure to approximately 900,000 households). For details regarding the IRU agreement signed between Partner and Bezeq, see section 9.1.2(1) above).

(2) Internet connectivity providers that do not own internet infrastructure,[16] such as the Group with respect to its private customers, rely on the internet infrastructure of Bezeq, Hot and IBC (for additional details see Section 18.1 below) for the purpose of providing infrastructure services to their private customers. Should IBC become an alternative with countrywide deployment, this is expected to positively affect the Group's competitive position in the area of fixed-line communications, by further reducing the Group's dependency on Bezeq and reducing its costs.

(3) For several years the capacity purchased by the Group from Bezeq has grown from year to year. In 2022 the Group continued to focus on recruiting internet customers on fiber-optic infrastructure (mostly of IBC but also Bezeq) which led to a decrease in the wholesale capacity the Group purchased from Bezeq. In November 2021, the Ministry of Communications published the demand indices for data capacity on Bezeq's network, which are used to determine the Wholesale Market tariffs over copper-wire infrastructure. These indices led to an increase in Wholesale Market tariffs over copper-wire infrastructure for 2023. In addition, the ministry published an update regarding the Wholesale Market rates for fiber infrastructure in the Bezeq network that increased in relation to 2022, which were reduced by Bezeq as part of the understandings reached between it and the Ministry of Communications in connection with the approval of its IRU agreement with a partner (for details regarding this agreement, see section 9.1.2(1) above). For details regarding a hearing published by the Ministry of Communications regarding the determination of a format for examining the reduction of margins in the Wholesale Market, see section 22.6.2 below.

[16] As of the Report date, there are several dozen internet connectivity providers in Israel, most of which do not have significant market share.

The offering of internet infrastructure services based on the fiber-optics by Bezeq and Hot increases competition in the field, but also increases the public's awareness of the service and leads to a deviation of sales to fiber-optic infrastructure. Bezeq started marketing its fiber-optic services to customers in March 2021 and from July 2021 such service is also sold on the Wholesale Market. Hot began marketing the services (on IBC infrastructure) in April 2021. For details about Hot's investment transaction in IBC that has not yet been approved, see Section 18.2 below.

For the Group's assessment of the impact of ending the split between access and internet infrastructure on competition in this area, see section 12.1 above.

(4) As of December 31, 2022, the Group has been providing internet infrastructure services to approximately 323,000 customers (of which about 188,000 fiber-optic customers). In the Group's estimate, its market share is approximately 13%.

(5) As of the Report publication date, international internet access is provided by three underwater cables by Telecom Italy Sparkle, Tamares Telecom Ltd. and Bezeq International. For details see Section 16.2.3 below.

12.4.2. Multi-channel television services

(1) Until the Group's entry into the multi-channel television market in December 2014, the multi-channel television market was controlled by Hot (a declared monopoly in this field) and Yes (from the Bezeq group).

The Group offers internet based multi-channel television services (OTT services). In addition, the Group has contractual engagements with Netflix, Amazon Prime (international internet-based VOD content providers) which allow direct access to the apps through the converter the Group provides. As of December 31, 2022, the Group has been providing the television service to approximately 257,000 customers. In the Group's estimate, its market share in this field is approximately 14%. Similarly, Partner markets an OTT solution that includes Netflix app (including monthly statement billing) and the Amazon Prime service. Hot and Yes each market a discounted OTT brand, called Next TV and Sting TV, respectively. In addition, in the framework of transitioning from satellite broadcasts to OTT technology, Yes launched an additional OTT brand referred to as Yes+. Starting from 2022 Yes offers Netflix and Disney (another international internet based VOD content provider) in its OTT service (including monthly statement billing). The service that the Hot group offers also includes the Netflix app.

It is noted that Netflix, Amazon Prime and Disney provide their services to viewers in Israel as a supplemental service for existing content on the multi-channel television platforms.

In September 2021, the Director General of Competition decided to grant an exemption from approval of a restrictive arrangement for an initiative to establish an internet based multi-channel broadcasting platform (apparently called "FreeTV") through cooperation of Keshet Broadcasting Ltd. ("**Keshet**") and RGE Group Ltd. ("**RGE**"), two of the primary content providers for the Group's television services (for details see Section 16.2.5 below). In addition, approval was granted for Keshet's acquisition of 24.9% of RGE's shares. The arrangement was approved for a period of four years at the end of which renewal of the exemption for an additional period and continued holding of RGE shares shall be reevaluated. Following this, in June 2022, the Council of the Second Authority for Television and Radio also approved Keshet's application in connection with the aforementioned project, under certain limitations, for a limited period until September 2025, at the end of which the application, the market situation and the interests of the Israeli public will be reconsidered or until legislation on the subject, whichever the earlier. Entry of the new platform, expected during 2023, if it does occur, is expected to increase the current competition level in the market. At this stage the Group cannot estimate the impact of entrance of the new platform on its results and/or its business relationship with its content providers.

(2) In the Group's estimate, the competitive trend shall continue in the future and may include the entry of international players, as well as additional Israeli players.

12.4.3. International calls services

The international calls services market changed a lot in recent years. The use of free and alternative communication technologies such as VOIP and WhatsApp calls led to a decreasing trend of the telephony services market, in particular the revenue from international telephony services, which in the Group's estimate is expected to also continue in the future.

The Group is one of the main providers of international calls services in Israel, while the Group's main competitors are Bezeq and Partner. Similarly, there are additional competitors such as Xfone 018 Ltd. and Hot.

12.4.4. Fixed-line telephony services (domestic operator)

The fixed-line telephony market has for many years been controlled by the Bezeq group, a monopoly in the fixed-line telephony market, and by the Hot group. According to publications by the Ministry of Communications, as of March 25, 2021, Bezeq held approximately 72.9% of reported revenues fixed-line telephony services in Israel (and a larger market share among business partners). Additional providers in the area of domestic fixed-line telephony services are the Group and Partner.

The Group offers fixed-line telephony services to business customers and fixed-line telephony services through VOB technology to its private customers. In the Group's estimate, its market share in the market for fixed-line telephony services is not material and in the business market, the Group is one of the major players in the world of domestic operators.

12.4.5. Other fixed-line services

Transmission and data communication services, which are designed for business customers and for communication operators, are provided by the Group, which is a major player in the world of transmissions for the business market, as well as by Bezeq group, Hot and Partner, and since 2019 also by IBC.

IOT services are provided by the Group, other communication operators, other integration companies in the software sector, and by additional players entering this market. The Group competes with these companies through offering a wide range of advanced IOT solutions in cooperation with leading providers of IOT technologies and services. The market for IOT services is characterized by large competition, and in its framework communication operators offer both communication solutions and data security including business customer center management solutions and end to end solutions for the customers. The Group cannot estimate its share in this market.

13. Fixed property and land

13.1. General

The net balance of the Group's fixed property as of December 31, 2021, and December 31, 2022, is approximately NIS 1,383 million and NIS 1,480 million, respectively.

For details regarding restrictions on pledging the fixed property and the equipment used for providing services in the framework of the Group's licenses, and additional restrictions on the Group in creating a pledge on its assets, see Sections 19.4 and 22.4 below.

13.2. Communication networks

The Group's activity is based on inter alia its networks, below are details regarding the Group's networks in its areas of activity:

13.2.1. **Cellular communications**

The Group's cellular networks equipment, including cell sites spread out all over the country, which provide telecommunication coverage to the vast majority of populated areas in Israel.

(1) Below is a breakdown of the group's cellular networks as of the Report date:

a. 2G Network (GSM/GPRS/EDGE) - a network that also covers most of Israel's population and allows voice calls, data transfer and multimedia services, but at speeds lower than those possible through the 3G, 4G and 5G Networks. This network allows certain support of the above 3G, 4G and 5G Networks..

b. 3G Network (UMTS/HSPA+) - As of the Report date, the majority of call traffic on the Group's networks is through this network. The network allows fully interactive multimedia services by downloading and uploading data at a rate of up to approximately 42 megabits per second and 5 megabits per second, respectively. This network, which supports services that sometimes require a high data transfer rate, allows supporting 4G by way of dividing the traffic. The Group intends to continue responding to demand for data communication and UMTS/HSPA+ technology while maintaining quality service.

c. 4G (LTE) Network - launched in 2014. Allows downloading and uploading data at a rate of up to approximately 150 megabits per second and approximately 50 megabits per second, respectively, and including the 4G frequencies subject of the 2020 frequencies tender, at a rate of up to approximately 400 megabits per second and 70 megabits per second, respectively.[17] The majority of data traffic on the Group's networks is through

[17] For sites that have completed the 4G Network upgrade including frequencies subject of the 2020 frequencies tender.

this network, which covers most of Israel's population. Upon activation of the VOLTE (Voice Over LTE) service, which allows making calls on the 4G Network, a gradual transition began for calls from the 3G Network to this network and as of the Report date approximately one third of the calls on the Group's networks are on the 4G Network. Further to the Group winning the frequency tender, as described in Section 13.5 below, the Group intends to continue the deployment of the additional 4G frequencies network in order to continue allowing its customers a data transfer service at the highest rate possible. The Group's 4G Network is shared with Marathon (in MOCN configuration). For additional details regarding the network Sharing Agreement with Wecom, see Section 23.1 below.

d. 5G network (NR 5G) - The 5G Network was launched in 2020. It is based on an advanced technological standard (78N), which allows uploading and downloading data at higher rates (up to 1.3 gigabits per second and 50 megabits per second, respectively, on a frequency bandwidth of 100 MHz). The network facilitates more widespread use of technologies in the area of the internet of things (IOT). In 2020-2022 the Group deployed the network in selected areas, and it intends to continue such deployment in the next few years. For details regarding 5G tender, see section 8.1.4(1) above.

Most of the data traffic (surfing) is carried out on 4G and 5G networks, while most of the call traffic on the Group's networks is done using the 3G network as mentioned above.

(2) In February 2021, the Ministry of Communications decided to require cellular operators to perform an additional stage of their universal deployment commitment with respect to the 4G Network, generally within two years from the date of the decision (excluding Wecom, for which the instruction date to perform an additional stage

applies only in 2022). The Company meets the deployment obligations as aforesaid.

(3) In June 2021, the Ministry of Communications decided to stop service over 2G and 3G technology ("**Old Technologies**") by December 31, 2025 ("**Effective Date**") (with an option to expedite this date to January 1, 2025 subject to certain condition) and set forth various interim arrangements that shall apply until the Effective Date. The Company is preparing to discontinue the service in the old technology as aforesaid. In addition, the Ministry of Communications ordered extending the allocation of frequency bands previously allocated for the Old Technologies for use with more advanced technologies until December 31, 2030. In addition see Note 2.D. to the financial statements regarding the impact of such decision on the manner of depreciating fixed assets and intangible assets related to the Old Technologies.

This process shall allow the Group to save on the operating costs of these networks and utilize the frequencies that would be freed up, should they remain in the Group's possession,[18] to improve the performance of the 4G and 5G networks.

The Group intends to continue optimization of its networks in order to provide its customers with the maximum support in videos and additional content that require broadband.

(4) The connectivity to the Group's cellular network is primarily provided through an independent fiber-optic network, while using microwave equipment[19] as a complementary solution. Similarly, the Group leases additional supplementary capacity from Bezeq and Hot additional supplemental fiber capacity.

(5) The Group is paying usage fees to the State of Israel for the frequencies used by the Group. See section 13.2.2(2) below. For

[18] See Section 11.2 below.

[19] Equipment used for operating a microwave artery - a communications artery between 2 points, in high frequency ranges.

details about license fees the Company paid for 5G see Note 33.D. to the financial statements.

(6) According to the Ministry of Communications’ requirements from all telephony service providers in Israel, the Group’s cellular network (as well as the fixed-line network) is directly or indirectly connected to the networks of the other telephony services providers in Israel.

13.2.2. **Fixed-line communications**

(1) Most of the Group’s fixed assets in this area of activity is a transmission network connecting the majority of populated areas and most business centers in Israel to the Group’s systems, and connecting most of its cell sites, in the area of cellular communications, to the Group’s switches. The transmission network allows the Group to provide its business customers with telephony services, transmission services, and advanced data transfer and fixed-line communications services.

(2) The Group established and is operating a SDH transmission network as well as a Carrier Ethernet network, and from time to time it expands and upgrades these networks. These networks, which cover the majority of populated areas and most of the business centers in Israel, and which include real-time malfunction management and monitoring systems, allows the Group to provide its business customers with telephony data transfer (transmission) services at high speeds and quality, while reducing the need on its part to lease additional capacity from external providers. The Group’s fiber-optic transmission network is strategically deployed with the purpose of providing coverage to most of Israel’s business centers, from Nahariya in the north to Beer Sheva in the south and to Afula and Jerusalem in the east, and its length is approximately 1,800 km (with additional use of 1,400 km of Bezeq infrastructure and Partner and Hot of negligible amount). The fiber-optic transmission network is monitored by a malfunction management system that monitors in

real time, in order to allow the Group to provide high quality services. In order to efficiently complete coverage of the Group's network to most of its cellular sites and to the Group's transmission and domestic business operator customers, the Group uses a microwave network as a complementary solution for regions that are not covered by the Group's transmission network, which is based on fiber-optics. As of December 31, 2022, the Group has approximately 2,300 microwave links to the Group's cellular sites, and to the transmission and domestic business operator customers of the Group. The Group pays the State of Israel a usage fee for frequencies that it uses through the microwave network. Similarly, the Group leases additional capacity from Bezeq and Hot that is required for the fixed-line services provided to its business customers.

(3) For details about the backup system and the DRP plan and business continuity and disaster recovery, see sections 13.4 and 22.9 below.

(4) For details about the sale of the Group's independent fiber-optics infrastructure in residential areas to IBC, and the purchase of the IRU right in IBC's fiber-optic infrastructure, see Sections 18.3 and 18.1 below, respectively.

(5) As of the publication date of this Report, the Group's internet infrastructure is composed of three switch sites located in Haifa, Or Yehuda and Netanya, which are connected through underwater fiber-optic systems in which the Group purchases long-term rights of use, for three overseas switching nodes, in Frankfurt, Marseille and London, and through which the Group's network is connected to the global Internet. For details see Sections 13.3.3 and 16.2.3 below. This Internet infrastructure includes backup capability in order to guarantee continuity of service.

13.3. **Real Estate**

13.3.1. The Group owns no property, and its activity (the Group's headquarters, call centers, warehouses and stores) is conducted on property that is leased. Below is a description of the material lease agreements that the Group is party to:

Use	Location	Area	Term of agreement	Comments
Headquarters	Netanya	About 18 thousand square meters are used for the Group's offices (along with service areas) and about 440 underground parking lots.	From January 1, 2023 until December 31m 2030	- Extension of a lease agreement signed in 2003. - The Group subleased part of the area starting in 2015, which was returned to the owner at the end of 2022. - The Group has the option to extend the agreement to the existing territories for an additional period of 5 years.
Techno-logistic center	Netanya	Property with an area of about 11 thousand square meters.	From October 31, 2010 until July 31, 2026.	- Starting in 2015, the Group rents part of the property (as of the date of publication of the report, approximately 6,100 square meters) in subleases.
Offices, call centers, server and equipment warehouses	Haifa	Property with an area of about 8,500 square meters.	Until December 31, 2023	- The Group has an option to extend the agreement for one two-year period. - Starting in 2015, the Group sublet a part of the property (as of the publication date of the report, about 1,260 square meters).
	Tel Aviv	Property with an area of about 1,500 square meters.	From March 1, 2012 to June 30, 2024	- The Group has an option to extend the agreement until December 31, 2027.
	Rosh Haayin	Property with an area of about 3,050 square meters.	Until December 31, 2023	- The Group has an option to extend the agreement for two additional periods of two years each. - As of 2018, the Group is subleasing part of the property (as of the date of publication of the report, approximately 162 square meters).
Service centers and sales points	Nationwide deployment	Properties with a total area of about 4,700 square meters, used for about 70 service centers and sales points.	The rental agreements are usually for periods of between one and three years with a variable option to extend for similar additional periods, and with the possibility of terminating the agreements under certain conditions.	- The Group works on an ongoing basis in order to reduce and close service and sales points whose activity is loss-making, and on the other hand to open points that improve the layout of the network and increase sales. - According to the Group's experience, the renewal of the lease agreements may involve a higher amount of consideration compared to the period preceding the renewal

Use	Location	Area	Term of agreement	Comments
				date beyond the linkage to the consumer price index.

13.3.2. Switches and cell sites – The Group leases sites from various factors (both from local authorities and from government bodies such as the Israel Land Authority and from private entities), for the purpose of establishing, maintaining, and operating cell sites that serve its cellular telecommunication network. The lease agreements in this context are mostly for periods of between two and five years, with an option to extend for similar periods and with an option to terminate under certain circumstances. In certain agreements the landlord may terminate the contract at any time and for any reason whatsoever, subject to prior warning. On the basis of past experience, the Group encountered difficulties in extending the leases in approximately 5% of cell sites, which sometimes requires the Group to pay higher rent in order to leave its installations in the same regions or find alternative sites.

13.3.3. Storage of equipment and telecommunication servers – The Group is leasing areas all over Israel used for storing equipment, telecommunication servers, and additional telecommunication equipment for purpose of providing the fixed-line service. In addition, the Group is leasing storage space for its servers and relevant equipment in London, Marseille and Frankfurt.

13.3.4. The rent that was attributed in the Company's consolidated financial statements (whether as rental income or as amortization expenses, in light of implementing IFRS 16) for the land as set forth in this Section 12.3 above, summed up in 2019, 2020 and 2021 to approximately NIS 252 million, NIS 256 million and NIS 270 million, respectively.

13.4. The Group has an operations center, located at the Group's Netanya headquarters, which is equipped with the means required for the purpose of continuously monitoring all frequencies and sites, for identifying malfunctions, and for dispatching technicians to treat malfunctions. The Group's support systems allow the supervision of the system's quality and for locating equipment that does not meet the threshold performance requirements. Similarly, these systems create a statistical mapping of the system's performance and a failure alert (such as: blocked calls, disconnected calls, equipment malfunctions, etc.). In addition to this, the Group has a backup system on a separate site, and a disaster recovery plan (DRP) for the Group's engineering systems, information systems and support systems of the internet television services. The backup system even grants the system additional advantages, including larger capacity in certain cases and greater durability that increases the network's survivability in case of damage to one of its components. Similarly, the Group also has a business continuity and disaster recovery plan for guaranteeing the continuation of its business in accordance with the license requirements (for details see section 22.9 below).

14. Intangible Assets

14.1. **Goodwill** - Goodwill in the Company is created when allocating surplus costs following the acquisition of subsidiaries. Goodwill is examined at least once a year for purpose of examining devaluation. Goodwill is not methodically reduced. Total goodwill in the Company's books as of December 31, 2022, is approximately NIS 1,563 million, including NIS 831 million for goodwill attributed to the mobile sector and NIS 732 million for goodwill attributed to the fixed-line sector. For details and goodwill impairment testing see Note 13.B. of the Financial Statements.

14.2. **Customer relations and brand** - Upon the acquisition of the subsidiary Golan (in August 2020), intangible assets of customer relations and brand were identified. The remaining reduced cost for these assets is NIS 97 million as of December 31, 2022 (NIS 118 million as of December 31, 2021). These assets are lowered over a period of 6 and 10 years, respectively.

14.3. **Cost of customer acquisition** - The Company capitalizes incremental costs for purpose of achieving a contract with customers, while the Company is expected to return these costs according to IFRS 15. The Company subtracts these assets according to the average customer churn rate. For details regarding the change in customer churn rate and changes in the rate of reduction, see note 2 to the financial statements.

14.4. **<u>Licenses and registration in the registry</u>** – For details about licenses and registry registrations held by the Group for purpose of providing services in the cellular and fixed-line communications field, see Section 22.4 below.

14.5. **<u>Rights to use frequencies in the area of cellular communications</u>**

14.5.1. <u>Allocation of frequencies</u>

(1) The availability of frequencies in Israel is limited, and the allocation of the frequencies is made by the frequencies commission through a licensing process. The Group has the right to use frequencies for purpose of providing telecommunication services on its communication networks. The license fees are deducted in the Company's financial statements over the license period. In addition, the Group pays quarterly fees in fixed amounts (index-linked) for the right to use these frequencies. For additional details see Note 33(c) to the Financial Statements.

(2) As of the Report publication date, the following frequencies were allocated to the Group for purpose of providing cellular communications services:

a. 2X5 MHz in the 850 MHz frequency band that are used for the Group's 3G network, until the end of 2030.

b. 2X25 MHz in the 1800 MHz frequency band, used for the Group's joint 4G Network and 2G Network. 2X3 MHz from these frequencies were allocated to the Group in a 4G tender (in 2014) for a period of 10 years, and 2X5 were originally allocated to Golan, and upon the completion of its acquisition by the Group, they were allocated to Cellcom until the end of 2023. Allocation of the rest of the frequencies (2X17 MHz) is until the end of 2030.

c. 2X10 MHz in the 2100 MHz frequency band used for the Group's 3G Network, until the end of 2030.

d. In the framework of the joint network, use is made of 2X5 MHz in the 1800 MHz frequency band, which were allocated to Wecom.

e. In the 2020 Tender (as defined below) the Group was allocated 2X5 MHz in the 700 MHz frequency band, for a period of 15 years; 2X10 MHz in the 2,600 MHz frequency band for a period of 15 years; and 80 MHz in the 3,500-3,600 MHz frequency band for a period of 10 years;

Wecom, the Group's partner in the joint network, won 5 MHz in the 700 MHz frequency band, for a period of 15 years; 10 MHz in the 2,600 MHz frequency band for a period of 15 years; and 20 MHz in the 3,500-3,600 MHz frequency band for a period of 10 years. These frequencies were allocated to it in June 2022.

Notwithstanding the above, the Ministry of Communications may, after the passage of four years from the frequency allocation, without compensation or consideration, reduce the frequency area within which the Group is allowed to act, in general or in certain geographical locations, for the purpose of more efficiently utilizing the frequency spectrum in Israel, and it may even order the Group to share such a frequency with additional operators, in coordination with them.

In addition, should allocation of any such frequencies not be extended, or alternatively if the Company shall not be allocated substitute frequencies, the Group may not be able to maintain the same quality level of cellular telecommunication services that it offers.

14.5.2. <u>Winning the frequencies in the 2020 Tender</u>

For the new frequencies that the Group and Wecom won in the frequencies tender conducted in 2020 ("**2020 Tender**"), the Group and Wecom paid NIS 115 million in 2022 and 2023. In November 2022, the Ministry notified the group of its compliance with the eligibility conditions for the deployment grant of the 5G system according to the conditions of the 2020 tender and the Company's license, and accordingly the Company received a refund of NIS 26 million from the

Ministry of Communications for its compliance with the aforementioned tender conditions.

The 700 MHz frequency bands are used as the main coverage increasing frequency for the 4G services, and in the future also for the 5G services.

The frequencies that Wecom won together with the Group in the 2020 Tender, and which were allocated to Marathon, shall be available for the Group's use according to terms to be agreed with them, including with respect to their period of use (and so too 5 MHz in the 1,800 MHz frequency bands that Wecom won before it entered into the network sharing agreement, which are at the joint network's disposal). Insofar as the aforesaid frequencies are not available for the Group's use, including due to the termination of the sharing agreement, it may not have enough frequencies to maintain the same level of quality of the cellular telecommunication services that it offers.

The use of the additional frequencies that the Group and Wecom won in the 2020 Tender requires the establishment or change of most cellular sites, which involves material investments, most of which, in the Company's estimate, shall be made within a period of up to 3 years. The difficulties in obtaining the required approvals and permits may prevent the Group from complying with the deployment requirement set forth in its license, which may credit it with performance-based incentives, as well as possibly expose it to legal proceedings and the implications of such proceedings.

The Company's estimates regarding the preparation period for establishment or change of the cellular sites as set forth above are deemed forward-looking information as defined in the Securities Law. The Company cannot estimate to what extent the difficulties in obtaining the approvals and permits for altering and/or establishing cellular sites shall affect the Group's operating results. The Company's estimates may not materialize or may partially materialize or in a manner different than expected, since they are affected by an abundance of factors that are not in the Company's control and they

are inter alia subject to the effect of the factors set forth above and the changes that may apply to them, and to the effect of the risk factors in the Group's activity, as set forth in Section 27 below.

14.5.3. Requirement to switch frequencies

In March 2020, the Ministry of Communications informed the Group and an additional cellular operator that they are required to switch from the 850 MHz frequency band that was allocated to them, to the 800 MHz frequency band, so that they shall be compatible with the European standards and the region where the State of Israel is located.

As of the Report publication date, the Group's bandwidth in the 850 MHz frequency band was reduced from 2X10 MHz to 5X2 MHz, and it was moved to a substitute band. On a later date to be determined, the frequency band in the 850 MHz area shall be terminated, and instead the Group shall be offered a frequency band that is completely in the 800 MHz frequency band. The Ministry of Communications shall consider allocating part of the revenue from frequency tenders in the 800 or 900 MHz frequency bands, if any such tenders shall be conducted, towards accelerating the process of switching frequencies, as aforesaid.

The completion of the foregoing frequencies switch shall require material investments and replacing radio equipment in most of the Group's cellular sites.

14.6. **Trademarks**

As of the Report publication date, the Group has more than 170 domains and nearly 80 trademarks and registration requests. The Group's main trademarks are Cellcom, Talkman, Cellcom TV, Netvision, 013 Netvision, Golan Telecom and Dynamica.

According to its needs, the Group submits requests to register trademarks from time to time, it constantly tracks validity renewal dates of its registered trademarks, and it from time to time extends the validity of those that it uses.

Such trademarks that include the Group's main brands, help differentiate its services and products comparted to its competitors.

14.7. **<u>The GSM Association</u>** – The Group is a member of the global GSM Association, which gathers various cellular operators from all around the world that use the GSM technology. As a member of the association, the Group may use the Association's intellectual property rights, including use of the Association's logo and its trademark.

14.8. **<u>Software rights</u>** – In addition, the Group uses computer software and systems, some of them under licenses that it purchased and some that were developed by the Group. A considerable part of such licenses are limited in time and are renewed from time to time.

15. Human capital

The Group's ability to achieve its strategic goals to a large extent depends on the quality of its employees, and therefore the Group is acting to hire the most suitable candidates for every position, and to grant the employees the training that they require for effectively performing their tasks. The Group sees great importance in its employees being satisfied, while making sure they are efficient and productive. The Group implements a performance appraisal system that from time to time analyses the employees' performance and helps the Group to improve their performance and accordingly their compensation, and it helps identifying, maintaining, and promoting its best employees. In accordance with the Group's service concept, as of the Report publication date, approximately 71.5% of the Group's manpower is engaged in roles directly dealing with customers.

15.1. **<u>Below is a description of the Group's organization structure as of the Report publication date</u>**:

15.2. **<u>Employee headcount</u>**

Below are details about the number of employees in the Group:[20]

	31-Dec-2022	31-Dec-2021	31-Dec-2020
Management and HQ	45	43	47
Human resources	131	128	133
Marketing and television	38	40	34
Customers*	1,954	1,987	2,171
Finances	91	91	90
Information technologies and systems	502	490	479
Total	2,761	2,779	2,954

* Units that provide services to the customer, including business customers, sales, retail system, customer home system and customer service.

[20] It is clarified that the below data refers to positions in any department (as opposed to number of employees). Meaning, one full position may be made up of two employees who each work part-time. The data reflects the Group's organizational structure as of 2020. The data for previous years was presented accordingly.

15.3. **Material changes in the employee list during the period described in the Report**

As set forth in Section 15.2 above, the decrease in the Company's employee headcount in 2021 compared to 2020, derives inter alia closing service centers and Dynamica branches during the Covid-19 pandemic (employees, not all of whom returned to their jobs at the end of the aforementioned period).

15.4. **Training**

The Group customarily sends its employees for training, which includes professional courses, general training in the area of customer service, management training, etc.

The representatives of the telephone and frontal customer service and the other employee teams that interact with customers undergo extensive training before starting to perform their functions in the Group, and ongoing training during the course of their performance, based on the nature of their job.

15.5. **Terms of employment**

The Group has personal employment agreements with its employees, some of whom earn a monthly global salary, and some of whom are employed on a monthly or hourly salary. A performance-based incentive is added to most of the service and sale employees.

In addition, most of the Group's employees are subject to the provisions of the Group's current collective employment agreements. The vast majority of the Group's employees is signed on confidentiality and non-competition agreements.

For details about the collective employment agreements, see Section 15.6 below.

The contractual engagement with the officers and employees of the senior management in the Group is also executed according to conditions established in personal agreements, by way of employment as an employee, after individual negotiations, subject to the remuneration policy of the Company's officer which was recently approved as mentioned in section 15.7 below.

For details about Company officers' compensation, see Regulation 21 in Chapter D of this Periodic Report (Additional Details about the Corporation).

15.6. **<u>Collective employment agreements</u>**

15.6.1. <u>Cellcom and Dynamica</u>

On April 20, 2021, a collective agreement was executed between Cellcom and Dynamica and the Histadrut – the Union of Cellular, Internet and High-Tech Workers – and the Workers Council (the "**Workers Council**" and the "**Collective Agreement**" as applicable). The Collective Agreement applies jointly to Cellcom and Dynamica (defined together as the "**Company**" for the purposes of the Collective Agreement), and to Cellcom employees and Dynamica employees (defined together as the "Company Employees"). The Collective Agreement applies from January 1, 2021 until December 31, 2023 and will be automatically extended for a period of 12 months as long as one of the parties has not notified in writing 90 days before its end of a desire to make changes to it.

The collective agreement applies to all Company Employees, with the exception of a number of individual employees in certain positions that are excluded from the scope of the collective agreement. As part of the agreement, Company employees' employment policy and conditions were defined in various aspects, similar to those regulated in previous collective agreements that applied to Cellcom since 2015 and to Dynamica since 2016, including an annual salary increase (on average 3% in 2022 and 2023 for employees who are entitled to it in accordance with the minimum seniority established, where part of the amount is at the discretion of the managers), incentives, fringe benefits (such as pension provisions, sick leave, convalescence, clothing, vehicle and more), provision for a continuing education fund (for employees who have completed 36 months of work at the Company), participation in the operating profit of the Cellcom group (12.5% over an annual operating profit in the amount of NIS 400 million in Cellcom and Dynamica (together) in quarterly distribution for employees who have completed 30 months of work in the Company. In addition, a welfare budget for employees was established as were various protocols concerning inter alia filling up positions in the Company, changing the place of employment and layoffs. In accordance with the collective agreements, the employees are hired as employees during a trial period, and after 42 months (3.5 years) they receive the status of a permanent employee (subject to the conditions stipulated in the agreement), where it is determined that a permanent employee in the Company cannot be fired except for poor performance, committing a serious disciplinary offense or due to reorganization or downsizing. Within the framework of the agreement dispute resolution mechanisms as well as the obligation to pay membership fees were set forth. In addition, in February 2020, a collective agreement was executed whereby eligible employees (as defined in the agreement) were granted options and RSUs for Cellcom shares, under the vesting conditions specified in the aforementioned agreement.

15.6.2. Golan

In April 2016, Golan engaged in a collective employment agreement with the National Workers' Union and the Company's employee' representative, which with respect to some of Golan's employees (most of the sales and customer service employees) *inter alia* regulates the working relationship with Golan, employment of employees and terms of employment, trial period, terms of salary and welfare, grants, advanced study fund, pension arrangements, termination of employment relationship, dispute settlement, etc. The collective employment agreement was extended on October 31, 2019, with certain changes, and was valid until October 31, 2022.

After June 2020, following the intention to sell Golan to the Group, the parties determined inter alia that set forth that all agreements, arrangements, and current practices in Golan prior to the agreement's execution shall continue to apply to the employment relationship until October 31, 2022, and that during this period Golan's status as a separate bargaining unit would be maintained; permanence was granted for current employees with seniority determined in the agreement; a sale grant was agreed upon that is to be distributed to eligible employees and a grant for purpose of the welfare activity.

In January 2022 the Histadrut informed Golan of being the representative organization of Golan employees, thus replacing the National Worker's Union.

In January 2023, a special collective agreement was signed between Golan the Histadrut and the Workers Council ("**Golan Agreement**"). The parties agreed to adopt the collective agreement for Golan employees, subject to changes and adjustments, among other things in relation to the experience period of Golan employees which will be 3.5 years, the provision of one-time grants, the provision of performance-based variable compensation and eligibility to participate in the meal budget. The Golan Agreement will remain in effect until December 31, 2023 or until the date of entry into force of a new collective agreement at the Company and Dynamica.

15.7. **<u>Employee compensation plans</u>**

15.7.1. <u>Performance-based compensation for employees</u> - some of the Group's employees are entitled to an annual grant that is based on the Group's performance and their personal performance.

15.7.2. <u>Capital compensation for employees</u> - in March 2015 the Company adopted the option plan and/or restricted share units for the Group employees, officers, and service providers (In March 2023, the said plan was revised). For details about an outline and immediate report of the Company regarding the granting of options and RSUs to eligible employees according to the Company's collective agreement with its employees, as well as a private placement that is not material for the future granting of options to employees outside of the collective agreement, see the Company's immediate reports of March 10, 2022 and April 4, 2022 (reference numbers: 2022-01-028354 and 2022-01-042670, respectively), and also immediate report regarding a revised outline dated March 9, 2023 (reference number: 2023-01-025173), included in this report by reference.

15.7.3. Compensation of officers policy – on August 12, 2020, the general meeting of the Company's shareholders, upon the recommendation of the compensation committee and approval of the Company's board of directors, approved the compensation policy for the officers of the Company, and its update. On December 30, 2021 the general meeting of the Company's shareholders, upon the recommendation of the compensation committee and approval of the Company's board of directors, approved a number of further changes to the compensation policy for the officers of the Company.

16. Vendors

The Group has agreements with many vendors for buying communication equipment, information systems, content services, end-user equipment, etc.

16.1. Primary vendors

The Group considers primary vendors those vendors accounting for more than 10% of the Group's total annual purchases. Accordingly, Samsung International Co. Ltd. ("**Samsung**") and Apple Distribution International ("**Apple**") were primary vendor of the Group in 2022, as the Group's purchases from them of the Group's total purchases during such period constituted approximately 13% and 12%, respectively.

16.2. Dependence on vendors

Termination of the engagement with some of the Group's vendors could harm the quality of some of the Group's services or result in having its licenses revoked due to noncompliance with the license requirements and therefore the Group is dependent on them. Details on such vendors follow:

16.2.1. Cellular network equipment

(1) In April 2014, the Group engaged under a framework agreement with NSN Israel, a member of the Nokia Networks Group an international networks manufacturer, to purchase an LTE network that supports the LTE-Advanced technology (4.5G) and ancillary services. This agreement also applies to the purchase of equipment and services provided according to the Group's previous agreement

with NSN Israel in connection with the core system, radio access network, and ancillary services and products for the Group's GSM/GPRS/EDGE/UMTS/HSPA networks. Under the agreement, the Group may purchase maintenance services.

(2) In September 2005, the Group engaged with LM Ericsson Israel Ltd. for the purchase of a radio access network and ancillary products and services with UMTS technologies. In December 2011, the Group engaged with LM Ericsson Israel Ltd. to purchase upgraded UMTS/HSPA products and ancillary products. Under the agreement, the Group may purchase maintenance services.

(3) The Group uses the intelligent platform of Telcordia Technologies Inc. (acquired by Ericsson), which provides services to the Group's cellular networks and allows it, at minimal cost, to internally develop sophisticated services with a short time-to-market that are customized to Israel's market requirements.[21]

16.2.2. <u>End-user equipment</u>

Samsung provides the Group with Samsung cellular phones and other products and spare parts for such handsets. The purchase terms, including price, are determined from time to time in negotiations between the parties.

Apple provides the Group with iPhone cellular phones and other products and spare parts for such handsets. The purchase terms are set forth in an agreement for purchase and distribution of iPhone products in Israel.

16.2.3. <u>Internet infrastructure</u>

(1) The Group has executed multiple agreements with Telecom Italy Sparkle ("**TIS**") and Tamares Telecom Ltd. ("**Tamares**"), for purchasing rights to use certain capacities in the submarine optical

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[21] In February 2022, an agreement was executed to replace said platform with a new system, on a cloud infrastructure, subject, among other things, to the right of the Company to decide whether to install the new system or cancel the project.

cable that connects the Israeli Internet with the global Internet, in addition to maintenance and operating services for said infrastructure. The rights of use for most of the capacities purchased by the Group shall be in effect vis-à-vis TIS until 2027 and Tamares until 2031.

(2) Since 2015, the Group has been purchasing bit-stream access (BSA) Internet infrastructure services from Bezeq according to the terms of the Wholesale Market regulating both the service specifications and the service prices, which include a fixed component and a component based on the capacity required by the Group for its customers. From July 2021, the Company has been purchasing this service from Bezeq also on Bezeq's fiber-optic infrastructure while the price of the service is fixed in relation to the speeds defined in regulation (for details see Section 22.6.2 below).

(3) For the agreement between the Group and IBC to purchase indefeasible rights of use (IRU) for IBC's fiber-optic infrastructure, see Section 18.1 below.

(4) In February 2015, the Group executed an agreement with Bynet Data Communications Ltd. for the purchase and maintenance of an MBH transmission network by Cisco Systems Inc. ("**Cisco**"). In 2020, the Company engaged with Cisco to upgrade this network. The Group also purchases maintenance services from Cisco for the system and for other IP systems.

16.2.4. Other vendors in the fixed-line communications area

(1) The Group has an agreement with the company Ribbon Communications for the maintenance of a domestic communication network used to provide domestic operator services.

(2) The Group has an agreement with Enghouse which provides the Group with international switches and maintenance services.

(3) BroadSoft, Inc. supplies the Group with a system to provide advanced fixed-line cloud-based telephone operator services to business customers.

16.2.5. Equipment and content for the OTT television services

(1) The Company has an agreement with Kaltura Europe Ltd., for purchasing a cloud-based content management platform and service for the Group's OTT TV service . The platform enables integration, management, distribution and analysis of the content.

(2) The Company has an agreement with Vubiquity Management Ltd. (of the Amdocs Group Israel Ltd., "**Amdocs**"), a leading global provider of multi-platform video services and solutions, to provide international content and content operation services for the Group's OTT television service.

(3) From time to time the Company contractually engages for the purchase of broadcasting rights and obtaining a license to use the contents with third parties for different periods, inter alia One Sports Television Services Ltd., Charlton Ltd. and REG Group Ltd., Keshet Broadcast Ltd. ("**Keshet**"), Reshet Noga Ltd. ("**Reshet**"), and the Israeli Broadcasting Corporation (the "**Broadcasting Corporation**").

16.2.6. Information systems

The Group uses a variety of information systems that allow proving customer service while improving internal processes in the Group. The Group's billing and CRM (Customer Relationship Management) systems are mostly supported internally by the Group. As of the date of publication of the Report, the Group continues to develop additional modules for the Company's CRM system (customer service system for the mobile and fixed-line sectors), the result of independent development. During 2021, this system replaced some of the systems used by the Group, and since June 2021, as a rule, the group has been independently developing the new modules, including support for sales processes and work processes for private and business customers. Below are the primary vendors of the Group's information systems:

(1) The Group uses the Amdocs system for the billing purposes of its customers.

(2) The Group uses an Avaya system for managing incoming calls into the Group's customer service call centers.

(3) The Group uses ERP solutions provided by SAP, currently maintained by Remini.

17. Working capital

The Group's working capital mostly includes customer credit and vendor credit, as follows:

17.1. Customer credit

17.1.1. Credit from transactions to sell end-user handsets – The Group provides most customers that purchase end-user handsets an option to pay in 36 equal installments. In order to mitigate credit exposure risk, the Group occasionally reviews its credit policy, including a review of its customers' financial robustness (according to parameters it set).

17.1.2. Credit from the monthly bill for communication services – Group customers are charged monthly on varying dates for the communication services consumed in the previous month.

Most payments by Group customers are made by monthly credit card charge.

17.2. Credit from vendors

The Group receives credit from vendors for varying periods, according to agreements with the different vendors.

Below is data on vendor credit and customer credit in 2020, 2021 and 2022:

	2022		2021		2020	
	Credit in NIS millions	**Average credit days**	**Credit in NIS millions**	**Average credit days**	**Credit in NIS millions**	**Average credit days**
Customers, for sale of end-user equipment (*)	376	113	370	132	469	235
Customers for services (*)	474	62	429	60	382	65
Vendors	791	57	737	64	768	68

(*) Net of doubtful debts.

17.3. **Working capital**

17.3.1. Below is data on the Group's working capital, in NIS millions:

	As of December 31, 2022	As of December 31, 2021	As of December 31, 2020
Current assets	2,012	1,800	2,299
Current liabilities	1,924	1,710	1,929
Surplus current assets to current liabilities	88	90	370

17.3.2. For details regarding the deficit in working capital and the Company's policy and plans for dealing with said deficit, see section 5.1 of the board of directors' report.

18. Investments

18.1. **Agreements related to the transaction for the Group's investment in IBC** – In July 2019, the Group completed the investment transaction in IBC. As stated above, IBC is a communications company that provides communications infrastructure services in Israel by deploying fiber-optics, including on IEC's electric grid infrastructure. The IBC investment transaction is made up of multiple agreements, the primary of which are presented below:

18.1.1. Partnership agreements – The Group engaged in agreements to establish a jointly owned limited partnership, held in equal shares, which shall purchase 70% of IBC Partnership's shares.

18.1.2. Share purchase agreement – The IBC Partnership, Israel Electric Corporation ("**IEC**"), IBC and the shareholders and other primary creditors of IBC engaged under agreement in the framework of which the Partnership acquired 70% of IBC's issued and paid-up share capital by investing NIS 110 million in IBC by the Partnership (of which the

Group paid half) (the "**Consideration**"), where most of the amount was granted to IBC as a shareholders' loan (loans extended at interest rates of 4%-6% above the most senior debt). According to the share purchase agreement, IEC shall hold the remaining 30% of IBC's issued and paid-up share capital.

18.1.3. Shareholders agreement – The Partnership engaged under a shareholders agreement with IEC that sets forth IBC's management, including certain provisions on financing IBC and dilution (or non-dilution under certain circumstances) of the shareholders not participating in financing.

18.1.4. Agreement to purchase an IRU on IBC's fiber-optic infrastructure –

(1) Under the agreement, as updated upon the completion of Hot's investment transaction in IBC, the Group is obligated to purchase an indefeasible right of use (IRU) from IBC on IBC's infrastructure lines, at the rate of 10%[22] of customer households in buildings connected to IBC's fiber-optic infrastructure ("**Home Pass**"). All based on deployment of fiber-optic infrastructure by IBC during 15 years from the date of commencement of the provision of services by IBC ("**First Service Period**") (including an option to extend the period of use of lines by additional periods under certain conditions, for no additional consideration except the annual maintenance fee). The IRU consideration varies according to actual deployment of Home Pass infrastructure by IBC and is likely to increase every quarter according to the new infrastructure deployed in that quarter. The IRU consideration shall be paid, in general, in 36 quarterly instalments (9 years), plus a predefined annual fixed interest plus maintenance fee. The IRU agreement reduced the Company's expenditure by using IBC's infrastructure instead of Bezeq and Hot's infrastructures in 2020-2022, as well as its investments in deploying an independent fiber-optic infrastructure in residential

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[15] The Group's undertaking was 15% until the completion of Hot's investment transaction in IBC, and (until June 30, 2023, as detailed below regarding an additional agreement entered into from March 2023), it currently is 10%.

areas. To guarantee all the payments the Company is obliged to make according to the agreement, it provides IBC with an autonomous bank guarantee, in the established mechanism and in an amount not to exceed NIS 50 million. For the Group's estimates on the effect of this agreement on the Company's competitive position, see Section 12.4 above. As of December 31, 2021, and December 31, 2022, the cumulative amount of the Home Pass is approximately 735,000 and 1,100,000, respectively.

(2) In March 2023, after negotiations that took place between the parties, the Company's board of directors approved the Group's engagement in another agreement with IBC (the "**Agreement**"), in which it was determined, among other things, that as of July 1, 2023, the Group's undertaking to purchase an indefeasible right of use (IRU) from IBC of IBC's infrastructure lines shall be not less than 12.5% of the customer's households in connected buildings to the IBC's network (instead of 10%, as of the date of this Agreement) and will reach 15% (starting July 1, 2024), all with reference to the balance of the First Service Period.

In view of IBC's undertaking to act to expand the scope of its infrastructure deployment beyond its obligations under the terms of its license, the Group undertook that it will purchase IRU services on infrastructure lines exclusively from IBC, for a fixed period not less than 3 years and under certain conditions, all as detailed in the Agreement.

In addition, it was agreed that the Group will receive a quarterly discount at a variable rate for maintenance fees paid under the IRU agreement, starting from July 1, 2023 until December 31, 2025, in amounts that are not material to the Company.

The signing of the Agreement is expected to take place during March 2023. It is clarified that there is no certainty that the Agreement will be signed, due to factors which are outside of the Company's control.

18.1.5. Services agreement with IEC – IEC and IBC executed an agreement to update IBC's current agreement regarding the right of use and services for IBC's fiber-optic infrastructure deployed on IEC's infrastructure. The services agreement with IEC includes updated and improved pricing and arrangements with respect to IBC's exclusive right to deploy a fiber-optic network on IEC's electric grid and with respect to other services provided by IEC to IBC in such regard.

18.2. **Agreements related to the transaction for the investment of Hot in IBC** – In February 2021 the investment transaction of Hot (together with entities affiliated with it) in IBC was completed. Further to the standard and acceptable terms, the transaction includes an undertaking to substantially increase the deployment of IBC's fiber-optic network in the forthcoming years and the following main points:

18.2.1. Investment agreements – Between the IBC partnership and Hot, in the framework of which Hot shall become an equal partner in the IBC partnership (whereby each shall indirectly hold 23.3% of IBC's share capital) by making an investment materially equal to the investment made by each of the Group and IIF until the date of completing the transaction. Furthermore, the investment agreements include additional corporate governance rights and other mechanisms including the put option mechanisms, according to which (1) in the period between January 1, 2025 and December 31, 2026 or starting on January 1, 2025 and to the extent that Hot acquired all of IIF's holdings in the IBC Partnership and its general partner, the Company will have a put option which, upon exercise, shall require Hot to purchase all of the Company's holdings in the IBC Partnership and its general partner; (2) as of January 1, 2026, and as long as Hot holds at least one third of the total shares of the general partner in the IBC Partnership but less than two thirds of the total shares of the general partner in the IBC Partnership, Hot is given the right to exercise a decision-making right in connection with resolutions that will be adopted by the board of directors and the general meeting of the general partner of the IBC Partnership with certain exceptions. If the right is exercised by Hot, each of the other shareholders in the general partner in the partnership will have the right (including the

Company) to oblige Hot to purchase its shares in the IBC partnership and its general partner.

18.2.2. An agreement to purchase an IRU on IBC's fiber-optic infrastructure – Between IBC and Hot, whereby Hot undertakes to purchase an indefeasible right of use on IBC's fiber-optic network.

18.2.3. Services agreements – Between IBC and Hot, IBC agrees to purchase some services from Hot and may choose to purchase other services.

It should be noted that IBC also undertakes to continue purchasing certain services provided to it by the Group, beyond the completion date.

Approval of the Ministry of Communications for the transaction included amendments to IBC's license, including an undertaking to deploy the network whereby 1.7 million households shall have access to the network upon the lapse of 5 years from March 2021, which generally reflects the contractual agreements of the transaction, as stated above, and to provide a shelf offer for any operator interested in purchasing its services. As of the date of publication of the report, IBC is deployed in approximately 1.1 million households, and intends to continue expanding the deployment of the infrastructure to approximately 2 million households.

18.3. **Sale of the Group's independent fiber-optic infrastructure in residential areas to IBC** – In July 2019, the Group and IBC completed a transaction to sell the Group's independent fiber-optic infrastructure in residential areas to IBC, in consideration for NIS 181 million. The sale consideration was financed entirely with the shareholders' loans provided to IBC by the partnership, as set forth in Section 18.1. Upon completing the transaction, the IRU agreement, including the Group's undertaking to purchase an indefeasible right of use for a certain percentage of households in the buildings connected to IBC's Home Pass fiber-optic infrastructure (as set forth above) also applies to the fiber-optic infrastructure IBC acquired from the Group.

18.4. In March 2020 IBC engaged under agreement with an Israeli financial institute, whereby the financial institute provided IBC a credit facility of up to NIS 350 million to be repaid by December 31, 2032 ("**Original Credit Agreement**"). The credit facility was provided to IBC in order to facilitate its business activity, including the continued deployment of fiber-optic infrastructure in Israel. The agreement includes the standard commercial terms and restrictions. The Partnership also agreed to invest an additional amount of NIS 50 million in IBC by the end of 2021, out of which the Partnership has invested NIS 10 million and the balance was replaced by investment of Hot in IBC as set forth above. In January 2022 IBC executed another credit agreement for purpose of its business activity, whereby the unused part of the credit facility under the Original Credit Agreement (NIS 150 million) shall be reduced to NIS 60 million and a new credit facility of NIS 440 million shall be provide, both of which shall be in effect for 48 months. Amounts drawn by IBC shall be repaid by December 31, 2032.

19. Financing

The Group finances its activity primarily with cash flow from current operations, with loans/credit from banking corporations and financial corporations, and by issuing securities, including debentures and ordinary shares.

19.1. Average and effective interest rates

Below are details regarding the average and effective interest rates on the Company's long-term loans and debentures (including current maturities) that are in effect, or were in effect in 2020, 2021 and 2022 which are not designated for unique use by the Company, while distinguishing bank credit sources and off-bank credit sources:

	2022		2021		2020	
	Average interest	**Effective interest**	**Average interest**	**Effective interest**	**Average interest**	**Effective interest**
Off-bank sources – index-linked	2.6%	4.22%	2.05%	4.26%	2.38%	4.33%
Off-bank sources – unlinked	3.20%	4.12%	3.20%	4.10%	3.42%	4.15%
Bank sources – unlinked	-	-	4.00%	4.00%	4.00%	4.00%
Total liabilities	3.01%	4.14%	2.97%	4.13%	3.18%	4.19%

19.2. **The Company's debentures**

Currently debentures Series 8 to 13 issued by the Company are in circulation (the "**Debentures**").

For information about the Company's Debentures, see the annex to the Board of Directors' Report and Note 19 to the Financial Statements.

19.3. **Credit and loans from banking corporations and financial corporations**

19.3.1. For details regarding material loan and credit agreements as of the Report publication date or which were in effect during the Report period, see Note 19.C. to the financial statements:

19.3.2. The Group occasionally engages with financial corporations in its ordinary course of business, for immaterial amounts for the Company, under framework agreements for obtaining various banking services, such as credit facilities, hedging transactions, and factoring transactions.

19.4. **Restrictions on procuring credit**

19.4.1. Limitations by virtue of deeds of trust for the holders of the Company's Debentures – For details regarding the Company's undertakings to comply with financial covenants, restrictions on distribution, and other restrictions set forth in the deeds of trust for the Debentures (Series 8) to (Series 13) issued by the Company and not yet repaid, see Note 19.B. to the Financial Statements.

19.4.2. Restrictions by virtue of agreements with financial corporations – For details regarding the restrictions set forth in the Company's credit facility agreement with an institutional group, see the annex to the board of directors' report.

As of the date of approving the annual financial statements and as of the Report publication date, the Company is in compliance with all financial covenants and other restrictions described above applying to it by virtue of the trust deeds to the holders of the Company Debentures and by virtue of agreements with financial corporations.

19.5. **Guarantees and charges**

For details regarding the bank guarantees the Company has provided, see Note 32(b) to the Financial Statements. For details about additional guarantees to the Ministry of Communications and IBC, see sections 22.4.2 and 18.1.4 above.

19.6. **Credit rating**

As of the publication date of this Report, the Company's Debentures (Series 8) to (Series 13) are rated ilA Positive by Standard & Poor's Maalot Ltd. ("**Maalot**") as of August 7, 2022, except with respect to the Debentures (Series 13), rated on 6 September 2022.

For more details regarding the rating history of the Company Debentures, including changes in such rating, see the annex of the Board of Directors' Report.

19.7. **Raising additional sources**

On April 20, 2021, the Company published a shelf prospectus (ref. no. 2021-01-006729). Said shelf prospectus allows the Company to offer and sell various securities including debt and equity in Israel. For details about the issuance of Company Debentures (Series 13) from September 2022, see section 14 in the board of directors' report.

20. Taxation

For details regarding tax laws that apply to the Company and the Company's tax assessments, see Note 30 to the Financial Statements.

21. Environmental risks and management thereof

21.1. **General**

The Group works to protect the environment and mitigate its negative impact on the environment and the landscape. The Group dedicates human resources, money, and technologies to minimizing its ecological footprint, including by way of efficient deployment of infrastructures, recycling electronic components, reducing use of paper, reducing pollutant emissions, collecting used batteries, sending the monthly statement and other customer correspondences via email, WhatsApp or SMS, waste separation and purchasing electricity from a natural gas-based private powerplant.

21.2. **Non-ionizing radiation**

End-user equipment and various types of cellular antenna sites are known as sources of non-ionizing radiation. They are subject to regulation, including the Radiation Law, and are a source of public concern and debate. The International Agency for Research on Cancer (part of the World Health Organization) classified the electromagnetic radiofrequency fields as possible causes of cancer in humans, based on the increased risk of glioma, a malignant type of brain cancer that is linked to the use of cellular phones. There are other studies, and more studies are being conducted, on the connection between exposure to electromagnetic radiation and the use of cellular handsets and cancer and other health risks.

The guiding principle regarding exposure to non-ionizing radiation in general and to cellular phones in particular is the precautionary principle. The authorities published recommendations on this subject, including the Ministry of Health and Tnuda, the national knowledge center on the health effects of non-ionizing radiation. According to Tnuda's recommendations, exposure to radiation from cellular phones can be mitigated using simple measures according to the following principles: distance, time, power. There are specific recommendations for infants, children, and teens, who are considered at-risk populations, on all that concerns the health effect of various exposures.

Also, in March 2020, the International Committee for Non-Ionizing Radiation Protection (ICNIRP) updated the guidelines for protection against radiation in the radio frequencies it published in 1998. The exposure limits have been examined and validated in the 22 years since the previous publication, and they were revised according to the scientific knowledge accumulated in this period.

21.3. **Constructing cell sites**

The regulation of deploying cell sites and cellular broadcasting facilities, the manner of construction and the required approvals, are mostly governed by the Radiation Law, the Planning and Building Law, and National Zoning Plan 36. For details regarding the provisions of the Planning and Building Law in connection with deployment of cell sites and broadcasting facilities as aforesaid, see Section 22.5 below.

The Radiation Law prohibits constructing and operating cell sites or facilities without a construction permit and an operating permit from the Ministry of Environmental Protection. Obtaining a construction permit from the Ministry of Environmental Protection is a preliminary condition for obtaining a building permit or an exemption therefrom from the planning and building committee, and obtaining a building permit or an exemption therefrom is a preliminary condition for obtaining an operating permit from the Ministry of Environmental Protection. With respect to a construction permit and an operating permit, the applicant must present the measures taken (including technological measures) to limit exposure levels from each cell site or facility.

The construction permit is valid for no more than three months, unless extended by the Radiation Commissioner at the Ministry of Environmental Protection ("**Radiation Commissioner**"), and the operation permit is valid for five years, subject to annual radiation surveys for the other facilities or sites, carried out by third parties authorized by the Radiation Commissioner. The construction and/or operation permits set forth the different terms that govern the construction and/or operation of the sites. The Group obtains construction and operating permits from the Radiation Commissioner in the relevant timeframe for its cell sites and transmission facilities. In addition, cellular operators, including the Group, must provide current data regarding capacities at each of their cell sites or other transmission facilities to the Radiation Commissioner. The Group submits the required data to the Radiation Commissioner.

The Radiation Law governs the permitted levels of exposure to radiation and the regulation of activity of cell sites and/or transmission facilities, and it authorizes the Radiation Commissioner to order the removal of cell sites or other facilities operating contrary to any permit. The Radiation Law also imposes criminal sanctions on the Group and its officers for violations of the law. Noncompliance with the Radiation Law or the terms of the permit could result in the permit being revoked or suspended and cause a delay in obtaining a permit for other sites by the same operator.

21.4. **<u>End-user equipment</u>**

Cellular services are provided through end-user equipment that emits non-ionizing radiation.

The Consumer Protection (Details regarding Non-Ionizing Radiation from Cellular Phones) Regulations, 5762-2002 ("**Radiation Regulations**") stipulate how customers are to be informed of this. The Radiation Regulations and the pamphlet issued pursuant to them state maximum permissible radiation levels from cellular telephones, measured according to the SAR level.[23] The manufacturer measures the SAR levels for each model prototype. To the best of the Group's knowledge, the end-user equipment models it markets comply with required SAR levels according to law. Nevertheless, the Group does not perform SAR examinations of the end-user equipment, and it relies on publications by the manufacturers for each model. The Group obtained certain permits from the Ministry of Communications and the Standards Institute in connection with importing end-user equipment. The permits require the model to comply with all applicable standards, including the SAR levels. The Group publishes details regarding the SAR levels from cellular phones on its website, and it refers to recommendations by the relevant authorities on the precautionary rules for using cellular phones.

21.5. **<u>Material events or matters relating to environmental protection</u>**

As of the Report publication date, to the best of the Group's knowledge, it is not exposed to material events or matters relating to environmental protection.

21.6. **<u>Material legal or administrative proceedings relating to environmental protection</u>**

As of the Report publication date, to the best of the Group's knowledge, it is not party to material legal or administrative proceedings relating to environmental protection.

[23] SAR is tested for each model's prototype, not for individual handsets. Therefore, the Group has no details regarding the end-user equipment SAR levels throughout its lifecycle, including after repairs. The Group informs its customers that if a piece of equipment is repaired there may be changes to SAR levels.

21.7. **The Group's environmental risk management policy**

The Group implements a work procedure with respect to procurement of cell sites and site licensure, an environmental protection licensing procedure for cell sites and periodic radiation tests, conducted by the Group among others to verify compliance with applicable standards under the law.

On the performance of periodic radiation tests and the online submission of current data to the Commissioner on the capacities in each other cell site or Group transmission facilities, see Section 22.5 below.

22. Limitations and control on the Group's activity

Below are details on laws, regulations, instructions and other matters that are subject to regulatory control, which are considered material to the Group's activity, including reference to legislative or regulation initiatives which to the best of the Group's knowledge are in various stages of legislation or regulation stages, but it is uncertain if or when they shall be enacted and if enacted, there is no certainty regarding the final language of the provisions of the law or the license on matters described.

22.1. **General**

The Israeli communications market is characterized by high regulatory involvement in the affairs of companies operating in this area. A substantial part of the Group's operations is subject to the provisions of the Communications Law, regulations promulgated by the Ministry of Communications, and the provisions of licenses issued to the Group by the Minister of Communications. According to the Communications Law and the Telegraph Ordinance, the supply of certain communications services in Israel is contingent upon obtaining a permit and allocation of frequencies to such services, and some are conditional upon receipt of a permit pursuant to the Permit Regulations.

In addition, the Group's activity is subject to the laws that govern its relationships and manner of engagement with its customers. These provisions include, *inter alia*, the Consumer Protection Law and the Privacy Protection Law, as well as specific provisions to its area of activity, as stated below.

The Group's activity is also subject to the general provisions of law, including competition law, contract law, import and customs law, standardization, accessibility, labor law, and business licensing.

22.2. **Communication laws**

22.2.1. The Communications Law –

(1) Under the Communications Law, providing cellular services, fixed-line telephone services, international telephone services, and connectivity and infrastructure services, requires a license from the Ministry of Communications or registration in the registry managed by the Ministry of Communications. For additional details see section 22.4 below.

(2) The interpretation and implementation of the Communications Law and the regulations promulgated thereunder are uncertain and subject to changes. In the past, disputes arose between the Group and the Ministry of Communications in this respect and disputes could also arise in the future. The Communications Law and its regulations grant the Ministry of Communications vast regulatory powers over the Group's activity. The Ministry of Communications can alter the Group's licenses or the permit regulations and/or the regulatory guidelines without its consent, thus limiting the Group's freedom to conduct its business and impacting the results of its operations. Frequent changes to the licenses and/or legislation, or changes made at a timetable the Group cannot meet, increase the risk of noncompliance with the Group's license terms or the risk of being in breach of the law, and consequently, the Group's exposure to lawsuits and regulatory sanctions. The Ministry of Communications can impose material sanctions if the relevant licenses, laws, or regulations are breached, and revoke the licenses if the Group commits material breach of their terms.

(3) The Communications Law also requires the Company to act in accordance with the instructions of the Shin Bet in Israel, which may include a requirement that officers and holders of certain positions

have Israeli citizenship and residency as well as security clearance. In addition, the Communications Law authorizes the Minister of Communications to appoint a civil servant with security clearance to serve as an observer at the meetings of the board of directors and its committees. Also, the Communications Law states that if the government of Israel determines that the service provided by the Company is an “essential service,” the Prime Minister of Israel and the Ministry of Communications may impose additional restrictions, including an increased requirement of Israeli ownership of the Company’s shares.

(4) On October 2, 2022, the Permit Regulations entered into force, which were enacted by virtue of Amendment No. 76 to the Communications (Telecommunication and Broadcasting) Law, 5742-1982 (“**Amendment 76**”). This amendment, which aims to reduce the bureaucratic burden and reduce barriers to entry to the market, constitutes a fundamental change in the system of licensing telecommunication services in Israel. With the entry into force of the Permit Regulations, some of the entities that currently provide telecommunication services were transferred from a licensing arrangement to registration in the registry. Accordingly, the aforementioned services are provided by the Group by virtue of license or registration in the registry (with the exception of internet television services which do not require a license or registration in the registry.) To the best of the Company’s knowledge, the Ministry of Communications neatly maps out the licensing instructions in order to meet the licensing and permit regulations as necessary.

22.2.2. The Telegraph Ordinance –

The Telegraph Ordinance governs the use of the electromagnetic spectrum, and applies, *inter alia*, to the Group’s use of radio frequencies in its infrastructure. Setting up and operating a system that uses radio frequencies requires a license according to the Telegraph Ordinance, and the use of radio frequencies is subject to designating and allocating a suitable frequency. The Telegraph Ordinance imposes licensing fees and frequency designation and allocation fees. Because of the current shortage of radio frequencies for public use in Israel (including because many frequencies are allocated to military use), the Ministry of Communications limits the number of licenses to use frequencies and incentivizes efficient use of frequencies. Therefore, because of the above shortage of frequencies, the Ministry of Communications allows cellular network sharing between MNOs, including joint use of operator frequencies.

22.3. **Rate regulation**

22.3.1. Interconnectivity fees – Interconnectivity fee rates (meaning, payments to cellular operators or domestic operators or international operators, for completing a call on a network belonging to another operator, or for forwarding SMS messages between cellular operators) between communication operators subject to oversight. In June 2022, the Minister of Communications decided on the amendment of the Communications (Telecommunication and Broadcasting) Regulations (Interconnectivity Payments), 5742-1982. As part of the amendment, a gradual reduction outline was established on interconnectivity rates for calls ending on the networks of a cellular operator and domestic operator, in such a way that the reduction of the aforementioned rates will be as of June 2023 (the "Effective Date" and the "Reduction Outline," as applicable). According to the Reduction Outline, the maximum interconnectivity rates for two steps will be reduced, as a rule, over 36 months from the Effective Date, at the end of which each operator will bear its own costs, and, as a general rule, there will be no transfer of payments for interconnectivity in relation to call minutes. Regarding international calls supervision was removed from the completion segment of incoming international calls and on outgoing international calls the aforementioned gradual reduction outline shall apply.

In the Company's estimates implementation of the proposed change is not expected to have a material impact on the results of the Group's activity.

The Company's above estimates are deemed forward-looking information, as such term is defined in the Securities Law. The Company's estimates are based on the average scope of minute movement (incoming and outgoing) of the Company's customers opposite various operators. The aforementioned estimates may not materialize or materialize in a different manner should the scope of minutes change in the future, among others, in light of a change in the mix of customers and changes in customer usage patterns and/or legislative or judicial intervention or case law other than which is known on the date of publishing this Report.[24]

22.3.2. Hosting service fee – According to the Communications Law, if the guest and host operators do not agree on the terms for providing hosting services, whether by domestic MNO roaming or MVNO hosting services, the Minister of Communications can interfere with the terms of the agreement, including by setting the price for the services.

The Ministry of Communications may also provide instructions regarding communications service rates in the event of an unreasonable payment or a payment that raises concern of harm to competition. Such instructions could be based on a calculation of cost plus a reasonable margin, or based on reference points of comparison with other license holders, similar services, or connectivity rates in other countries. The Ministry of Communications is also authorized to issue orders on separating payment for a particular telecommunications service from the payment for a cluster of services. The Group's licenses also stipulate the types of payments operators are entitled to charge, and specific services are subject to specific regulation. Terms or consideration not beneficial

[24] In December 2023, a petition was submitted to the High Court of Justice seeking to void the outline for reducing the interconnectivity payments.

to the Group could have a material adverse effect on the results of its operations.

22.4. The Group's communication licenses

In recent years, various changes to the Group's licenses came into effect, having a material effect on its conduct, investments, and expenses, including the Group's conduct vis-à-vis its customers, its investments in its communication networks, and increased competition in the market.[25]

22.4.1. General license to provide radio telephone mobile services

(1) The Company operates in the cellular communications sector pursuant to the General License to Provide Radio cellular Telephone Mobile Services by the Cellular Method (RTM)[26] ("**Cellular License**"), that is valid until February 1, 2032, and that sets the terms, duties (such as the duty to provide cellular services to any interested subscriber in the State of Israel), and limitations on the Company's activity, its officers, and shareholders holding specific rates of the Company. According to the provisions of the Cellular License, insofar as the Company meets the provisions of the Cellular License and the law, and invests in improving its service and cellular network, the Ministry of Communications may renew the license by ten more years at a time. The Company obtained a license to also provide cellular services in Judea and Samaria, valid until 2032, which includes, and in general, the terms of the Cellular License.

The Ministry of Communications has changed the terms of the Cellular License before and could change them again without the Company's consent, thus limiting its ability to manage its business and impacting the results of its operations. There is no certainty that the Company's Cellular License will be renewed by the

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[25] For details on the amendment of the law and the change of the regulatory arrangement in the communications market see Section 22(1) above.

[26] The Cellular License, as amended from time to time, was granted to the Company by the Ministry of Communications on June 27, 1994.

Ministry of Communications. If the Cellular License is renewed, it may be renewed under different conditions.

(2) These are the main provisions of the Cellular License:

a. The Minister of Communications and the authorized entity under the Telegraph Ordinance can revoke, suspend, or limit the Company's Cellular License, *inter alia,* in these instances: a change to the license is required in order to guarantee the level of services provided thereunder; breach of a material term of the license; one of the Company's executives or directors is convicted of an offense involving moral turpitude and continues holding office; the aggregate equity of the Company, together with the aggregate equity of its shareholders each holding 10% or more of its share capital falls below $200 million[27]; breach of an obligation, whereby the Company, an officer of the Company or a person holding more than 5% of the means of control in the Company, except for an interested party in the Company that is a mutual fund, insurance company, investment company or pension fund ("**Institutional Investor**"), shall not hold more than 5% of the means of control in Bezeq or another cellular operator in Israel, directly or indirectly, or act as an officer in one of the Company's competitors (subject to exceptions that require the Ministry of Communications' prior consent). It should be noted that in March 2022, the Cellular License was amended so that an Institutional Investor who has an interest in the Company may also hold up to 10% of the means of control in Bezeq or another Cellular License operator under certain conditions (the holding changed to a rate of up to 5% prior to the amendment of the license) without requiring Minister approval, and upon a written request, the Minister may allow an Institutional Investor who is an interested party in the Company to also hold up to 25% of the means of control in Bezeq or

[27]As of the Report date, the Group complies with the equity capital undertaking.

another Cellular License operator under certain conditions (the holding passed at a rate of up to 10% prior to the amendment of the license);

b. The total holdings, directly or indirectly, of the founding shareholders or their alternates (as defined in the license[28]) shall not fall below 26% in each of the means of control in the Company (for this purpose, “means of control” means the voting power at the general meeting of the Company or the corresponding organ in another corporation, the right to appoint a director or general manager, the right to participate in the profits of the corporation, and the right to participate in the Company’s surplus assets after settling its debts in liquidation);[29] the total holdings, directly or indirectly, of Israeli entities (as the term is defined in the Cellular License),[30] that are considered founding shareholders or their alternates shall be no

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[28] “**Founding shareholders or their successors**” - Koor Industries Ltd. (a company wholly owned (100%) by DIC) as well as Mega Or Holdings Ltd. (which owns about 29.9% of the issued capital of DIC).

[29] In this regard, it should be noted that on September 4, 2022, a draft of the Communications (Telecommunication and Broadcasting) Order (Defining an essential service provided by Bezeq – The Israel Communications Corp. Ltd.) (Amendment), 5782-2022 (the “**Draft**” and the “**Communication Order**” respectively) was published for public comment. According to the explanatory notes to the draft, the controlling shareholder of Bezeq (Bee Communications Ltd.), applied to the Ministry of Communications with a request, among others, to amend the Communication Order to allow it to gradually sell its holdings in Bezeq to the public in the future, so that at the end of the process it would no longer be the controlling shareholder of Bezeq (the “**Request**”). As part of the draft it was proposed, among other things, to amend the Communication Order to allow the controlling shareholder, subject to obtaining the approval of the Prime Minister and the Minister of Communications after consulting with the Minister of Defense, to transfer means of control if, as a result of the transfer, it ceases to be a controlling shareholder (this came at the same time as another amendment proposed as part of the draft, whereby an option will be added for the controlling shareholder to replace the requirement of Israeli identity with instructions from the Shin Bet. For details regarding the requirements of Israeli identity in the Company, see this section below).

Following this, on March 6, 2023, Bezeq noted that in accordance with the announcement of the Secretary of the Government of Israel, on March 5, 2023, the government approved amendments to the Communications Order. Bezeq stated in its announcement, that the amendment of the Communications Order requires the approval of a committee of the Knesset.

[30] “**Israeli Entity**” – (a) with respect to an individual – a person who is a citizen and resident of the State of Israel; (b) with respect to a corporation – a corporation incorporated in Israel and directly or indirectly controlled by an individual who is a citizen of Israel and a resident thereof, provided the indirect control shall be only through one or more corporations incorporated in Israel. However, with respect to indirect holding, the Prime Minister and Minister of Communications may approve holding through a corporation that was not incorporated in Israel, provided that corporation does not directly or indirectly hold Company shares, all should they be convinced that this would not prejudice the purpose of this section. As of the date of this Report Mega Or Holdings Ltd. serves as the Israeli Entity.

less than 5% of the total issued share capital and each of the means of control of the Company;[31] at least 10% of the Company's directors were appointed by Israeli entities; and most of the Group's directors are Israeli citizens and residents;

c. The Company, its officers, or anyone holding more than 5% of the means of control of the Company may not be party to any arrangement with Bezeq or another cellular operator in Israel that are intended to or that could limit or restrict competition in the cellular sector.

Other terms included in the Cellular License set forth, *inter alia*, that:

d. Acquisition (by an individual himself or together with a relative or another person acting with him on a regular basis), or the transfer, directly or indirectly, in a single transaction or more, of means of control at the rate of 10% or more in the Company or which results in transfer of control in it, including by the creation of a charge by a shareholder of the Company or by a shareholder in a related party thereof, whereby realizing the charge shall cause a change of ownership to 10% or more of any means of control in the Company, requires the prior consent of the Minister of Communications; for the purposes of the Cellular License, "control" means the ability to direct the Company's activity, directly or indirectly, including any ability according to the Company's articles or a written or oral agreement or the possession of means of control in another corporation, and excluding ability deriving solely from filling the position of director or other functionary of the Company.

[31] In July 2020, the Cellular License was amended whereby the requirement to hold at least 5% of the issued share capital and in each of the means of control of the license holder by Israeli entities that were among the founding shareholders or their alternates, and for such Israeli entities to appoint at least 10% of the board members, shall be revoked upon the Company receiving alternative instructions from the Israeli Security Agency. As of the Report publication date, the Company did not receive such instructions.

e. Throughout the activity period, the Company must have agreements with a cellular network equipment manufacturer, including, *inter alia*, a knowledge transfer agreement and an agreement to guarantee a supply of spare parts for the network equipment for at least seven (7) years; the Group must work to obtain interconnectivity between the network and other public communications networks in Israel, at equal terms, without discrimination, and to provide Hot Mobile and Wecom with domestic roaming services; the Company must avoid expressing a preference in providing infrastructure services to license holders that are considered companies with a link (as such term is defined in the relevant regulations) over other license holders.

f. The license details the types of payments the Company may charge from subscribers, procedures, and certain subscriber billing and collection procedures and requirements, mechanisms, and rules for setting and raising the rates, and reports the Group must notify its customers of before changing the rates. The license also authorizes the Minister to interfere with the rates in certain instances.

g. The license requires the Company to meet a minimal customer service level (including measurable response time parameters), including customer service call centers, maintaining a certain service level for the network (both in terms of coverage and in terms of performance), protecting the privacy of service recipients, and certain restrictions and requirements on the process and documentation of sales and marketing to Company customers, thereby requiring the Group to invest in manpower in call centers and to invest in equipment and supporting technology;

h. The license sets restrictions on selling, renting, or mortgaging the assets used to perform the license without the prior consent of the Minister of Communications.

i. Under the license, the Group must procure an insurance policy to cover its activity in the cellular area. The license also includes provisions on the Group's statutory liability for any loss or damage to any third party, resulting from the establishment, existence, maintenance, and operation of its cellular network. The Group also agreed to indemnify the State for any financial liability imposed on the State in the event of such a loss or damage. To secure the Group's undertakings under the license, the Group provided a bank guarantee (of negligible amount) in favor of the Ministry of Communications. If the Cellular License terms are violated, the guarantee can be forfeited.

j. The Company must meet these terms as well: Adopting a business continuity plan and a disaster recovery plan and a plan for managing defense against cyberattacks. For additional details see section 22.9 below.

k. The Group must submit information and reports to the Ministry of Communications at the Ministry's request and detailed annual reports on various aspects of the Group's activity.

22.4.2. <u>Unified license</u>

(1) The Group provides Internet services (broadband infrastructure and connectivity and infrastructure services and fixed-line and international phone services) under a unified license. This license is in effect until 2026, but the Ministry of Communications can extend it by additional periods of up to 10 years. The terms of the unified license require the Group to deposit a bank guarantee (of negligible sum) with the Ministry of Communications. In general, the unified license provisions are similar to those of the Group's Cellular License, as described above in Subsection (1), subject to certain changes, including the requirement for Israeli entities to hold at least 20% of the Group's share capital. However, the Minister of Communications may waive this demand if the holder of the unified license for telecommunication services is controlled by the holder of a general license (which applies to the Group).

(2) Until October 2022, Golan provided cellular services (MVNO) as well as international call services (IPCS) through a wholly owned subsidiary, by virtue of a unified general license for the provision of telecommunication services granted to each of them. Upon the entry into force of the Permit Regulations, these services are provided by virtue of registration of these companies in the registry. For details regarding amendment 76, see section 22.2.1(4) above.

(3) IBC holds a general unified license of a unique general type (infrastructure), which includes similar provisions.

(4) In addition, the Group is included in the registry in connection with the provision of fixed-line communication services and the activities of the joint corporation, as well as having licenses corresponding to the unified licenses, as described above, for Judea and Samaria (for the license to provide telecommunication services granted to the Cellcom Partnership, valid until 2026, and for the license to provide international calls granted to Golan International, valid until 2023). These licenses include essentially similar terms to those of the above-described Cellular License.

Should the Group fail to comply with the license or Permit Regulation requirements, it could face significant sanctions, including having its licenses suspended or revoked. Also, according to the provisions of the Communications Law, the Ministry of Communications may impose financial sanctions on the Group for violations of the Cellular License or the Communications Law.[32]

22.4.3. <u>The Permit Regulations</u>

For details about Amendment 76 and the Permit Regulations, see section 22.2.1(4) above.

22.4.4. <u>The decision regarding "Kosher Line" service mobility</u>

[32]The sanction amount is calculated as a percentage of its revenue and according to the severity score of the violation, therefore its scope could be significant. The maximum sanction for violation the Company could be exposed to is approximately NIS 1.6 million plus 0.225% of the annual revenues in the year preceding the violation, but no more than 20% of its annual revenues.

In May 2022, a decision was issued by the Minister of Communications regarding the removal of competitive barriers in the “Kosher line” service; as part of this decision it was determined, among other things, that a subscriber to the “Kosher line” services will be able to transfer with their number to any Cellular License holder and to any plan offered by a Cellular License holder, regardless of the telephone number assigned to their use or the Cellular License end equipment in their possession. It was also decided that a Cellular License holder will be allowed to offer a tariff plan in such a way that the service will be provided only through Cellular License end-user equipment whose features have been limited or blocked at the request of a subscriber, provided that the same plan will also be offered through Cellular License end-user equipment that has not been subject to the aforementioned limitations (“**Decision regarding Kosher Line Service Mobility**”). It was further determined that the Decision regarding Kosher Line Service Mobility will come into effect gradually starting at the end of 3 months from its publication and up to the end of 6 months. In July 2022, an interim order was issued by the Supreme Court, within the framework a submitted petition, suspending the entry into force of the minister’s decision. In light of the announcement of the Ministry of Communications from January 2023 that the minister wishes to change the Decision regarding Kosher Line Service Mobility, and that he is examining the issue as a whole and the possibilities regarding the appropriate regulatory procedure and its content, including the possibility of amending legislation as necessary, the hearing on the aforementioned petition was postponed. In light of the above, at this stage the Company cannot assess the chances of damage to the results of its activity, nor its scope. For more details about hearings published by the Ministry of Communications regarding the allocation of frequencies to a non-public wireless access network and the establishment of a radio infrastructure by third parties other than cellular companies, see section 8.1.4(1) above.

22.5. **<u>Wireless communication provisions</u>**

22.5.1. Construction of cell sites

(1) **General**

a. In order to guarantee and improve coverage for transmission and reception of the wireless network for Group customers, the Group is dependent on cell sites throughout the country. The deployment of cell sites, the manner of construction, and the required permits, are mostly governed by the National Master Plan for Communication – National Zoning Plan 36 – Part A – Small and Very Small Transmission Handsets" ("**National Zoning Plan 36**"), the Planning and Building Law, and the Radiation Law. The deployment of wireless access facilities, which are smaller-scale cell sites that were established by the end of 2021 were mostly regulated by the Communications Law, the Planning and Building Law, and the Radiation Law.

Installing cell sites requires permits from various government entities and related entities, including obtaining a building permit under the Planning and Building Law, granted by various planning authorities, including planning and building committees (if there is no exemption from the building permit), and other permits from other bodies and entities, including a permit from the Civilian Aviation Authority (in most instances), from the Israel Defense Force (in certain instances), and other individual permits, as applicable. Also, permits must be obtained from the Radiation Commissioner.

The Group sometimes encounters difficulties in obtaining permits for establishing sites, mainly from local authorities. Installation and operation of cell sites without the necessary permits, or not in accordance with the terms of the exemption or not in accordance with the terms set forth in the issued permit, constitute a criminal offense. Failure to obtain the necessary approvals and permits could require the termination of the activity of the relevant cell sites or moving to a suboptimal alternative location in terms of network requirements, which could harm the quality and coverage of the cellular network. The Group regularly works to obtain the necessary permits, and as necessary, find alternative locations for its sites.

b. In November 2021 legislative amendments were enacted under the Economic Policy Law, 5782-2021 (Arrangements Law) with respect to promoting the deployment of advanced communications infrastructure in Israel and reducing exposure to non-ionizing radiation and in such framework the existing regulatory arrangement was changed with regards to building permit exemption for establishing, replacing or adding to certain cellular sites and including cellular sites in the definition of National Infrastructure in order to ease the process of deploying communications infrastructure (hereinafter: "**2021 Permit Exemption**").

c. Operating sites and other facilities without the required permit or not in accordance with the terms of the issued permit or in the terms of the exemption, could expose the Group and its functionaries to civil action and/or criminal and administrative proceedings. Sites and facilities could also be subject to a demolition order and to claims of breach of contract.

As of the Report publication date, very few cell sites of the Group operate without a building permit. It is possible that the Group operates a substantial number of sites in a way that is not fully compliant with the building permit pursuant to which they were constructed, although permits were obtained for such sites from the Radiation Commissioner with respect to their radiation levels.

Legal proceedings are pending against the Group (criminal and administrative) in the framework of which claims were raised regarding unlawful operation of a small number of the Group's cell sites, due to alleged absence of permits according under the

Planning and Building Law, or for construction allegedly in deviation from the permit.

(2) **Building permits**

a. National Zoning Plan 36

National Zoning Plan 36 establishes, *inter alia*, guidelines for constructing cell sites, in a manner allowing coverage for transmission and reception of wireless communications throughout the country, while preventing radiation hazards and minimizing damage to the environment and landscape. National Zoning Plan 36 lists the considerations planning authorities must weigh when issuing cell site building permits. National Zoning Plan 36 also lists cases in which the public must be notified of the building permit application before the permit is issued, for the public to submit appropriate objections according to the provisions of the Planning and Building Law.

According to the conditions of the 2021 permit exemption, approvals must be obtained for cell sites established under exemption according to the permitting plan, such as National Zoning Plan 36, however there is no need to obtain a permit from the local committee. If changes are made to National Zoning Plan 36, including additional limitations and requirements to and on the process of constructing and operating cell sites, this could have an adverse effect on the Group's ability to construct new cell sites, make the site licensing process more cumbersome and expensive, have an adverse effect on the Group's current network, and delay its future distribution.

b. Building permit exemptions

Wireless access facilities that were as aforesaid established by the end of 2021 were exempt from obtaining a building permit if they are constructed according to the terms of the

Communications Law and Section 266C of the Planning and Building Law and its regulations (the "**Exemption**").

From January 2022 the 2021 Permit Exemption replaced the permit exemption for wireless access facilities on cellular networks so that as of such date it is not possible to establish new wireless access facilities on cellular networks based on the permit exemption for wireless access facilities however it is possible to establish facilities under permit exemption according to the terms of the 2021 Permit Exemption.[33]

c. The inability to rely on an exemption from the need to obtain a building permit for a facility under the terms of the 2021 Permit Exemption or imposing a material restriction on the Group in the framework of the exemption and/or its implementation, disassembly of wireless access facilities and cellular sites for reasons outside of the Group's control, objections by local planning and building authorities to granting the necessary permits and approvals, could have an adverse effect on the Group's ability to obtain permits for these sites and/or establish them under permit exemption, could have an adverse effect on the scope, quality and coverage capacity of the network (especially in urban areas), on the Group's ability to continue to market its services and products effectively, and they could have a material adverse effect on the results of the Group's activity and on its financial situation.

d. The Group supplies repeaters and femtocells for subscribers seeking solutions for weak reception inside structures, some of which require a specific permit, and some require a type permit from the Ministry of Environmental Protection, based on radiation levels. The Group makes sure each repeater works according to the established parameters in the relevant type

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[33] This does not affect the validity of wireless access facilities that were established while the exemption for wireless access facilities was in effect.

exemption. It is uncertain whether installing certain types of repeaters and inter-structure micro-sites requires a building permit. Based on the opinion the Group received from its legal advisors, it did not request and did not obtain building permits to install repeaters on rooftops. Note that the repeaters installed on rooftops are a very small part of the total repeaters the Group installed.

The Group also constructs and operates microwave facilities in its transmission network, which serve both the cellular network and the purpose of providing fixed-line telecommunication services. Most microwave facility types are exempt from obtaining permits from the Ministry of Environmental Protection (because of their low output) or require a general permit for their radiation level.

Based on the opinion the Group received from its legal advisors, it did not request and did not obtain building permits to install these microwave facilities on rooftops.

If it is found that installing repeaters requires a building permit, the Group shall examine the economic feasibility of handling permit applications for existing repeater opposite the option of removing them, and the economic feasibility of installing additional repeaters.

These facilities require a building permit, such could have an adverse effect on the Company's ability to obtain radiation approvals for these facilities and install additional facilities, and it could harm the scope, quality and coverage of the Group's transmission network, and harm the Group's ability to continue to effectively market its fixed-line communication services to business customers (based on Group independent infrastructures).

(3) **Indemnity undertaking under the Planning and Building Law**

Under the Planning and Building Law, local planning and building committees must request, as a condition for granting a cell site building permit, a letter of indemnification against claims for damages under Section 197 of the Planning and Building Law.[34] The 2021 Permit Exemption also includes a requirement to comply with such provisions. The period in which it is possible to submit claims for damages under the Planning and Building Law is the latter of one year from obtaining the building permit for the site or six months from constructing the site, while the Minister of the Interior is authorized to extend such period. As of December 31, 2022, the Group has deposited 458 letters of indemnification as a condition for issuing such building permits.

As a result of requirement to deposit letters of indemnification with local planning and building committees, the Group may disassemble or move cell sites to less suitable locations or not establish certain cell sites if it finds that the risk of providing such letters of indemnification exceeds the benefit of constructing such sites. The Group's decision to disassemble or move cell sites, if any, could harm the quality of cellular services in such places and harm network deployment.

(4) **Permits under the Radiation Law**

The construction and operation of cell sites, access facilities, and other transmission facilities, is governed by the Radiation Law. For details on the provisions of the Radiation Law and the required permits under it, see Sections 21.2 and 22.5.1 above.

22.5.2. Non-ionizing Radiation Information Regulations

Cellular services are provided using end-user equipment that emits non-ionizing radiation. The Radiation Regulations contain, *inter alia*, duties to provide information. These regulations and the pamphlet issued under

[34] Section 197 of the Planning and Building Law stipulates that landowners are theoretically entitled to damages from the local planning and building committee for lower property values resulting from the approval of a plan that applies to their land or to a bordering area, all according to the Planning and Building Law.

them state among others the maximum permissible radiation level for end-user equipment. For information about the restrictions under these regulations, see Section 21.4 above.

22.5.3. Network and site sharing agreement

A network sharing agreement, including active frequency sharing between mobile network operators (MNOs) is possible between operators when at least one of them does not own a fully distributed cellular network, and is subject to certain conditions, including: (a) other operators may join at similar terms to those granted to the operator with the smallest market share; (b) an operator that shares a network may host a virtual operator with no need for the consent of the other joint operators; (c) the shared radio network must be operated by a joint entity to be held equally by all joint operators, that must obtain a license from the Ministry of Communications, and the shared network shall use the frequencies allocated to the joint operators; (d) the shared radio network components shall be held equally by all joint operators; and (e) each joint operator shall have an effective right of use of the other joint operators' passive infrastructure, including if the agreement is terminated.

In February 2021, the Ministry of Communications decided to alter current regulation that only allows domestic roaming and active network sharing between established cellular operators (the Company, Pelephone, and Partner) and "new" cellular operators (Wecom and Hot Mobile) and allow all cellular operators to collaborate using domestic roaming or a MOCN configuration in certain peripheral areas, at a limited number of sites. As of the Report publication date, such cooperation has not yet materialized. In the Group's estimate, this change shall not affect the Group's results, in light of the limited cooperation that is possible.

For details regarding the network sharing and hosting agreement between the Group and Wecom, see Section 24.1 below.

For details about the Group's passive infrastructure cooperation agreement with Pelephone, Partner and Hot Mobile, see section 24.3 below.

22.6. **<u>Provisions in the area of fixed-line communications</u>**

22.6.1. <u>Fiber-optic network</u>

The Communications Law provides operators certain powers to deploy fiber-optic infrastructure and exempts them from the requirement of obtaining building permits (including auxiliary facilities). Deploying fiber-optic infrastructure in public areas is subject to prior notice and coordination with other infrastructure owners. Deploying fiber-optic infrastructure in private property is subject to the property owner's consent. For details regarding using the infrastructure of other operators in the framework of the Wholesale Market, see Subsection (2) below.

In December 2020, the Communications Law was amended updating the duty to deploy fiber-optics and duties to provide the service for operators with a general license - that own their own infrastructure (which were previously required to perform universal deployment for all networks they deploy), and setting incentives for the encouraging infrastructure deployment in areas where there is no duty of deployment, according to economic profitability tests. The main terms of the amendment are as follows:

(1) Bezeq shall not be subject to universal deployment requirements with respect to deploying fiber-optic infrastructure, and pursuant to the option it was granted, it informed the Ministry with respect to the areas in which it desires to deploy infrastructure, and in such areas Bezeq is required to provide service to all households within 6 years; Hot shall also not be subject to a universal deployment duty with respect to deploying fiber-optic infrastructure, from the date determined for Bezeq's duty to deploy as set forth in the license. Notwithstanding, in July 2020 the Minister of Communications set a minimum deployment duty for Hot at a rate of 30% and a duty to meet a 1:1 deploying ratio between the periphery and the center of the country, should Hot decide to deploy an ultra-broadband network that is not based on its existing access network;

(2) The State of Israel shall conduct tenders for subsidizing fiber-optic deployment by Bezeq's competitors in areas where Bezeq chooses not to deploy fiber-optics ("**Incentive Areas**"). Bezeq and any corporation linked to it may not participate in tenders. In the months of March 2022 and February 2023, the Ministry of Communications published the results of the incentive tenders where the companies in this tender have the obligation to complete the deployment obligations and provide services in the service area they won by the appointed date.

(3) The Minister of Communications may set a reduced tariff for use of Bezeq's existing physical infrastructure in Incentive Areas and in July 2022, the minister exercised his authority and set a reduced rate for the use of the existing Bezeq infrastructure in the Incentive Areas, and in the area beyond the Incentive Area (an area which is not a Incentive Area and which is not one of Bezeq's deployment areas).;

(4) The subsidy for deployment in the Incentive Areas shall be financed by imposing an additional mandatory payment at the rate of 0.5% of the most recent annual revenues net interconnectivity and usage payments by certain communications license holders in Israel (including Bezeq) (and including subsidiaries of the aforementioned license holders, in certain cases), for which the most recent annual revenues exceeded NIS 10 million, from 2021 and until the date on which the deployment duty was determined for each Incentive Area ("**Incentive Fund**");

(5) Bezeq and a corporations linked to it are not entitled to deploy fiber-optics in Incentive Areas for 5 years from the date of determining the deployment duty in the winner's license, except deployment for business customers to whom they are entitled to deploy infrastructures also during that period. However, at Bezeq's request, the Minister of Communications is entitled update its original deployment undertaking by up to a rate of 10%, so long as funds in

the Incentive Fund have not yet been allocated to the relevant Incentive Area; at Bezeq's request, the Minister of Communications allowed it in October 2022 to lay out optical fibers in additional areas beyond those specified in its license.

(6) The provisions of the amendment do not preclude license holders other than Bezeq or corporations linked to it from deploying a fiber-optic network or providing telecommunication services on it in Bezeq's deployment areas, or in Incentive Areas for which funds were not allocated out of the Incentive Fund.

In June 2020, the Ministry of Communications decided that when providing connectivity services to private customers using fiber-optics, license holders may not offer subscribers offers at different terms or different rates depending on the offered infrastructure.

In July 2020, the Ministry of Communications determined that holders of a general license for providing domestic fixed-line telecommunication services that wish to deploy a fiber-optic infrastructure in an existing building (five apartments or more) must offer other license holders to share the use of the fiber-optic infrastructure they shall deploy in the building and bear the cost of establishing the infrastructure according to their relative share. It was also set forth that the fiber-optic infrastructure deployed in the building must allow shared use in the future, to at least one more unified license holder in addition to the operators that agreed on shared use.

22.6.2. Development of the Wholesale Market

(1) In 2012, the Ministry of Communications published a policy document regarding a Wholesale Market for fixed-line communication services, the main points of which are:(1) establishing an effective Wholesale Market for communication connectivity services; (2) gradual cancellation of the structural separation in the Bezeq and Hot groups and replacing it with accounting separation and changing the method of control over

Bezeq's retail rates, determining maximum rates. This instead of the method practiced up to that point that sets fixed rates depending, as a rule, on the development of the Wholesale Market, competition in the market, and with respect to television services – the reasonable option to supply a basic package of OTT services by suppliers that do not have a national fixed-line communication infrastructure.

As stated above in Section 9.1, in 2015, the Wholesale Market for Internet infrastructure in Israel was officially launched, and to a certain degree, also in the area of using certain physical infrastructure by operators that do not own infrastructures. The maximum wholesale rates for fixed-line communication services to be provided by Bezeq (on its copper-wire infrastructure) were set in the Communications (Telecommunications and Broadcasting) Regulations (Use of the Public Telecommunications Network of a Domestic Operator), 5775-2014, and the tariffs for internet infrastructure services on Bezeq's fiber-optic network were set in August 2020 under the Communications (Telecommunications and Broadcasting) Regulations (Use of the Public Telecommunications Network of a Domestic Operator) (Amendment no. 2), 5780-2020.

According to the Communications Law, certain wholesaler duties apply to all fixed-line operators, including the Group, according to which fixed-line operators must provide all other fixed-line operators access to their passive infrastructure (excluding the IBC's passive infrastructure on IEC's infrastructure), at terms to be discussed between the parties (excluding Bezeq and Hot, for which the regulator sets the terms).

Furthermore, the Wholesale Market should have featured wholesale fixed-line telephone services from May 2015. As of the Report publication date, the fixed-line telephone service has not yet been used by the Group within the Wholesale Market.

In June 2020, the Ministry of Communications adopted Hot's proposal to voluntarily reduce the wholesale rates for Internet infrastructure service on its network, including a mechanism for updating rates. In January 2023 the tariffs for 2023 were updated.

Because rates are updated according to a formula taking into account the number of subscribers and traffic on Bezeq's network in the previous year and assumptions regarding on the forthcoming year, as a result of the increased demand for Internet traffic, and especially considering the Covid-19 pandemic, the wholesale rates on Bezeq's network have been significantly reduced for 2021, however according to such formula, in January 2022 the tariffs for 2022 were updated and increased compared to the tariffs for 2021.

In December 2022, the Ministry of Communications published the demand forecast indicators for data capacity on the Bezeq network, which are used to determine Wholesale Market rates for the copper-wire infrastructure. These indicators led to an increase in the Wholesale Market rates in the copper-wire infrastructure for 2023. In addition, the ministry published an update regarding the Wholesale Market rates in the fiber infrastructure in the Bezeq network that increased compared to 2022, which were reduced by Bezeq as part of the understandings reached between it and the Ministry of Communications in connection with the approval of its IRU agreement with Partner (For details regarding this agreement, see section 9.1.2(1) above).

(2) In 2022, the Ministry of Communications published a hearing (intended to replace previous hearings from 2014 and 2017), which proposes a new format for examining margin reduction ("margin squeeze") that aims to prevent competitive damage to wholesale market activity on an advanced network (a Bezeq network based on optical fibers) that takes place when an infrastructure owner who holds market power and provides wholesale services to its competitors narrows the margin between their retail rate and competitors, thus harming the economic viability of competitors lacking infrastructure to purchase wholesale inputs from them and

market retail services to the consumer. The hearing suggests maintaining a margin between the retail price and the wholesale cost at a level of 25% above the wholesale cost. If this margin is not met, the Minister of Communications may order the creation of said margin by reducing the wholesale rate for a period of one year. The companies the test will apply to will be Bezeq and the service providers entitled to deploy advanced networks in Incentive Areas.

(3) For details regarding Bezeq's duty not to charge Internet providers for the consumption of a certain volume of connectivity services deriving from internet television broadcasting, see Section 22.6.3 below.

22.6.3. <u>Regulation of OTT multichannel television services</u>

As of the Report publication date, online television services are not regulated in Israel.

If legislation is adopted that requires the Group to make additional investments and/or imposes restrictions on the Group's online television services and/or restrictions on the Group but not on other online television service providers, such could have an adverse effect on the Group's activity and on the Group's online television services.

Further to the publication of the report of the recommendations of the Committee for Examining Supra-Regulation in Broadcasting headed by Mr. Roy Folkman (the "**Committee**"), and the decision of the Minister of Communications to adopt the Committee's recommendations in principle subject to certain changes and adjustments without material change in the issues affecting the Company's activities, in August 2022, the Ministry of Communications published to the public the document "Hearing – Draft Law on the Principles of the Regulation of the Provision of Audio-Visual Content to the Public, 5782-2022," anchoring the proposed regulation regarding provision of audiovisual content (the "**Hearing Document**"), which includes various mechanisms and arrangements, including with respect to: 1) providing sports content, which include various provisions, including owners of sports broadcasting rights, who will be required to provide the sports content to any content provider under non-discriminatory conditions and at a price, and will also be required to offer the sports broadcasts directly to subscribers; (2) providing news, including the possibility of a content provider possibly being owned by a news company; (3) investment obligations in local productions, some of which update the Committee's recommendations, including establishing an obligation of registration in the registry for a content provider with a minimum amount of revenue and determining the amount of investment in local productions for an Israeli and international content provider; (4) providing content of the Public Broadcasting Corporation and the Knesset channel. The Hearing Document is subject to completion of the hearing procedure by the Ministry and to a legislative procedure, so its final wording, if adopted, may be substantively different.

In 2014, the Competition Commissioner (previously known as the Antitrust Commissioner) published conditions for a merger in the Bezeq group, in order to facilitate the opening of the multichannel television market to competition, by lowering the barriers to entry into the television area. In this framework, the Commissioner established an arrangement in the framework of which, *inter alia*, Bezeq shall not charge Internet providers for consuming a certain volume of connectivity services deriving from multichannel television broadcasting over the Internet, and Yes was also prohibited from selling a package of communication services that includes television services at a different price than the separate sale of the television service (the "**Separability Clause**"). Furthermore, it was determined that all exclusivity arrangements Bezeq and Yes are party to on non-original production television content shall be cancelled, and that engaging under such exclusivity arrangements in the future shall be prohibited (the "**Exclusivity Clause**"). In April 2021, the Director General of Competition decided to change the merger terms, as follows: (1) revoking the Separability Clause; (2) modifying the Exclusivity Clause whereby it does not apply to the procurement of foreign content but continues to apply to sports content and original content that is not considered an original production, as defined in the Commissioner's terms. As of the Report publication date, such amendment did not have a material effect on the results of the Group's activity.

It is noted that the Separability Clause also exists in Bezeq's license pursuant to the duty of structural separation that applied to it even before the Commissioner published the terms.

22.6.4. With respect to building permits, an exemption from building permits and the applicability of the Radiation Law to communications facilities constructed as part of fixed-line communications networks, see Section 22.5 above.

22.7. **Consumer protection legislation**

The Group's activity is subject to legislation that regulates the relationship and manner of engagement between the Group and its subscribers.[35] As such, the Group's activity is governed by the Consumer Protection Law and its regulations. Changes to consumer protection legislation regularly affect the activity of the companies of the Group. In recent years, various amendments to the Consumer Protection Law and its regulations were adopted, among others regarding the cancellation of transactions even after commencement of service; disconnecting from ongoing services; the manner of updating rates for a limited term; provisions on reimbursing funds collected from subscribers not in accordance with the engagement agreement plus the fixed handling fee under the law; restrictions on debt collection processes; the maximum duration of wait for human response; and expanding applicability of regulation regarding technician visits to additional instances and the establishment of a national database in which the phone numbers of consumers who wish to limit marketing contact to them by dealers or on their behalf will be registered.[36] Furthermore, there is a variety of proposed

[35] In addition to the provisions in this regard set forth in the Group's licenses (see Section 22.2 above).

[36] In January 2023, an amendment to the Consumer Protection Law entered into force, as well as regulations enacted pursuant thereto, whereby a database will be established by the Consumer Protection Authority in which the telephone numbers of consumers who wish to limit such marketing inquiries to them will be recorded, and a dealer will not be allowed to contact a consumer through a telephone conversation (including a conversation via electronic communication) whose phone number is registered in the database (subject to exceptions established

amendments to the Consumer Protection Law on the Knesset's agenda, that could affect, *inter alia*, the terms of engagement and conduct of companies of the Group vis-à-vis their subscribers.

22.8. **Privacy protection law**

The Group companies' activity is affected by the provisions of the Protection of Privacy Law and its regulations with respect to managing and maintaining databases and protecting the data they contain. In May 2018, the Protection of Privacy (Data Protection) Regulations, 5777-2017, came into effect, imposing various duties on database owners, including the duty to set procedures and carry out data protection risk assessments, and the duty to use state-of-the-art data protection measures to protect information.

Several bills for amendment of the Protection of Privacy Law have been brought to the Knesset. Such bills include, *inter alia*, a significant expansion of the supervision and enforcement powers of the Privacy Protection Authority.

22.9. **Cyber security and functional continuity**

The Group provides a variety of communication services that constitute an essential national infrastructure both in routine and emergency situations. The licenses by virtue of which the Group provides communication services include an obligation for preparations to ensure functional continuity and to act according to a cyber defense plan that will help to defend against cyber-attacks, to deal with cyber incidents, to reduce the risks of damage to functional continuity and to functional recovery in the event of a cyber incident and/or events that harm the Company's functional continuity (" **Crisis Events**"). In accordance with the provisions of the Law for the Regulation of Security in Public Bodies, 5758-1998 and by the very definition of services provided by the Group as essential, the Group's activity in protecting its infrastructure is also supervised and controlled by the Shin Bet.

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by law). According to the regulations on this topic, a dealer must contact the database with the list of customers they wish to contact and will receive the numbers from the list in return. It is not possible for the Group companies to estimate at this stage the effect of the amendment on their marketing and sales ability.

The Company invests resources and takes steps to reduce and deal with cyber risks and to ensure functional continuity. The work plans implemented in the Group in this context include:

22.9.1. Actions aimed at preventing, if possible, the occurrence of a Crisis Event, including: appointing officials, identifying and defining threats, classifying threats according to the level of risk arising from them, establishing information protection procedures, implementing preventive and detection controls, conducting risk surveys and penetration tests, monitoring, encryption, management and control of privileges, raising employee awareness of information security guidelines.

22.9.2. Response – The work plans implemented in the Company include actions whose purpose is to prepare for Crisis Events, including: establishing work procedures and implementing work processes aimed at enabling a quick and professional response to Crisis Events, establishing reporting processes about Crisis Events to the relevant authorities as required by the provisions of the law and according to the licenses under which the services are provided, establishing those responsible for handling crisis events, training for handling Crisis Events and a constant examination whose purpose is to improve and optimize the Group's preparation to deal with Crisis Events.

22.9.3. Implementation of work processes for rapid recovery as possible from Crisis Events.

22.9.4. The work plans implemented in the Cellcom group to protect against cyber incidents and to ensure the continuity of its business activities are submitted for approval by the Company's Board of Directors.

In 2022, no cyber incidents were discovered that affected the financial statements of Cellcom Group.

22.10. **<u>Provisions in the area of labor law</u>**

The Group is subject to Israeli labor law in connection with terms of employment, including the Minimum Wage Law, 5747-1987; Severance Pay Law, 5723-1963;

Annual Leave Law, 5711-1951; Hours of Work and Rest Law, 5711-1951; the Law for Increased Enforcement of Labor Laws, 5772-2011, and various expansion orders regarding fringe benefits and pension contributions Group employees are entitled to.

According to the Minimum Wage Law (Minimum Wage Increase – Temporary Provision), 5775-2015, the monthly minimum wage was updated gradually until January 2017, and the hourly minimum wage increased again in April 2018 as result of shortening the workweek in Israel.

In February 2022, the Government approved a bill for increasing minimum wage to NIS 6,000 in five steps, from April 2022 until December 2025. As of the Report publication date, the bill has been brought to the Knesset and making it into binding law requires completing the legislative procedure. The Group is unable to estimate whether the bill shall be adopted and what arrangements shall derive therefrom. In the Group's estimates, should the bill be adopted as is, it shall lead to a significant increase in the Group's payroll costs.

22.11. For details regarding price control for products and services offered by the Group, above see Section 22.3 above.

22.12. **Sanctions by virtue of regulatory provisions – administrative proceedings and financial sanctions**

In recent years, the enforcement and supervision authorities of various regulators have been expanded, including the Ministry of Communications, the Competition Authority, and the Consumer Protection and Fair Trade Authority, whereby granting various regulators the power to impose sanctions, including substantial financial sanctions for violations of relevant regulation. There is also a proposal to make a similar amendment to the Protection of Privacy Law, 5741-1981. The Ministry of Communications, the Competition Authority, and the Consumer Protection and Fair Trade Authority have been exercising these powers in recent years.

22.13. **Electricity supply license**

In July 2021 the Company obtained a license to supply electricity without means of production from the Electricity Authority. The license is used for supplying electricity to customers with a continuous gauge (can be read remotely) in the framework of a joint venture of the Company and Meshek Energy – Renewable Energies Ltd. Such license is for 5 years. For providing the service the Company is required to engage with the system director for procuring the services necessary.

In February 2022, the Electricity Authority decided to allow customers to order the installation of a smart electricity meter for a fee (starting in August 2022, which is subject to meeting certain conditions), thus removing a market barrier for them. Also, the Electricity Authority made decisions regarding the transition to a market model beginning in 2024, under which holders of a license to supply electricity without means of production will be able to purchase electricity from producers working in the market model as an alternative to purchasing electricity from the company Noga – Independent System Operator Ltd. ("**Noga**").

23. Material agreements

Below is a summary description of the main terms of material agreements the Group is party to, or that grant rights to the Group to the best of its knowledge, including agreements that were in effect in the period described in the Report or that affected the Company's activity at the time.

23.1. Agreement for investment in IBC – For details regarding the Company's investment in IBC, including the partnership agreements with IIF, the IRU purchase agreements, and services agreement with IEC, see Section 18.1 above.

23.2. Agreement for Hot's investment in IBC – For details regarding Hot's investment agreement with IBC, including the agreement to purchase IRUs and the service agreement, see Section 18.2 above.

23.3. Engagements with vendors – For details regarding the Group's engagements with material vendors that the Group depends for its purchase, operation, and maintenance of communications equipment, information systems, content, and end-user equipment, see Section 16 above.

23.4. Debt and credit agreements – For details regarding the Company's credit agreements that it uses to finance its activity, and regarding the Debentures issued by the Company, see Section 19 above.

23.5. Collective employment agreements – For details regarding the Group's collective employment agreements with the workers unions and the Histadrut, see Section 15.6 above.

23.6. Network sharing agreement – For details regarding network sharing agreement with Wecom, see Section 24.1 below.

24. Cooperation agreements

24.1. Network sharing agreement with Wecom

Sharing agreement for the 4G and 5G Networks and hosting services for 2G and 3G Networks with Wecom, came into effect in April 2017, and updated in March 2022 (the "**Completion Date**"), in the framework of Wecom's creditors' arrangement (the "**Sharing Agreement**" or "**Network Sharing Agreement**"). Wecom started operating in the cellular market in April 2018.

The Sharing Agreement with Wecom sets the terms at which the 4G and 5G shared network shall operate, the terms for providing the hosting services for the 2G network and the 3G network, and the following terms, *inter alia*:

24.1.1. Arrangements for using the parties' relevant frequencies; management and operation using the Joint Corporation; arrangement of the parties' ownership of the shared network's active components; arrangements for future investments in the shared network's active components; arrangements for an indefeasible right of use (IRU) of the active components, of each sharing party towards the other sharing parties; the grant of an indefeasible right of use (IRU) from the Company to Wecom and to the Joint Corporation with respect to the shared network's passive components; arrangements for services the Company shall provide the Joint Corporation as a subcontractor; arrangements for the parties' separation; and arrangements for adding an additional joint party. The Sharing Agreement includes Wecom's undertaking to obtain from the Ministry of Communications an amended cellular license and allocation of frequencies under the 2020 Tender (which as of the Report publication date were obtained; for details see section 14.5.1(2)e above, and to pay the license and frequency fees thereunder to the Ministry of Communications.

24.1.2. The agreement period – The agreement is made for 10 years from the Completion Date. For circumstances allowing Wecom to shorten the period of the agreement to seven years, see section 24.1.4below.

24.1.3. The consideration – The annual consideration to be received by the Group during the agreement period within the framework of the Wecom Agreement includes: (1) payment for the IRU on the passive components of the shared network; (2) payment for Wecom's share in the cost of the active components of the shared network; and (3) payment for participation in the regular operating costs of the shared network and the Group's 2G and 3G networks, according to the number of Wecom subscribers and their use of the shared network and of the Group's 2G and 3G networks. The Company estimates that the total consideration from the Sharing Agreement, including participation in purchasing equipment for the shared network, shall amount to NIS 400-500 million over the period (10 years). In the Company's estimates, discounts as set forth in section 24.1.4 below, if granted, do not materially change the Company's estimates with respect to the total consideration from the Sharing Agreement, while shortening the agreement, if shortened, would proportionally reduce the total consideration.

24.1.4. Call option, loan option and put option – Clear Communications Holdings Limited Partnership – the controlling shareholder in Marathon after completing Wecom's creditors' arrangement[37] ("**Clear**") was granted the possibility to obligate the Company to purchase all (100%) of Wecom's share capital within a period of three to five and a-half years of the closing, in consideration for NIS 130 million (that could increase in certain instances) ("**Call Option**"). Should such Call Option, which is contingent upon obtaining regulatory approvals from the Ministry of

[37] After completing the creditors arrangement, Clear holds two thirds of Wecom's share capital and Xfone 018 Ltd., the controlling shareholder in Wecom prior to completing the creditors arrangement, holds one third of Wecom's share capital.

Communications and the Director General of Competition, not be exercisable, Clear shall have the option to obligate the Company to provide an interest bearing loan to Wecom in the same amount against collateral as agreed between the parties, and subject to applicable law ("**Loan Option**"). The Company is unable to estimate whether the Call Option shall be exercised, and if so, whether approvals necessary for exercising it shall be obtained and on what terms.

Under certain circumstances, should it be impossible to exercise the Call Option and the Loan Option, Wecom shall be entitled to a certain discount for incremental payments it must pay the Company and shall be entitled to shorten the period of the agreement by three years (to seven years). Should Wecom decide to shorten the Sharing Agreement, the Company shall have the option to obligate the shareholders of Wecom to sell to the Company all of Wecom's issued and outstanding share capital for consideration of NIS 130 million, subject to obtaining said regulatory approvals ("**Put Option**"). The Company cannot estimate whether circumstances shall exist as to confer the right to discounts, shortening the agreement or the Put Option, whether such rights shall be exercised and if the Put Option is exercised – whether regulatory approvals necessary for exercise shall be obtained and on what terms.

For details about the Group's revenues from Wecom, see Note 31D of the Financial Statements.

24.2. **Roaming agreements** – Roaming agreements enable the customers of Operator A to receive cellular network services from Operator B when the customers of Operator A are outside Operator A's coverage area, but within Operator B's coverage area (incoming and outgoing roaming services).

With roaming agreements, the Group offers outgoing roaming services to its subscribers when they are outside Israel and incoming roaming services to customers of foreign operator when they are in Israel. As of the Report publication date, the Group collaborates with hundreds of operators in most countries in the world to provide roaming services, based on standard roaming agreements of the GSM Association (GSMA).[38]

24.3. **Passive infrastructure cooperation agreement** – On August 16, 2022, approval was received from the Ministry of Communications for the framework agreement entered into by the Company in November 2021for expanding passive infrastructure cooperation at cell sites with Pelephone and PHI Networks (2015) Limited Partnership (the latter was replaced later by Partner and Hot Mobile) (the "**Sharing Agreement**"). In the Company's estimation, expanding cooperation could ease and streamline the activity of constructing cell sites.

25. Legal proceedings

The Group is party to legal proceedings filed against it from time to time. As of December 31, 2021, the Company had set aside an amount of NIS 61 million for all the claims against it.

Motions for approval of class certification are occasionally filed against the Group, some for substantial amounts.

As of the Report publication date, 31 motions for approval of class certification are pending against the Group, and the Group is party to 6 material pending class actions that have been approved against the Group.

25.1. **Material pending legal proceedings**:

Hereunder are details of pending legal proceedings, in which the claimed amount is substantial or may have significant implications on the Group's activity:

Date of filing the claim	Proceeding type, parties, judicial instance	Original claim amount	Details
November 2010	Motion for approval of class certification filed to the District Court in Tel Aviv against the Company, arguing that the Company unlawfully charged its customers for third party content services.	The class action amount was estimated by the plaintiff at NIS 300,000,000.	In the end of October 2020, the District Court held a hearing regarding this motion and two additional certification motions concerning the content services, with respect to which hearings were consolidated (see details below). After discussions that took place in court, the parties are conducting settlement

[38] The GSM Association – an umbrella organization of all mobile operators that operate with the GSM technology.

			negotiations, in an amount that is not substantial to the Company.
February 2013	Class action filed to the District Court for the Central District against a corporation that was formerly part of the Group (currently Cellcom Partnership), arguing that it violated the Consumer Protection Law the provisions of its license, with respect to the obligation to end the engagement on time.	The class action claim amount was estimated at approx. NIS 72 million.	In January 2017, the motion was partially certified as a class action, with respect to Company customers who asked to be disconnected from the service and were not disconnected within the timeframe stipulated by law, even if the Company mistakenly thought the customer had retracted its disconnection notice. The main argument in the claim whereby the Group is obligated to disconnect the customer immediately upon request, without any attempt to retain the customer, was rejected and in March 2019 an appeal filed by the plaintiffs to the Supreme Court was also dismissed, and the case was sent back down to the District Court.
July 2014	Motion for approval of class certification filed by the plaintiff, the Israel Consumers Council, against the Group, two additional cellular operators and a content provider, arguing that the invoices, the legal proceedings and/or the amounts collected as a result thereof by the content provider are unlawful.	The class action amount was estimated in the amount of NIS 300 million.	At the end of October 2020, a hearing was held at the District Court on this motion and two additional certification motions concerning the content services, with respect to which the hearing was consolidated. The court recommended that the plaintiff not insist this motion be heard.
November 2016	Motion for approval of class certification filed to the District Court in Tel Aviv arguing unlawful interest collection on end equipment in a loan transaction, in which the effective interest exceeded the amount permitted under the provisions of the Law for Regulating Non-bank Loans and/or without indicating the interest rate in violation of the Consumer Protection Law and its regulations.	The claim amount was estimated at NIS 73,237,500.	The parties reached an agreement to withdraw in an amount that is not material to the Company, which was submitted to the court and is awaiting its approval.
September 2017	Motion for approval of class certification filed to the District Court for the Central District against the Company and one of its subsidiaries, arguing that the waiting times	The class action amount was estimated at	The parties reached a settlement agreement (in an amount that is not material to the Company) that was submitted for approval by the court.

	at the Group's telephone call centers do not meet the licensing requirements.	approx. NIS 88 million.	
April 2020	Motion for approval of class certification filed to the District Court in Tel Aviv arguing that the Group misled its customers about the content of a package for internet browsing abroad and breached its agreement with them.	The class action amount was estimated at approx. NIS 82 million.	The parties reached a settlement agreement (in an amount that is not material to the Company) that was submitted for approval by the court.

In October 2021, Golan filed an administrative petition to the District Court in Jerusalem for revoking a decision by the Ministry of Communications of July 2021 that obligated Golan to return to the State a financial benefit it previously received from the Ministry of Communications in the amount of approximately 59 million and to return the payment paid by Golan to the State.

25.2. **Material legal proceedings that ended during the reporting period**

Below is a breakdown of material legal proceedings that ended during the report period:

Claim filing date	Type of claim, parties, judicial instance	Original claim amount	Details	Conclusion date
Filed in November 2019	Motion for approval of class certification filed by the Israel Consumer Council to the District Court in Tel Aviv, against the Company and against two other cellular operators on the grounds that the Company charged its customers for content services of third parties illegally.	The amount of the class action was estimated at NIS 400 million.	In February 2022, the plaintiff withdrew from the application, in light of the court's recommendation.	February 2022
Filed in May 2011	Motion for approval of class certification submitted to	The amount claimed was	In December 2019, the motion was denied by	July 2022

Claim filing date	Type of claim, parties, judicial instance	Original claim amount	Details	Conclusion date
	the District Court in Tel Aviv, alleging that the Company violates the provisions of its license by price discrimination against its customers.	estimated by the plaintiff at NIS 150 million.	the District Court in Tel Aviv. In February 2020, the plaintiffs filed an appeal against the decision to the Supreme Court. A hearing on the appeal was held in February 2021, and in July 2022 the Supreme Court rejected said appeal.	

25.3. After the date of the Report, in the month of February 2023, a proceeding concluded with a ruling approving a class action submitted to the district court in the Central District in April 2018, alleging that the Company charged subscribers who disconnected from its services for a full monthly billing cycle, even if the disconnection date falls during the monthly billing cycle, contrary to the provisions of the law, the license and the agreement. In June 2021, a judgment was handed down in the lawsuit and the Company was ordered to repay the customers of the Group represented in the lawsuit about NIS 31 million. The Company appealed the verdict to the Supreme Court in September 2021. After a hearing that took place in the Supreme Court in February 2023, and in accordance with the recommendation of the Supreme Court, a ruling was issued validating the settlement reached between the parties, where the Company must return to its customers a reduced amount of approximately NIS 20.7 million (including VAT) plus interest and linkage differentials as well as compensation to the plaintiff and attorney fees. For additional details, see Note 32a to the financial statements.

26. <u>Goals, business strategy and anticipated development in the forthcoming year</u>

The primary components of the Group's business strategy are:

26.1. **Offering comprehensive solutions for the provision of cellular and fixed-line communications services** – The Group offers its private and business customers a wide range or cellular and fixed-line communications services and it intends to continue to leverage its leading status and large market share in order to further deepen the supply of services to its customers. For these purposes, the Group makes great efforts to provide its customers with a high-quality service and support experience, and invests in developing service infrastructures, including expansion and constant improvement of digital channels.

26.2. **Expanding the sales activity of the end-user equipment** - The Group strives to deepen and expand its activity in the sale of end-user equipment and repair warranty services to private and business customers. For this purpose, the Company is considering a significant expansion of the number of branches and service centers through which (among other things) the sale of end equipment (mainly to private customers) is performed. For details regarding the physical points of sale, see section 11.1.2 above.

26.3. **Investment, development and upgrade of the Group's communications networks** – The Group acts to sustain high-quality networks which support advanced solutions which meet customer needs. In this context, in the field of cellular communications, the Group acts to maintain, upgrade and expand the capacity and coverage of its cellular networks. In the area of fixed-line communications, the Group is acting to maintain and update its transmission/fiber-optic network as needed, as well as to significantly expand deployment of IBC's fiber-optic network in an expedited manner.

26.4. **Optimization of expense structure** – The Group acts, on an ongoing basis, to increase the efficiency and suitability of its costs structure, while constantly striving to maintain and improve the quality of customer service, all as a lever for increasing income and improving profitability.

26.5. **Business development and adaptation to market trends** – The Group strives to permit itself the necessary flexibility in order to respond quickly and efficiently to market trends, both in cellular and fixed-line communication. As part of its business development, the Group is examining entrance into tangent and additional areas, in order to leverage its advantages and create growth. In this framework, among others, the Group is entering the area of electricity supply and is examining the provision of additional services in this area. For details regarding this activity, see sections 9.2.2(8) and 22.13 above.

27. Discussion of risk factors

Hereunder is an overview of the risk factors that may have a negative impact on the Group's areas of activity and business results:

27.1. Macro risk factors

27.1.1. Financial risks – The Group is exposed to exchange rate fluctuations, since part of its expenses are in USD while its revenues are generally in NIS. In addition, the Group is exposed to changes in the Consumer Price Index with respect to some series of debentures it has issued, since they are linked to the Index, whereby any increase in the Index increases the Company's obligations and its financing expenses. Also, the Group has a certain exposure for additional expenses linked to the consumer price index, such as rental expenses/utility fees (see section 13.3 above). In addition, changes in the interest rate may have an impact on the cost of the Company raising the debt as well as on the financing expenses for variable interest loans (if there are any in the future). The Group works to reduce exposure to financial risks through financial protection transactions. In recent years, the Company has issued bonds several times that are not linked to the index, including in 2022. For details regarding the effects of a domestic and global inflation environment, as well as a high interest rate environment on the results of the Group's activities, including an analysis of the possible impact of a continuing trend of interest rate increases on the Group's results in the future, see Section 9 of the Board's report.

27.1.2. Regional conflict and political or economic instability – Armed conflict, terrorist activity or political or economic instability in the region of the State of Israel could adversely impact the Group's revenues, including revenues from roaming services for incoming tourists. These types of negative influences may also be realized due to an increase in international community criticism against Israel, including the "name and shame list" published from time to time by the UN's Human Rights Council.

The Group's activities, fixed assets, customers, and some of its suppliers are located in Israel. Any damage to the communications network and/or the information systems of the Group could harm the Group's ability to continue to provide its services, in part or in full, and/or harm the Group's activities, and may have an adverse effect on its business results.

In addition, ending the provision of services in the West Bank following the end of Israeli control in such territories could lead to loss of subscribers and revenues.

27.1.3. Covid-19 pandemic – For information on the impact of Covid-19 on the Group's activities, see Section 1.3.7 of the Board of Directors' Report.

27.1.4. Cyber-attacks – Over the past few years, there has been an increase in the frequency, scope and potential for harm of cyber-attacks against companies, including the Group. Cyber-attacks can cause failures in equipment, loss, discovery, access, use, vandalization, destruction or appropriation of information, including sensitive personal information about customers or employees, or expensive content and technical and promotional information, as well as disturbances in Group and customer activities. Inability to operate the Group's networks and systems, suppliers or service providers, even for a limited time, can lead to substantial expenses (even beyond the Group's insurance coverage), loss of market share to other operators, legal claims, sanctions and proceedings as well as harming the Group's reputation and can have a substantial negative impact on the results of the Group's activities and its financial situation.

27.2. **Industry risks**

27.2.1. Increased competition – The communications market is highly competitive in many areas. The Ministry of Communications continues to act to reduce barriers to expanded competition in the different areas of telecommunications. For details see section 22.2.1(4) above. In the

Company’s estimation, the present level of competition in most of the markets in which the Group is active, as well as proposals for different and varied pricing plans by the Group’s competitors, are expected to continue. For details about how the Group is dealing with the competition in the areas of its activity, see section 12.2 above.

In this context, the realization of any of the following risks may have a substantial adverse effect on the results of the Group’s activity:

(1) A drop-in tariff, including as part of a service package;

(2) A service offers by the Group’s competitors in the fixed-line communications market, which does not meet the criteria of the Wholesale Market, without any enforcement measures on the part of the Ministry of Communications, or pricing or regulatory changes which would harm the Group’s ability to offer competitive service packages;

(3) Increased competition by the Bezeq and Hot groups, due to their dominance in the fixed-line market. Thus, for example, if Bezeq and/or Hot were to act to reduce the margin between wholesale and retail service (“Margin Squeeze”), without regulatory intervention to prevent such “squeezing” (for details regarding a hearing published by the Ministry of Communications regarding the determination of a format for examining the reduction of margins in the wholesale market, see section 22.6.2 above);

(4) Cancellation or further easing of the structural separation imposed on the Bezeq and Hot groups;

(5) The entrance of new competitors, including international companies, to the markets in which the Group operates or activities by competitors in the same market according to materially different regulation, which would weigh on the Group;

(6) If supplementary services (such as services by international content providers as explained in section 12.4.2 above) were to become competitive to the Group’s services, or the entrance of existing

competitors to areas in which they did not previously operate or operated partially until now;

(7) Substantial expansion of the current capacity to supply independent communications services, including through unlicensed third parties; supply of better coverage than that supplied by cellular operators with infrastructure, through the use of a number of networks; allocation of frequencies to companies that shall be able to supply cellular service not designated for the general public throughout Israel;

(8) Failure of IBC to deploy fixed-line infrastructure and/or increasing the gap in network deployment between it and its competitors or withdrawing at more expensive rates compared to its competitors;

(9) The Group's inability to purchase additional frequencies in a quantity equal to those purchased by its competitors, or in an insufficient quantity and/or inability of the Group to use frequencies allocated to Wecom and/or won by Wecom in the 2020 Tender. Inability to execute the required investment in networks or in the Group's business in general, in order to maintain its competitive status;

(10) Regulatory or technological changes making it easier for and/or permitting customers to transfer between operators and on how the services are utilized by the customers, including e-SIM technology (for more details, see section 8.1 above);

(11) The Group's competitors' ability to obtain access and preferable terms of engagement with international suppliers or foreign operators, due to association with international groups or due to exclusivity arrangements;

(12) Transfer to different frequencies, which would adversely impact the Group's services, or requiring the Group to bear the expenses of frequency changes or reductions, which would not affect competitors or allocation of frequencies owned by the Group to

other companies or a demand for the return of frequencies allocated to the Group or limiting the use of frequencies and/or non-allocation of additional frequencies (if required) and/or allocation of frequencies under conditions that are not favorable to the Group and/or under less favorable conditions and/or in a small amount more than other operators and/or a requirement to change frequencies in unreasonable schedules or while bearing the costs of changing them;

(13) Malfunctions and/or cyber-attacks which would harm the Group's databases and/or supply of telecommunications services by the Group, as well as its image.

27.2.2. Legislative changes and strong regulatory intervention - Legislative changes, regulatory intervention in the telecommunications market and the Group's activities and judicial decisions could have a material adverse effect on the results of the Group's activities, *inter alia*, due to:

(1) Cancelling or further easing of the structural separation obligation applicable to Bezeq and Hot;

(2) Different regulation regarding Wholesale Market rates which is unfavorable to the Group, including high tariffs for wholesale services (particularly in light of the rapidly increasing demand for increased data capacity for internet and television services). In addition, a mechanism that fails to prevent Bezeq and Hot from reducing their retail tariffs in order to minimize the gap between wholesale and retail tariffs ("Margin Squeeze"). In addition, non-enforcement of Wholesale Market regulation, which would adversely impact the Group's competitive capabilities;

(3) Easing restrictions and granting benefits to the Group's competitors;

(4) Conditions for deployment of the Group's network when using new frequencies, which would require the Group to make significant investments, without regard to economic feasibility or the Group's

financial situation;

(5) Reduction of barriers to entry and encouraging additional competitors to enter the telecommunications market, such as reducing licensing requirements or granting easements to supply communications services, which may increase competition in the market;

(6) Substantial expansion of the current capacity to supply independent communications services, including through unlicensed third parties; supply of better coverage than that supplied by cellular operators with infrastructure, through use of a number of networks; allocation of frequencies and enabling companies to supply cellular service not designated for the general public throughout Israel;

(7) Additional requirements with respect to health or safety; additional requirements or limitations with respect to establishment of the cell sites and networks;

(8) Additional limitations or requirements on the supply of services and products and/or intervention in the conditions of marketing, advertising, their price and supply, including with respect to existing agreements;

(9) Setting a higher standard of service, both with respect to network quality and coverage, as well as customer service, including response times;

(10) A time frame for implementation of new licensing requirements or the implementation of other legislation which cannot be met;

(11) A stricter privacy protection policy, including with respect to the Group’s commercial activities or for the benefit of third parties;

(12) Imposing regulations on the Group’s OTT television service, including an obligation to finance original productions or imposing such regulations on the Group and not imposing such regulation, whether in general or if lenient, on other OTT suppliers;

(13) Limitation or prohibition against license renewal and allocation of

additional frequencies, *inter alia*, since the Group is included in the list of concentrated entities, published under the Anti-Concentration Law, 5774-2013 (since it is a company controlled by DIC, which is – for the purposes of the law in this respect – part of the Electra Group and the Tzachi Nahmias Group (the controlling shareholder of Mega Or Holdings Ltd.);.

(14) Regulation unfavorable to IBC's activities and competitive status, which could adversely impact the Group as an indirect shareholder or customer of IBC.

(15) Any amendment to the Radiation Law or the Planning and Construction Law (including changes to TAMA 36) that would prohibit or significantly limit the granting of permits or exemption from receiving permits in accordance with these laws, may, among other things, limit the Group's ability to establish new sites (and if applicable to existing sites, may limit the Group's ability to renew operating permits for many of its existing sites and even lead to their dissolution), adversely affect the quality and coverage of the Group's existing and future networks, especially in urban areas, and adversely affect the marketing of the Group's products and services in an efficient manner, thus adversely affecting the results of its operations.

27.2.3. <u>A significant drop in profitability due to material changes in the regulatory and business environment</u> – Continued high competition or a further increase in the levels of competition in the markets in which the Group operates, which may be caused, among other things, as a result of material and continuous changes in the Group's regulatory and business environment, could have a negative impact on the results of the Group's activities and its financial situation, prevent it from making the investments required to maintain its competitive status and potential future growth or force it to procure additional debt under unfavorable conditions or make it difficult for it to refinance existing loans.

27.2.4. Site licensing – Construction and operation of cell sites necessitates the receipt of building permits from different planning and construction committees, a process which requires, *inter alia*, receipt of approvals from government entities and regulatory bodies. The difficulties encountered by the Group (as well as by its competitors) in obtaining the necessary permits and approvals, particularly building permits, including due to the public's fear of radiation from the sites, can have a negative impact on the Group's existing infrastructure and the continued development of its cellular network. In addition, failure to obtain approvals on time could harm the quality targets for cellular service set forth in the Group's license, lead to customer loss, and thereby impact negatively on the Group's business results.

27.2.5. Non-ionizing radiation from end equipment and sites - End equipment and cellular sites, of varying kinds, emit non-ionizing radiation. Construction and operation of cell sites is conditioned upon receipt of a construction and operation permit from the Radiation Commissioner. The Group is acting to ensure that the levels of radiation emitted from the end equipment sold by it and its cellular sites does not exceed the level permissible under the Ministry of Environmental Protection guidelines (which were determined in accordance with international standards).

As public concerns regarding non-iodizing radiation grow and/or should it become clear that there are health risks associated with non-iodizing radiation and/or should deviations from radiation standards be found at the sites or end equipment and/or should there be a court decision against the Group or against another cellular operator and/or a settlement reached in a claim regarding health risks, there could be a material adverse effect on the Group. Such material effect could stem, *inter alia*, from the following causes: different types of claims for compensation for personal injury and property damage of significant scope; difficulty in the construction, operation and rental of sites; decline in revenues resulting in a drop-in use of cellular communication; exercise of letters of indemnification deposited with planning institutions under section 197 of the Planning and Building Law, as detailed in Section 22.5.1(3) above. It should be noted that the Group does not have insurance coverage for the incidents described above. In addition, the Group is unable to estimate the impact of non-iodizing radiation, if any.

27.2.6. Dependence on licenses and on registration in the registry – The Group provides communications services in accordance with licenses and permits granted by the Ministry of Communications, which are subject to change and extension from time to time. There is no certainty that the Group's licenses shall be extended by the Ministry of Communications. Should the licenses be extended, they may be extended under conditions that are unfavorable to the Group. For further information on exposure to interpretation and implementation of the license provisions by the Ministry of Communications, see Section 22.4 above.

27.2.7. Technological changes and dependence on technology - The communications market is characterized by rapid, significant technological changes, which require investment in advanced technology in order to remain competitive.

In order to meet increasing demand for data communication through the cellular network, the Group must continue to invest in the 4G and 5G Networks, hold a sufficient amount of frequencies, and upgrade its transmission network. An increase in the scope of data communications, both in the fixed-line and cellular networks, is expected to continue in the future.

In order to meet increasing demand for data transmission through the fixed-line network, and to find more economical alternatives for the purchase of capacity from suppliers with extensive infrastructure, the Group has invested in deployment of infrastructure and in IBC, and it engaged in an agreement with IBC to purchase a right to use its networks. These are expensive activities that require attention from management, which could have been directed to other activities.

Should the Group have insufficient frequencies available or the Group shall be unable to compensate for the required increase in expenses or investments (particularly in comparison to its competitors, some of which are not required to make similar investments or pay increased expenses), the Group's business results could be materially harmed.

In addition, a move to new technologies and use of new equipment, exposes the systems and services to malfunctions, whether previously unknown or unsolved malfunctions in new technology or equipment, or malfunctions inherent in the move itself.

In addition, the Group's activities are dependent on a number of complex information systems and technologies, including billing systems. Malfunctions in complex systems that change and expand on an ongoing basis are unavoidable. A malfunction in any of the Group's systems that may adversely impact the capacity to supply services and products to customers, or to duly charge them, may lead to a loss of income, have a negative impact on the Group's brand name and expose it to legal claims and administrative sanctions. As of the publication date of the Report, the Group is continuing development of additional modules for the Company's CRM system (for details see section 16.2.6 above). The development and implementation process require financial resources as well as significant attention from management and may even cause unexpected difficulties and operational failures.

27.2.8. Decline in revenues from end equipment – The sale of end equipment accounts for a considerable part of the Group's income and profitability (both in cellular and fixed-line communication). In recent years, additional competitors have entered the field, and increased competition in the market. The same with respect to increasing online sales, characterized by lower profit margins. Continuation of the trend or additional changes in this market, *inter alia* those detailed below, may have a substantial adverse effect on profitability from end equipment and the Group's profitability:

(1) Entry of additional domestic or international competitors to the field;

(2) Changes in distribution channels or customer buying habits;

(3) Inability to continue marketing the products of certain suppliers, which constitute a significant share of the Group's sales (such as marketing of Samsung and Apple handsets, which as of the Report publication date constitute the majority of the Group's sales);

(4) With respect to fixed-line end equipment – moving to the cloud by business companies and less need for physical end-user equipment.

(5) New legislation, regulatory and judicial decisions, which impact on the Group's ability to market end equipment and profit from it.

27.2.9. Times of emergency – There are legislative provisions and provisions in the Cellular License which, in times of emergency, grant parties authorized by law, power to take measures necessary for guarantee state security and public welfare, including: obligating the Group to provide service or construct a communications facility for the security forces, provision of the Group's engineering equipment and facilities, and even control of the Group's systems.

27.2.10. Legal proceedings – The Group is party to legal proceedings filed against it from time to time, including: (a) claims on consumer and privacy matters: scope and size of the Group's activities, number of services supplied, quantity of information processed, changes in the Group's activities and pricing programs, frequent changes in regulations and the applicable law, involvement of thousands of service and sales representatives in customer relations as well as cyber-attacks, all increase the risk of service failures, damage or infiltration to the Company's systems, lack of compatibility between programs, prices and the processed information based on which the Group acts, all despite the Group's efforts to minimize the above risk. The Group's exposure to legal proceedings whose cause of action is based on consumer and privacy matters as above, including within motions for certification of class action claims against the Group, is in material amounts; (b) claims by employees, subcontractors, suppliers, lessees of properties, authorities and others – the Group employs thousands of employees and therefore is exposed to claims by them, including class actions. In addition, the Group is exposed to third party claims in connection with commercial disputes, and claims by state authorities including the Ministry of Communications and planning and building claims (as detailed in Section 22.5.1(1)c above); and (c) intellectual property claims – the Group is at risk for intellectual property right claims, in connection with its services including television services and other content services (including video, photos and music), which the Group purchases from external suppliers. Such proceedings could require the Group to engage in complex and expensive proceedings, regardless of whether or not the arguments brought against the Group are justified, and limit its ability to use certain content, insofar as such proceedings shall be decided against it.

27.3. **Special Risks**

27.3.1. High debt and refinancing ability – The Group has procured debt of a substantial scope that reduces the sources available to it for purpose of current activity and investments and increases its exposure to market changes and makes it difficult to respond quickly to industry changes and conditions in the competitive market, including by procuring additional debt and/or refinancing. For further details on the Group's debt, see Section 19 above, and Note 19 to the Company's Financial Statements.

27.3.2. Dependency on suppliers - The Group is dependent on a number of suppliers that provide it with communications network equipment, information systems, content and end equipment, including operating and maintenance services for the equipment. The Group's business results could be adversely affected if any of the suppliers fails to supply its products or services at the level of quality or in the timeframe required, or under conditions that are unfavorable to the Group; supplies its services under preferential conditions to the Group's competitors; is unable to manufacture products or content that are successful or in demand in the absence of an equal value alternative; decides to increase the price of its services or content (such as suppliers of sports content).

In addition, the Group is dependent on infrastructure suppliers for internet access (Bezeq and Hot), internet infrastructure (Bezeq and IBC), fixed-line communications and television services. In addition, the Group relies on agreements with foreign operators, over which it does not have control (or of the quality of their services), which provide cellular roaming services to the Group's cellular subscribers and international phone call services (IPCS) for cellular and fixed-line subscribers. In addition, the Group has a certain dependence on its content providers with respect to its television activity.

Furthermore, the global shortage in microprocessors and in the supply chain could cause suppliers to be unable to supply the Group with the equipment necessary for its activity or to do so on long timetables leading to delays and deferral, all of which could have an adverse effect on the results of the Group's activities and its ability to address malfunctions or develop the network.

27.3.3. <u>Network sharing agreement</u> – The Group's network sharing agreement with Wecom (by virtue of the parties' Network Sharing Agreement) is material to the Group. If the agreement is terminated or breached or its terms are changed such that payments to the Group under the agreement are materially reduced or payments are not made to the Group under the agreement over a period of time, for any reason whatsoever, it may lead to an adverse effect on the results of the Group's activities. For details regarding the creditors' arrangement and changes to the Sharing Agreement, see Section 24.1 above.

27.3.4. <u>Group investments in new businesses</u> – The Group has invested, and is expected to continue to invest, in the development of new businesses in order to expand its capacities and supply of new products, such as its investment in IBC, the purchase of Golan, sale of internet products and services (IOT) and entry into the market for supply of electricity.

The Group's investments in new businesses are inherently risky and therefore there is no certainty that the aforementioned strategies or products shall succeed, and shall not have a material adverse effect on the Group's reputation, financial situation and the results of its operations.

27.3.5. Employee unionization – Employee unionization could limit the Group's current activities, including flexibility in making organizational and personnel changes, and require significant management attention. In addition, disputes with the representative body of the employee union could lead to the adoption of organizational measures, and have a negative impact on the Group's services and customer service. Such changes could fail or be executed in a manner materially different than planned, and as a result lead to savings that are lower than planned. For further details on employee unionization within the Group, see Section 15.6 above.

27.4. **Risk Factor Table**

The table hereunder presents the risk factors described above, based on qualities, ranked by the Group's management, according to their impact on the Group's overall business:[39]

Type of risk	**Risk factors**	**Extent of impact on Group's business**		
		Major impact	**Moderate impact**	**Minor impact**
Macro risks	Financial risks		X	
	Regional conflict		X	
	Spread of Covid-19 or other pandemic			X
	Cyber attacks		X	
Industry risks	Increased competition	X		

[1] The Company is unable at this time to estimate the extent of the risk posed by the factor non-ionizing radiation from end equipment and sites.

Type of risk	Risk factors	Extent of impact on Group's business		
		Major impact	Moderate impact	Minor impact
	Legislative changes and strong regulatory intervention	X		
	Significant drop in profitability due to material changes in the regulatory and business environment	X		
	Site licensing		X	
	Dependency on licenses			X
	Technological changes and dependency on technology		X	
	Decline in end equipment revenues		X	
	Times of emergency			X
	Legal proceedings		X	
Group-specific risks	High debt and refinancing ability		X	
	Dependency on suppliers			X
	Network Sharing Agreement			X
	Group investments in new businesses			X
	Employee unionization		X	

Chapter B
Board of Directors' Report on the State of the Company's Affairs

December 31, 2022

The Company's Board of Directors hereby respectfully submits the Board of Directors' Report on the State of the Company's Affair and its subsidiaries (hereinafter together: "The Group") for the period of the year ended on December 31, 2022 (the "Report Period"). This Report is prepared according to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the "Report Regulations").

Chapter A: The Board of Directors' Explanations on the State of the Company's Affairs and results of operation

1. **Brief description of the Company, its business, and its activity during the Report Period**

1.1. General

The Company was incorporated in Israel in 1994 as a private company under the laws of the State of Israel, under the name Cellcom Israel Ltd. (the "**Company**"). Until February 8, 2021, the Company's shares were dual-listed on the New York Stock Exchange (NYSE) and TASE. Since February 9, 2021, the Company's shares have been listed for trading only on TASE.

Until 9 February 2022, upon fulfillment of the conditions necessary for deregistration of the Company's shares under the US Securities Act and termination of the reporting obligations to the United States Securities and Exchange Commission ("**SEC**"), the Company continued to report both in accordance with Israeli reporting obligations, which apply to a company whose shares are not dual-listed, and in accordance with US reporting obligations. As of February 9, 2022, the Company's reporting obligations to the SEC have been temporarily suspended.

As of the Report date, the Company and subsidiaries (the "**Group**") are active in the Israeli communications market in two areas of activity, which are reported as reportable segments in the Company's consolidated financial statements as of December 31, 2022 (the "**Financial Statements**") (for details see Note 6 to the Financial Statements):

1.1.1. The cellular communications area (cellular segment) - In the framework of this field of activity, the Group provides its customers with a wide range of cellular telecommunication services in Israel, under license it was granted by the Israeli Ministry of Communications or MOC. In addition, the Group provides overseas roaming services to its customers and to customers of foreign operators who are visiting Israel. The Company sells end-user equipment and equipment insurance repair services to its customers. The cellular segment also includes the Company's revenues arising from the sharing agreement with Wecom Mobile Ltd. ("Wecom", former- Marathon 018 Xfone Ltd.). For details see Note 31 to the Financial Statements.

1.1.2. The fixed-line communications area (fixed-line segment) - In the framework of this area of activity, the Group provides internet services (broadband services, based on IBC's fiber-optic infrastructure and the fixed-line wholesale market and internet access services (ISP)), internet based television services ("Cellcom TV"), international telephony services ("International Operator Services"), domestic fixed-line telephony services ("Domestic Operator Services"), and transmission services for business customers and for telecommunication operators on the basis of the Group's independent infrastructure. The communication services are provided under license or permit granted to the Group by the Ministry of Communications (except for the internet television services that do not require a license or permit). Similarly, the Group provides additional services such as: Conferencing services, cloud computing services, server hosting services, and IOT solutions. In addition, the Group sells equipment related to the fixed-line segment such as computers and communication equipment (servers, routers and switches, and more), software and integration of information security products.

1.2. A review of the Company's management regarding the results of the Group's activity for the year 2022 and material processes that were conducted that year:

In 2022, the company continued the positive trend that began in the previous year and is showing improvement in all profitability and operational indicators, including growth in net profit to NIS 157 millions compared to NIS 27 millions in 2021. The company continued to grow in the number of its cellular subscribers, along with a reduction in churn rate of company customers, while continuing to focus on operational optimization and improving quality of service and network.

The company ended 2022 with growth in its cellular subscriptions, which reached 3,452 thousand subscribers at the end of the year (growth of approximately 5.4%) and growth in its fiber subscriptions which reached about 188 thousand subscribers (growth of about 39%). Subscribers connected to the fiber infrastructure make up a total of 58.2% of the group's internet infrastructure subscribers.

The Company concluded 2022 with revenues of NIS 4,300 million compared to NIS 4,100 million in 2021, which reflects an increase of approximately 4.9%. Revenues in the mobile segment in 2022 increased by 5.6% compared to 2021 and totaled NIS 1,972 million. Revenues from services in the fixed-line segment increased by 5.5% compared to 2021 and amounted to NIS 1,293 million.

Revenue from end user equipment in 2022 grew by 2.4% compared to 2021 and totaled approximately NIS 1,189 million as a result of an increase in revenue from end equipment in the mobile and fixed-line segments.

The Company's adjusted EBITDA in 2022 totaled NIS 1,197 million, a growth of 5.6% compared to 2021. As mentioned, the increase resulted from an increase in revenues while continuing to focus on operational efficiency.

The Company's net profit in 2022 totaled approximately NIS 157 million, compared with a profit of NIS 27 million in 2021. The significant improvement in profit was due to the reasons mentioned above and mainly from an increase in current revenue from the mobile sector as a result of an increase in cellular revenues, as well as an increase in roaming service revenue and revenue from of internet services related to the fix-line segment.

Free cash flow (FCF) totaled approximately NIS 230 million compared to approximately NIS 267 million in 2021, a decrease of 13.9% partly resulting from payments for 5G frequency license fees paid this year totaling approximately ILS 43 million.

The results of the Company's operations for 2022 reflect the actions that are being taken by the Company to improve the experience and quality of service, among other things, by upgrading the cellular and fixed-line infrastructure and emphasizing a high level of service and fairness to its customers. The company continued to grow in current revenue both by increasing the number of customers and from the increase in average revenue per user (ARPU) in the mobile sector.

The Company intends to continue future investment in infrastructure and improving the quality and level of service to its customers, anticipating that this will lead to the continued improvement of customer satisfaction and its financial results.

1.3. Material events during the Report Period and after the date of the report

1.3.1. Regarding the dispute with Wecom and the Company entering into an agreement to change the terms of its partnership and use agreement with Wecom, see section 24.1 in Chapter A of this Periodic Report and Note 31D to the Financial Statements.

1.3.2. With regard to the transfer of means of control in DIC, see section 2.2 in Chapter A of this Periodic Report and Regulation 21A in Chapter D of this Periodic Report.

1.3.3. With regard to raising debt by expanding an existing series of bonds (series L) and issuing a new series of bonds (series M), see Note 19 in the financial statements.

1.3.4. In January 2022, Mr. Daniel Sapir was appointed CEO of the company. For additional details, including his terms approved in the general committee in February 2022, see Regulation 21 in Chapter D of this Periodic Report.

1.3.5. In July 2022, Ms. Nataly Mishan -Zakai was appointed chairperson of the company's board of directors.

1.3.6. As a result of a decrease in the customer churn rate, the company made a change of estimate regarding the reduction of capitalized customer acquisition assets and the cost of customer home installation. For more details, see Note 2 in the annual financial statements.

1.3.7. The Corona virus spread- In light of the Israeli economy opening up at the beginning of the year without restrictions on trade, malls reopening, and skies being completely opened to incoming and outgoing tourism, the results of the company's operations during the reporting period were not materially affected from the pandemic.

For additional details on the description of the business environment and its effects on the Group's activities, see Chapter A of this Periodic Report.

1.4. The effect of inflation and interest on the results during the period

During the period of the report, there were changes in the global economy which affected both interest and inflation rates in Israel.

In 2022, inflation rose by 5.3%. In addition, the Bank of Israel raised the Bank of Israel interest rate interest rate since the beginning of the year from 0.1% to 3.75%, an increase of 3.65% for the period. In the first quarter of 2023, Bank of Israel interest continued rising to the rate of 4.25%.

Below is the assessment of the direct impact of the increase in the rate of inflation and interest on the group in the year 2022:
The main effect of the increase in inflation is on financing expenses for index-linked bonds; in 2022, the company recorded approximately ILS 26 million before tax in financing expenses for index-linked bonds. The index-linked debt balance of the bonds fell from ILS 558 million at the end of 2021 to NIS 407 million at the end of 2022 and is expected to further decrease to about ILS 230 million in 2023. And this is part of replacing the debt that was previously index-linked to non-index-linked debt.

Also, in 2022, the company performed defensive transactions for part of the index exposure and recorded financing profits of about NIS 6 million before tax.

In addition, the group's cost structure includes index-linked rental contracts that also include the rental of buildings and cellular sites per company assessments. Every 1% increase in inflation will cause an increase in the group's expenses by about ILS 4 million before tax.

Below is the assessment of the indirect impact of the increase in the rate of inflation and interest on the group:
As a result of an increase of the index in the economy, there may be increases in the prices of the group's inputs, which may affect the group's results.

Below is the assessment of the impact of the interest rate increase on the company:
As mentioned above, in 2022, the Bank of Israel interest rate increased by 3.65%. The interest rate increase does not materially affect the company's cost structure directly.

However, regarding turnover of future debt and/or future debt raising, per company needs, insofar as the interest rate environment in the economy is higher, the situation may affect the amount of interest in such future debt raising and the company's financing expenses.

Below is the assessment of the impact of the interest rate increase on examining goodwill impairment:

The company examined the effect of the interest rate increase in 2022 as part of the annual examination of goodwill impairment as of 31 December 2022. The increase in interest during the period resulted in an increase in the capitalization rate; however, this increase in capitalization did not result in an impairment in the two reported segments of the company. For more details regarding examination of impairment for a cash-generating unit that includes goodwill, see Note 13 in the financial statements as well as the impairment work attached to the current report.

2. **Financial position**

Section	**As of December 30**		**Board of directors' explanation**
	2022	**2021**	
	NIS millions		
Current assets	2,012	1,800	Mainly due to increase in cash and deposits as a result of the expansion and issuance of bonds and decrease in the account receivable balance.
Non-current assets	4,986	4,770	Growth due to investments in fixed assets and increase in customers from long-term sales of terminal equipment.
Total assets	**6,998**	**6,570**	
Current liabilities	1,924	1,710	Mainly increase in current maturities of bonds.
Non-current liabilities	2,970	2,939	Increase in long-term lease commitments.
Total liabilities	4,894	4,649	
Equity	2,104	1,921	Mainly with respect to profit for the period.
Total liabilities and equity	**6,998**	**6,570**	

3. Analysis of the operating results

3.1. Below is an analysis of the Company's operating results for the year ended at December 31, 2020, 2021 and 2022 (in NIS millions):

Section	For the year ended at December 31			Board of directors' explanation
	2022	2021	2020	
	NIS millions			
Revenues from services	3,111	2,939	2,798	Increase derives from increase in cellular revenue, which includes an increase in cellular package revenue, roaming service revenue and revenue from the landline segment (internet and television services).
Revenues from equipment	1,189	1,161	878	Increase in revenue from sales of mobile equipment and equipment revenue in the landline segment.
Total revenues	4,300	4,100	3,676	
Cost of revenues	(3,034)	(2,963)	(2,800)	Increase in costs for the acquisition of internet services from infrastructure providers and an increase in the costs of roaming services as a result of an increase in activity as well as an increase in equipment costs as a result of an increase in the sale of terminal equipment.
Gross profit	1,266	1,137	876	
Gross profit rate from total revenues	29.4%	27.7%	23.8%	
Sale and marketing, General and administrative costs and credit losses	(952)	(972)	(937)	Mainly due to a decrease in depreciation partly resulting from a change in the lifetime estimate of mobile and landline customers.
Other income, net	44	44	38	
Operating profit (loss)	358	209	(23)	
Financing costs, net	(155)	(165)	(172)	Decrease in interest on the bonds as a result of a decrease in the average debt balance partly offset from an increase in linkage differentials due to the effect of the inflation rate on the linked bonds.
Share in the losses of equity accounted investees	(1)	(5)	(14)	
Profit (loss) before taxes on revenue	202	39	(209)	
Tax benefit (Taxes on income)	(45)	(12)	39	Increase as a result of an increase in profit before tax.
Profit (loss) for the period	**157**	**27**	**(170)**	

Below is analysis of operating results during quarters (in NIS millions):

Section	Q4 2022	Q4 2021	Board of directors' explanation
Revenues from services	780	751	Growth derives from an increase in cellular revenue, which includes an increase in cellular package revenue, roaming service revenue and revenue from the landline segment (internet and television services).
Revenues from equipment	281	318	Decrease in revenue from equipment in the mobile segment partly deriving from the timing launch of devices in the corresponding quarter last year, as well as a decrease in revenue from equipment in the landline segment, which is mainly due to different timing of sales between the quarters during the year
Total revenues	1,061	1,070	
Cost of revenues	(743)	762	Main decline due to a decrease in cost of equipment as a result of a decrease in sales of terminal equipment.
Gross profit	318	308	
Gross profit rate from total revenues	30.0%	28.8%	
Sale and marketing, General and administrative costs and credit losses	(247)	(249)	Decrease in depreciation expenses that were partially offset due to an increase in other operating expenses.
Other income, net	24	9	
Operating profit	95	68	
Financing costs, net	(38)	(39)	
Share in the profit (losses) of equity accounted investees	1	(1)	
Profit before taxes on revenue	58	28	
Taxes on income	(9)	(7)	
Profit for the period	**49**	**21**	

3.2 Main results and operational data in quarterly division (in NIS millions):

Financial data (million NIS)	2022	2021	Q4'22	Q3'22	Q2'22	Q1'22	Q4'21	Q3'21	Q2'21	Q1'21
Revenue from services cellular segment	1,973	1,867	499	510	489	475	474	474	461	458
Revenue from equipment cellular segment	928	915	214	246	239	229	242	211	223	239
Total Revenues cellular segment	**2,901**	**2,782**	**713**	**756**	**728**	**704**	**716**	**685**	**684**	**697**
Revenue from services fixed-line segment	1,293	1,226	320	333	317	323	315	304	305	302
Revenue from equipment fixed-line segment	261	246	67	65	62	67	77	44	52	73
Total Revenues fixed-line segment	**1,554**	**1,472**	**387**	**398**	**379**	**390**	**392**	**348**	**357**	**375**
consolidation adjusments	(155)	(154)	(39)	(39)	(38)	(39)	(38)	(39)	(38)	(39)
Total revenues	**4,300**	**4,100**	**1,061**	**1,115**	**1,069**	**1,055**	**1,070**	**994**	**1,003**	**1,033**
Gross profit eqipment	201	183	50	48	51	52	60	34	41	48
Operational expenses[1]	2,123	2,017	524	548	521	530	522	494	508	493
Adusted EBITDA cellular segment[2]	768	684	197	205	191	175	180	168	175	161
Adusted EBITDA fixed-line segment[2]	429	449	100	106	112	111	108	109	122	110
Adjusted EBITDA	1,197	1,133	297	311	303	286	288	277	297	271
Operating profit (loss)	358	209	95	95	95	73	67	59	33	50
finanacing expenses, net	155	165	38	39	43	35	39	39	49	38
income (loss) Net	157	27	49	41	39	28	21	13	(14)	7
Capital expendtures tangible and intangble assets	592	598	108	250	135	99	163	165	128	104
Free cashflow	230	267	76	38	64	52	46	110	62	49
Finance dept ,net	2,047	2,144	2,047	2,090	2,098	2,126	2,144	2,162	2,240	2,259
Operational Data										
Number of cellular Subscribers	3,452	3,275	3,452	3,410	3,346	3,306	3,275	3,246	3,226	3,232
Churn rate for cellular Subscribers	28.9%	31%	7.1%	7%	7%	7.5%	7.4%	7.2%	8.6%	7.8%
Monthly cellular ARPU (NIS)	48.9	48	48.2	50.3	49	47.7	48.4	48.6	47.7	47.4
TV field Subscribers (thousands)	257	252	257	256	255	254	252	250	250	254
Internet infrastructure field Subscribers (thousands)	323	305	323	319	316	311	305	300	296	297
Fiber infrastructure field Subscribers (thousands)	188	135	188	175	162	150	135	123	113	106

[1] Operating expenses include other expenses and do not include depreciation expenses and the cost of equipment.

[2] See definition in Section 4 below

3.3 Below is central financial data according to segments of activity (in NIS millions):

	Cellular			Fixed-line			Inter-segment adjustments	
	2022	2021	Change in %	2022	2021	Change in %	2022	2021
Revenue from services	1,973	1,867	5.6%	1,293	1,226	5.5%	(155)	(154)
Revenue from equipment	928	915	1.5%	261	246	6.1%	-	-
Total revenue	2,901	2,782	4.3%	1,554	1,472	5.6%	(155)	(154)
Adjusted EBITDA	768	684	12.3%	429	449	(4.5%)	-	-
Adjusted EBITDA as a percentage of total revenue	26.5%	24.6%	7.7%	27.6%	30.5%	(9.5%)	-	-

	Cellular			Fixed-line			Inter-segment adjustments	
	2021	2020	Change in %	2021	2020	Change in %	2021	2020
Revenue from services	1,867	1,660	12.5%	1,226	1,306	(6.1)%	(154)	(168)
Revenue from equipment	915	704	30.0%	246	174	41.4%	-	-
Total revenue	2,782	2,364	17.7%	1,472	1,480	(0.5%)	(154)	(168)
Adjusted EBITDA	684	525	30.3%	449	393	14.2%	-	-
Adjusted EBITDA as a percentage of total revenue	24.6%	22.2%	11.3%	30.5%	26.6%	13.2%	-	-

4. **Operational and financial indicators (KPIs)**

4.1 As of the Report date, the Company's management uses financial performance indicators that are not based on accepted accounting rules, for evaluating, tracking, and presenting the Company's financial performance. These indicators do not constitute a substitute for the information included in the Company's financial statements. Below are the details of the indicators:

Indicator	Calculation/components	Details of the indicator's purposes	Data
Adjusted EBITDA	Represents the net profit before: net financing costs, taxes, other income (expenses) that are not part of the Company's current activity (including provisions of lawsuits that are included in other expenses), depreciation and amortization, profits (losses) equity accounted investees and share-based payments. In addition, including other income (expenses) that are part of the Company's current activity, such as interest income in respect of sale transactions in installments and costs in respect of voluntary retirement plan.	The Company presents this indicator as an additional performance indicator, since it believes that it enables operational performance comparisons between periods and between companies, while neutralizing potential discrepancies arising from differences in the capital structure, taxes, age of fixed assets and amortization costs of which. The adjusted EBITDA does not take into account the requirement of the debt service and additional obligations, including capital investments, and therefore it does not necessarily indicate the amounts available for the Company's use. In addition, no comparison can be made between the adjusted EBITDA and the indicators that are similarly referred to and that are reported by other companies due to a change in the calculation of these indicators.	See Section 4.2 below.
Free cash flow	Net cash deriving from current activity plus the proceeds from selling fixed assets or investments, which are related to the day-to-day business, and less cash used for investment activity in fixed assets or other assets, less payments for leases. The free cash flow does not include investments in subsidiaries.	The Company presents this indicator as an additional performance indicator, since it believes that it enables comparisons between the cash production rate from the operational activity by periods, while neutralizing potential discrepancies arising from differences in the capital structure and debt. The free cash flow does not take into account the requirements of the debt service and additional financing activity, and therefore it does not necessarily indicate the amounts to be available for the Company's use. In addition, no comparison can be made between the free cash flow and indicators that are similarly referred to and that are reported by other companies due to a change in the calculation of these indicators.	See Section 4.3 below.

4.2 Below are details on the adjustments between the Company's net profit and adjusted EBITDA (in NIS millions):

Indicator	For the year ended		
	2022	2021	2020
Net income (Loss) for the period	157	27	(170)
Taxes on income (tax benefit)	45	12	(39)
Financing costs, net	155	165	172
Other expenses (income) that are not part of the Company's current activity	(15)	13	(3)
Depreciation and amortization	830	896	924
Losses from equity accounted investees	1	5	14
Share-based payment	24	15	20
Adjusted EBITDA	**1,197**	**1,133**	**918**

4.3 Below are details on the data regarding the Company's free cash flow (in NIS millions):

Section	For the year ended December 31,		
	2022	2021	2020
Net cash deriving from operating activities	1,076	1,052	993
Cash used for investment activities	(704)	(192)	(1,015)
Neutralizing changes in the investment portfolio and deposits/ purchase of a subsidiary	120	(335)	525
Cash used for leases (payment of interest and principal presented in financing activities)	(262)	(258)	(253)
Free cash flow	**230**	**267**	**250**

* Changes in deposits/ current investments that are not part of the company's free cash flow. In 2020, neutralized payment related to the Purchase of Golan by the Company.

4.4 As of the Report date, the Company's management uses operational performance indicators that are not based on accepted accounting rules, for evaluating, tracking, and presenting each segments operational performance. Below are the details of the indicators:

Central operational indicators - cellular segment:

Indicator	For the Year ended December 31			Company's explanations
	2022	2021	Change in %	
No. of cellular subscribers at the end of the period (in thousands)[3]	3,452	3,275	5.4%	The company continued to grow in the number of mobile phone subscribers both by recruiting new customers and improving on churn rate of existing customers.
Churn rate of cellular subscribers[4] (in %)	28.9%	31.0%	(6.8)%	The company shows an improvement in the churn rate partly through retention efforts to prevent unsubscribing.
Average monthly revenues per cellular subscriber (ARPU) (in NIS)[5]	48.9	48.0	1.9%	Increase as a result of an increase in revenue per subscriber and an increase in revenue from roaming services abroad.

Central operational indicators – fixed- line segment:

Indicator	For the Year ended December 31			Company's explanations
	2022	2021	Change in % 2022-2021	
Internet infrastructure - no. of subscribers (households) as of the end of the period (in thousands)[6]	323	305	5.9%	The company continued to grow in the number of internet and infrastructure subscribers.
Television - no. of subscribers as of the end of the period (in thousands)[6]	257	252	2.0%	

[3] Cellular subscribers data refers to "active" subscribers. For purpose of the subscriber base, one "subscriber" means one cellular number. The Company adds a subscriber to the subscribers base upon its joining to the service. A prepaid subscriber is added to the subscribers base only upon charging a prepaid card. A subscriber that ceased being an "active" subscriber is a subscriber that does not generate revenue and activity on the Cellcom network for six consecutive months. Up to and including Q3 2020, the base also included data subscribers (data communications). A data subscriber ceased being an "active" subscriber if it used less than 0.5 Gigabytes or generated cumulative revenues of less than NIS 1, during a six month period. As of the fourth quarter of 2020 the Company ceased to include in its active subscribers base date subscribers (approximately 427,000 active subscribers). to the best of the Company's knowledge, the six months' policy is consistent with the policies adopted by other cellular providers in Israel, but the policy of counting the subscribers is not identical between the various cellular providers (the main difference refers to the manner of counting the data subscribers).

[4] The churn rate is calculated according to the ratio of cellular subscribers who disconnected from the Company's services (whether as a result of the subscriber initiating the disconnection or the Group doing so) and of subscribers who became inactive during the period, and the remaining active subscribers at the beginning of the period. The churn rate does not include the subscriber removal of 2020 as aforementioned.

[5] ARPU is calculated by dividing the total average monthly revenues from cellular services for the period, by the number of average active subscribers for the period. Revenues from cellular services include, inter alia, include revenues from roaming services and from hosting and network sharing revenue, and monthly revenues from repair services, but they do not include revenues from occasional repair services and from the sale of equipment.

[6] Subscribers data refers to "active" subscribers.

5. **Liquidity**

Below are the Board of Directors' explanations on the Company's liquidity position for the year ended at 31, December 2020, 2021 and 2022 (in NIS millions):

Section	2022	2021	2020	Board of directors' explanation
Cash flow from current activities	1,076	1,052	993	Partly from improvement in net profit.
Cash flow from investment activities	(704)	(192)	(1,015)	In 2021, the company redeemed about ILS 407 million from deposits, which reduced investment activity.
Cash flow (used) derived from financing activities	(243)	(933)	(265)	Decrease in flow from financing activities is due to the expansion and issuance of a new series of bonds totaling approximately ILS 491 million.
Balance of cash and cash equivalents as of the end of the period	**773**	**644**	**719**	

5.1. As of 31 December 2022, the Company has a positive working capital of NIS 88 million (consolidated) and a working capital deficit (solo) of NIS 425 million. It is noted that in February 2022 the Company executed a credit facility agreement for a period of two years from making the credit facility available, from an institutional body in the amount of NIS 250 million that has not yet been used, and therefore was not taken into account as working capital. The working capital deficit in the Company's solo statement derives from the fact that all of the Company's debt is managed at the Company while some of the positive working capital is at fully controlled (100%) subsidiaries of the Company.

5.2. Considering the Company's cash balances, the free cash flow anticipated for two years from the date of this report, the aforementioned credit facility not yet used and the Company's access to future sources of credit as of 31 December 2022, and in light of the reason specified above for the existence of a working capital deficit (solo) for the Company, the board of directors has determined that despite the working capital deficit (solo) as of 31 December 2022, there is no liquidity problem for the Company.

6. **Financing sources**

The Company mainly finances its activity through cash flow from current activity, by issuing securities, including debentures, and with loans from institutional entities.

Details about the Company's debentures in Circulation as of 31 December, 2022 are attached to this Board of Directors Report.

6.1. Company's debentures in circulation- see Chapter C below.

6.2. Vendors' credit - see section 17.2 in Chapter A of this periodic report.

6.3. Customers' credit- see section 17.1 in Chapter A of this periodic report.

Chapter B – Aspects of Corporate Governance

7. The Company's involvement in the community and donations

The Company views donations and community assistance in Israel as a pillar of its business vision, and it believes that it has a social responsibility, and it recognizes that business leadership goes hand-in-hand with ethical-social leadership.

Accordingly, in 2022 the Company donated approximately NIS 620 and approximately 450 of the Company's employees participated in community volunteering.

8. Code of ethics

The Company adopted a code of ethics that was approved by the Company's board of directors, which anchors the basic values under which it acts. The code of ethics includes norms of behavior for the Company's officers, managers, employees and suppliers, which should be implemented alongside provisions of law and the Company procedures.

The code of ethics is available for reference on the Company's website, at: https://www.cellcom.co.il/globalassets/pdf/supportsocial_info/code_of_ethics.pdf.

9. Exposure to market risks and their management

The Group's activity exposes it to risks in connection with various financial instruments, such as currency risks and cash flow risks for changes to the dollar exchange rate, to the interest rate and the Consumer Price Index. Management of the Company's risks focuses on taking action to reduce potential negative financial effects on the Group's financial results.

The Group's main exposure is to changes in the Consumer Price Index, since some of the Company's costs as well as some of the debentures issued by the Company are index-linked, and to changes in the dollar exchange rate (mainly due to dollar payments for the purchase of equipment and network equipment, payments to international operators, and television service content). The Company is acting to reduce the economic exposure to these financial risks through derivative financial instruments for hedging the exposures in amounts and scopes that are examined from time to time.

The Group tracks the market risks through a board of directors committee on exposure matters that was established for purpose of tracking, supervising, and managing the market risks, according to the risk management policy that was determined by the Company's board of directors.

10. **<u>Directors with accounting and financial expertise</u>**

The minimum number of directors with accounting and financial expertise appropriate for the Company, as determined by the Company's board of directors under Section 92(a)(12) of the Companies Law, 5759-1999 (the "**Companies Law**"), is 2 directors, considering the nature of the accounting and accounting control matters that arise when preparing the Company's financial statements, the Company's areas of activity, its size and the scope and complexity of its activity. Currently, four directors with accounting and financial experience are serving in the Company's board of directors, Messrs. Gustavo Traiber, Shmuel Hauser, Baruch Itzhak and Eran Shenhar. For additional details with respect to these directors, Annex A in Chapter D to this Periodic Report.

11. **<u>Independent directors and external directors</u>**

As of the report date, the company's articles of association do not include any provision regarding the number of independent directors. As of the report date, two external directors serve the company: Professor Shmuel Hauser and Ms. Varda Liberman, as well as one independent director, as this term is defined in the Companies Law, Mr. Gustavo Traiber; see Schedule I to Chapter IV of this periodic report.

12. **<u>Disclosure regarding on the Company's internal auditor</u>**

12.1. <u>Details of the internal auditor</u>: CPA Itzhak Ravid has been serving as the Company's internal auditor since March 14, 2017. Mr. Ravid has a BA in Accounting and Economics from Tel Aviv University, serves as managing partner in the accounting firm Raveh-Ravid & Co., and has more than 30 years of experience in the field of internal auditing.

To the best of the Company's knowledge, the internal auditor is in compliance with Section 146(b) of the Companies Law, and with the provisions of Sections 3(a) and 8 of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").

The internal auditor is an external service provider for the Company on behalf of the offices of Raveh-Ravid & Co., where he serves as partner and co-owner. Apart from his role as the Company's internal auditor, Mr. Ravid serves as the internal auditor of Discount Investment Corporation Ltd. and Elron Ventures Ltd. To the best of the Company's knowledge, the internal auditor does not hold securities of the Company or of a company affiliated with it. To the best of the Company's knowledge, the internal auditor is not in a position that creates or may create a conflict of interest with his role.

12.2. Manner of appointment: The appointment of Mr. Itzhak Ravid was approved on March 14, 2017, at the Company's board of directors for a period of 3 years, after receiving the audit committee's approval. After an in-depth examination of his education and years-long experience, the board of directors found that Mr. Itzhak Ravid is suitable to serve as the Company's internal auditor, *inter alia* considering the type of company, its size, the scope of its activity, and its complexity. At the end of such term the appointment was extended for additional one year terms, the last of which, as of the Report date, is until the end of 2023.

12.3. Identity of the organizational supervisor over the internal auditor: According to the provisions of Article 60 to the Company's articles of association, the organizational supervisor over the internal auditor is Mr. Daniel Sapir, the Company's CEO.

12.4. The working plan of the internal auditor: The working plan of the internal auditor is on an annual basis. The working plan is determined according to the nature of the Company's business activity and the probability of malfunctions and exposures in its business activity, based on a risk assessment survey that the internal auditor conducts every 5 years. The audit plan is prepared in collaboration with the senior management and audit committee, which approves the working plan. The Company's current audit plan for 2023 was approved by the audit committee in December 2022.

12.5. Auditing of the Company's material investee corporations: The internal auditor's audit plan includes reference to the Company's material investee corporations.

12.6. Scope of internal auditor's employment: In 2021 and 2022 the scope of the internal auditor's work was approximately 5,800 and 5,900 hours, respectively. The scope of the work was determined by the audit committee, considering the Company's structure, its complexity and its nature. A deviation from the scope of hours is approved by the audit committee.

12.7. Preparation of the audit: The internal auditor and staff under him are required to perform the auditing work while adhering to criteria necessary for performing an audit that is professional, reliable, autonomous and independent of the audited entity.

12.8. Free access to the internal auditor: The internal auditor has free access as stated in Section 9 of the Internal Audit Law, including constant and unmediated access to the Company's information systems, including to financial data.

12.9. Accountability of the internal auditor: The audit reports are submitted in writing to the Company's CEO and to the members of the audit committee and are discussed in the Company's audit committee.

In 2022, the internal auditor submitted 8 audit reports to the Company (two reports per quarter), which are discussed at the audit committee once every quarter. In addition, each quarter the status of monitoring the implementation of recommendations that came up in internal audit reports is displayed. The remuneration of the internal auditor is based on actual working hours. In 2022, the internal auditor was paid a total of about NIS 950 thousand.

12.10. The audit committee's evaluation of the internal auditor's activity: In the opinion of the audit committee, the scope, nature, and continuity of the internal auditor's activity and his working plan are reasonable under the circumstances, and they may achieve the goals of the internal audit.

12.11. Internal auditor compensation: The audit committee set this at NIS 255 per work hour (plus VAT), multiplied by the number of hours to be invested according to the audit plan, as approved by the Company's competent organs. The compensation of the internal auditor does not change and is not dependent on the auditing results, and therefore, in the opinion of the Company's board of directors, the internal auditor exercising his professional judgement is not affected by the manner in which he is compensated.

13. **Disclosure regarding the Company's auditor**

13.1. Identity of the auditor

Since 2018 the Company's auditor has been Kesselman & Kesselman PwC, CPAs, whose address is 146 Menachem Begin Road, Tel Aviv 6492103 (the "**Auditing CPAs**").

13.2. Fees of the Auditing CPA

Below is the data regarding the fee paid to the Auditing CPAs for the audit and tax services and for other services provided to Group companies, as well as regarding working hours invested by the Auditing CPAs in 2020, 2021 and 2022:

13.2.1. Below are details on professional fees paid to the Auditing CPAs (in NIS thousands):

Year	For auditing and tax services	For other services
	NIS millions	Amount
2020	2.3	0.2
2021	2.2	0.2
2022	2.3	0.4

13.2.2. The auditing services include the audit of the Company's annual financial statements. The tax services include professional services provided for purpose of the Company complying with the requirement of the tax authorities, including auditing original and amended tax returns, tax planning, and consulting, except in connection with auditing. The other services include *inter alia* accounting consulting in connection with the accounting treatment during the Company's ordinary course of business, consulting on the implications of implementing new accounting standards, and other accounting matters that occur from time to time, as well as special reports that require the approval of an auditing CPA with respect to conditions for complying with various tenders that the Group participates in.

The fee for the Company's Auditing CPA was determined in negotiations between the Auditing CPA and the Company's management, according to the estimated rate for providing the services, which is based on the number of hours invested by the Auditing CPA. The Auditing CPA's fees are approved by the Company's audit committee.

Chapter C - Disclosure with respect to Financial Reporting

14. **Details in connection with debentures in circulation**

14.1. Details in connection with liability certificates in circulation, as of December 31, 2021, are attached as an annex to the board of directors' report.

14.2. As of the Report Date, as determined by the Company's board of directors, there are no warning signs as such are defined in Regulation 10(b)(14) of the Report Regulations, and the Company is in compliance with all financial criteria and the additional terms and obligations set forth in the trust deeds to the liability certificates that it issued.

15. **Material and highly material evaluations**

Below are details about material and highly material evaluations, according to Regulation 8B(i) to the Report Regulations:

Evaluation for examining and evaluating goodwill in the Company's annual financial statements

Identifying the subject of evaluation:	The value of the mobile and fixed-line sectors' use for purpose of examining a devaluation in goodwill set forth in the consolidated annual financial statements as of December 31, 2022, according to International Accounting Standard 36.
Timing of the evaluation:	31-Dec-2022 Evaluation executed on March 8, 2023
The value of the evaluation's subject that was determined right before the evaluation date:	NIS 1,819 million bookkeeper's value of the fixed-line sector, goodwill of NIS 732 million. NIS 3,038 million bookkeeper's value of the mobile sector, goodwill of NIS 831 million.
The value of the evaluation's subject that was determined according to the evaluation:	NIS 2,688 million value of the fixed-line sector. NIS 3,627 million value of the mobile sector.
Details about the appraiser:	The evaluation was conducted by BDO Management and Consulting Ltd. which is part of the international BDO network. The work was conducted by a team led by CPA Moti Dattelkramer, a managing partner who has a BA in economics and computer science, with more than 10 years of experience in business consulting. The team specializes in evaluation work, allocation of PPA cost balances, due diligence, devaluation examinations, and more.
Is there an indemnification agreement with the appraiser?	The Company undertook to indemnify the appraiser in an amount exceeding three times his fees unless he acted negligently or maliciously. In such cases the indemnification shall not apply.
The evaluation model under which the appraiser acted:	Cash flow capitalization method.

The assumptions under which the appraiser made the evaluation, according to the evaluation model:	Capitalization rate after tax – 8.75% Growth rate - 1.5% With respect to additional assumptions of the appraiser, see details in the work attached as an annex to this board of directors report.

March 8, 2023

Daniel Sapir	**Nataly Mishan- Zakai**
CEO	**Chairman of the Board**

Annex - Details Regarding debentures in Circulation as of the Report Date

1. Details Regarding debentures in Circulation: (NIS million)

Series (**)	Date of issue	Par value on the issue date (in NIS millions)	Par value on 31 December, 2022	Par value on December 31, 2022, including linkage	Accrued interest	Financial statements balance as of December 31, 2022	Stock market value	Type of interest	Payment dates of principal	Payment dates of interest(1)	Terms of linkage	Convertible	Right to early redemption
Series H	July 8, 2014; February 3, 2015*; February 11, 2015*;	949.624	327.896	319.778	3.184	322.962	949.624	Annual interest of 1.98%.	From July 5, 2018, until July 5, 2024 (including)	On January 5 and July 5, every year from 2015 until 2024 (including)	Linked (principal and interest) to the Consumer Price Index.	No	Subject to certain terms
Series I	July 8, 2014; February 3, 2015*; February 11, 2015*; March 28, 2016.	804.010	337.684	332.950	6.856	339.806	334.983	Annual interest of 4.14%.	Eight annual payments: Three equal annual payments of 10% from the principal amount on July 5 of 2018 until 2020 (including), and five equal annual payments of 14% from the principal amount on July 5 of 2021 until 2025 (including).	On January 5 and July 5, every year from 2015 until 2025 (including)	Not Linked	No	Subject to certain terms
Series J	September 25, 2016	103.267	78.629	78.373	0.945	79.318	79.602	Annual interest of 2.45%.	On July 5 of 2021 until 2026 (including).	On January 5 and July 5, every year from 2017 until 2026 (including)	Linked (principal and interest) to the Consumer Price Index	No	Subject to certain terms
Series K	September 25, 2016; July 1, 2018*; December 10, 2018*	710.634	497.444	495.636	8.660	504.296	495.156	Annual interest of 3.55%.	On July 5 of 2021 until 2026 (including).	On January 5 and July 5, every year from 2017 until 2026 (including)	Not Linked	No	Subject to certain terms

Series (**)	Date of issue	Par value on the issue date (in NIS millions)	Par value on 31 December, 2022	Par value on December 31, 2022, including linkage	Accrued interest	Financial statements balance as of December 31, 2022	Stock market value	Type of interest	Payment dates of principal	Payment dates of interest(1)	Terms of linkage	Convertible	Right to early redemption
Series L	January 24, 2018; December 10, 2018*; May 12, 2020*, December 1, 2020*, July 12, 2022	1,235.937	1,329.979	1,285.550	32.794	1,318.344	1,284.759	Annual interest of 2.50%.	On January 5 of 2023 until 2028 (including).	On January 5 every year from 2019 until 2028 (including)	Not Linked	No	Subject to certain terms
Series M	September 8, 2022	394.915	394.915	391.915	5.834	397.419	393.296	Annual interest of 4.73%.	On January 5 of 2025 until 2030 (including).	On January 5 every year from 2023 until 2030 (including)	Not Linked	No	Subject to certain terms
Total		4,198.387	2,966.547	2,903.872	58.273	2,962.145	2,915.834						

(*) On these dates the debenture series were expanded. The information appearing in the table refers to the full series.

(**) As of December 31, 2022, the Company's debentures (Series H, I, K, L and M) are material and constitute more than 5% of the Company's total liabilities as presented in the Financial Statements. Similarly, as of December 31, 2022, the Company's net debt to adjusted EBITDA[7] ratio was 1.71 including the total interest accrued in the books. There was no cause for early redemption in the Report Period.

(1) Semi-annual payments, with the exception of debentures (series L) where the payment is annual.

(2) In February, 2016, in accordance with an exchange offer of the Company's debentures (Series H and I) in part of the Company's debentures (Series D and E), respectively, the Company replaced a principal in the amount of NIS 555 million. The Company's debentures (Series D) in the fund in the amount of NIS 844 million of the Company's debentures (Series H) and a fund in the amount of NIS 272 million in the Company's debentures (Series E) in the fund in the amount of approximately NIS 335 million of the Company's debentures (Series I). The Company's debentures (Series D and E) fully paid in July 2017 and January 2017, respectively.

(3) In December 2019, the Company made an acquisition of debentures (Series L) of the Company in the amount of approximately NIS 10 million.

(4) In May 2020, the Company issued debentures (Series L) with a par value of approximately NIS 222 million.

(5) In December 2020, the Company issued debentures (Series L) with a par value of approximately NIS 400 million.

(6) In July 2022, after the date of the financial statements, the company expanded the series L with par value of NIS 105 million. For details, see note 19 to the financial statements.

(7) In September 2022, the company issued debentures (Series M) in the amount of NIS 395 million par value. For details, see note 19 to the financial statements.

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[7] The net debt to adjusted EBITDA ratio is the ratio between the Company's net debt to the adjusted EBITDA in a period of 12 consecutive months, when neutralizing one-time events. In this respect, "net debt" is defined as credit and loans from banking corporations and others (with no undertaking for leases deriving from the implementation of the provisions in IFRS 16), and undertakings for debentures, less cash and cahs equivalents and current investments in marketable securities. "Adjusted EBIDTA" – see the definition in Section 4.1 above.

2. <u>Details regarding the trustee</u>:

Series	Name of the trust company	Name of responsible person for the debentures	Contact	Address for delivery of documents
Series H	Mishmeret Trust Services Company Ltd.	CPA Ram Sabati	email: office@mtrust.co.il Tel: 03-6374354	48 Menachem Begin Road, Tel Aviv 6618001
Series I	Mishmeret Trust Services Company Ltd.	CPA Ram Sabati	email: office@mtrust.co.il Tel: 03-6374354	48 Menachem Begin Road, Tel Aviv 6618001
Series J	Mishmeret Trust Services Company Ltd.	CPA Ram Sabati	email: office@mtrust.co.il Tel: 03-6374354	48 Menachem Begin Road, Tel Aviv 6618001
Series K	Mishmeret Trust Services Company Ltd.	CPA Ram Sabati	email: office@mtrust.co.il Tel: 03-6374354	48 Menachem Begin Road, Tel Aviv 6618001
Series L	Strauss Lazer, Trust Company (1992) Ltd.	CPA Ori Lazer	email: ori@slcpa.co.il Tel: 03-6237777	17 Yitzchak Sadeh Street, Tel Aviv 5613824
Series M	Strauss Lazer, Trust Company (1992) Ltd.	CPA Ori Lazer	email: ori@slcpa.co.il Tel: 03-6237777	17 Yitzchak Sadeh Street, Tel Aviv 5613824

3. <u>Details regarding the rating of the debentures</u>:

Series	Name of rating company	Rating as of the issue date	Rating as of the Report date	Additional ratings between the issue and Report date		Details regarding the intention of the rating company to change the rating
				Rating dates[(1)]	The rating	
Series H	Maalot Standard & Poor's Ltd. ("**Maalot**")	A+	A	06/2014, 08/2014, 01/2015, 09/2015, 03/2016, 08/2016, 06/2017, 01/2018, 06/2018, 08/2018, 12/2018, 03/2019, 08/2019, 05/2020, 08/2020, 11/2020, 08/2021	A+, A	In August 2021, Maalot updated the Company's rating forecast from A with a negative outlook to a rating of A with a stable outlook.
Series I	Maalot	A+	A	06/2014, 08/2014, 01/2015, 09/2015, 03/2016, 08/2016, 06/2017, 01/2018, 06/2018, 08/2018, 12/2018, 03/2019, 08/2019, 05/2020, 08/2020, 11/2020, 08/2021	A+, A	
Series J	Maalot	A+	A	08/2016, 06/2017, 01/2018, 06/2018, 08/2018, 12/2018, 03/2019, 08/2019, 05/2020, 08/2020, 11/2020, 08/2021	A+, A	
Series K	Maalot	A+	A	08/2016, 06/2017, 01/2018, 06/2018, 08/2018, 12/2018, 03/2019, 08/2019, 05/2020, 08/2020, 11/2020, 08/2021	A+, A	
Series L	Maalot	A+	A	01/2018, 06/2018, 08/2018, 12/2018, 03/2019, 08/2019, 05/2020, 08/2020, 11/2020, 08/2021	A+, A	
Series M	Maalot	A	A	08/2022, 09/2022	A+, A	

(1) In June 2014, August 2014, January 2015, September 2015, March 2016, August 2016, June 2017, January 2018, June 2018, August 2018 and December 2018, Maalot ratified the Company's A+ rating with a stable outlook. In March 2019, Maalot updated the Company's rating forecast from A+ with a stable outlook to a rating of A+ with a negative outlook. In August 2019, Maalot updated the Company's rating forecast from A+ with a negative outlook to a rating of A with a negative outlook. In May 2020, August 2020, and November 2020, Maalot ratified the Company's rating of A with a negative outlook. In August 2021 Maalot ratified the Company's rating A and updated its outlook to a stable outlook.

4. Additional undertakings:

4.1. The Company's debentures (Series H to M) are not secured and include, in addition to accepted terms and undertakings, the following undertakings:

a. A negative pledge undertaking, subject to certain exceptions. Failure to comply with this undertaking shall be deemed a cause for acceleration.

b. An undertaking not to distribute more than 95% of the profits suitable for distribution under the Companies Law (the "**Profits**"); provided that (1) should the Company's net debt to EBITDA[8] ratio exceed the ratio of 3.5:1, the Company shall not distribute more than 85% of the Profits; (2) should the Company's net debt to EBITDA ratio exceed 4:1, the Company shall not distribute more than 70 of the Profits; and (3) should the Company's net debt to EBITDA ration exceed 5:1, or 4.5:1 during four consecutive quarters, the Company shall not distribute dividends.

c. And undertaking to rate the debentures through a rating company (insofar as this is under the Company's control).

d. An undertaking to pay additional interest of 0.25% for a two-point decrease in the rating of the debentures Series H to K, and 0.5% for a two point decrease in the rating of debentures Series L, and additional interest of 0.25% for any one point decrease in the rating of the debentures until the maximum addition of 1%, compared to their rating before their issue.

e. The Company's undertaking not to issue additional debentures of any series should the Company not meet the financial criteria, or if such issue would cause a decrease in the rating of the debentures.

4.2. In addition, the Company's debentures include events of default, including:

a. Accelerating a different debt of the Company (cross default) by a non-supplier lender, except with respect to a debt of NIS 150 million or less. Such debt acceleration restriction shall not apply to a cross default caused by a different series of Company debentures.

b. A case where the Company shall cease to be active in the cellular communications area and/or ceased to hold its Cellular License for a period exceeding 60 days.

c. Trading suspension of the debentures on the Tel Aviv Stock Exchange, for a period exceeding 45 days.

d. Making a distribution that does not comply with the Company's undertaking with respect to the restrictions on distributing profits.

e. Failure to rate the debentures for a period exceeding 60 days.

f. A court request or order to stay proceedings against the Company or submitting a motion for a creditor's settlement.

g. Selling a substantive part of the Company's assets or a merger (except for certain exceptions).
h. Failure to publish financial statements on time.
i. A net debt to EBITDA ratio that exceeds 5:1, or that exceeds 4.5:1 during four consecutive quarters.
j. Failure to comply with the Company's undertaking not to create any pledges.
k. A material deterioration in the Company's business compared to the condition thereof on the issue date of the debentures, and real concern that the Company would not be able to repay the debentures on time.
l. A substantial concern that the Company shall not meet, its material obligations towards the debenture holders.
m. Including a note in the Company's financial statements regarding a concern of the Company continued existence as a "going concern" for a period of two consecutive quarters.
n. Violating the Company's undertaking with respect to the issue of additional debentures.

Cellcom Israel Ltd.

Consolidated Financial Statements

As at December 31, 2022
(Audited)

Consolidated Statements of Financial Position as at 31 December, 2022

Contents

The accompanying audit report is a non-binding translation into English of the original audit report published in Hebrew. The version in Hebrew is the approved text.

Auditor's Report

to the Shareholders of

Cellcom Israel Ltd.

We have audited the accompanying consolidated statements of financial position of Cellcom Israel Ltd. ("the Company") as of December 31, 2022 and 2021, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2022. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain consolidated companies, whose assets included in consolidation constitute approximately 1% and 1% of total consolidated assets as of December 31, 2022 and 2021, respectively, and whose revenues included in consolidation constitute approximately 12%, 13% and 2% of total consolidated revenues for each of the three years ended on December 31, 2022, respectively. Furthermore, we did not audit the financial statements of equity accounted investees, the total investment amounted to approximately NIS 131 million and NIS 133 million as of December 31, 2022 and 2021, respectively, and the Company's share in their losses amounted to NIS 29 million, NIS 26 million and NIS 23 million for each of the three years ended December 31, 2022, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2022 and 2021, and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2022 in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "An Audit of Components of Internal Control over Financial Reporting", as amended, the Company's components of internal control over financial reporting as of December 31, 2022, and our report dated March 8, 2023 included an unqualified opinion on the effective maintenance of those components.

Key audit matters

The following key audit matters are matters which were communicated, or which were required to be communicated, to the Company's Board of Directors, and which, in our professional judgment, were most significant in auditing the consolidated financial statements for the current period. These matters include, inter alia, any matter which: (1) pertains to significant items or disclosures in the financial statements, and (2) regarding which our judgment on the matter was challenging, subjective or particularly complex. These matters were addressed in our audit and in the formulation of our opinion regarding the consolidated financial statements in their entirety. The communication of the following matters does not change our opinion regarding the consolidated financial statements, and we do not provide through it a separate opinion regarding these matters or regarding the sections or disclosures to which they refer.

Impairment of goodwill

As described in notes 3i(2) and 13b to the consolidated financial statements, the Company's balance of goodwill in the mobile and landline sectors was NIS 831 million and NIS 732 million, respectively, as of December 31, 2022. As discussed in the said notes, management tests for impairment once a year, and more frequently if facts or circumstances indicate an impairment of goodwill. A possible impairment is identified by comparing the recoverable amount of the cash-generating unit to which goodwill is allocated to its carrying amount. The process of testing for impairment of the cash-generating unit to which goodwill was allocated is based upon critical estimates involving uncertainty and on subjective estimates. Changes in these assessments or estimates may have a significant impact on the balance of goodwill presented on the Company's financial statements.

Critical estimates used in testing for impairment of goodwill

When calculating the recoverable amount of the cash-generating unit to which goodwill was allocated by the Company, judgment is exercised regarding the forecasted cash flows based on the upcoming year's budget, and additional assumptions of the Company as to the growth rate of the sales and expenses in subsequent years. The Company uses the following assumptions to determine the recoverable amount of the cash-generating units:

- Use of the expected cash flows forecasted over five-year periods, plus a representative year.
- The long-term annual growth rate, which reflects, among others, the natural growth rate of the population.
- The relevant discount rate that reflects the specific risks associated with future cash flows of its cash-generating units.

We have identified the estimates used in testing for impairment of goodwill as a key audit matter. The audit of testing goodwill for impairment requires the auditor's judgment as well as knowledge and experience in order to examine the reasonableness of the assumptions and data management used to determine the estimate of the recoverable amount of the cash-generating units to which goodwill was allocated.

The audit procedures used to address the key audit matter

Following are the main procedures we have executed to address this key matter in our audit:

- A review of the Company's methodology used to determine the discounted amount of the expected cash flows of the cash-generating units to which the goodwill is allocated (hereafter – the "Model").
- Examining the basic data used in the Model.
- Assessing the reasonableness of management’s significant assumptions in relation to the discount rates accepted for companies in the regulatory environment of the Company, future growth rates as well as the amount and timing of the expected future cash flows.
- Carrying out sensitivity analyses for management’s assumptions used in the Model.

An expert valuer was used to assist in valuation of the Model.

Tel-Aviv, Israel
March 8, 2023

Kesselman & Kesselman
Certified Public Accountants (lsr.)
A member firm of PricewaterhouseCoopers International Limited

The accompanying audit report is a non-binding translation into English of the original audit report published in Hebrew. The version in Hebrew is the approved text.

AUDITORS' REPORT
to the shareholders of
CELLCOM ISRAEL LTD
With regard to audit of internal controls over financial reporting pursuant to section 9B(c) of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited components of internal controls over financial reporting of Cellcom Israel Ltd and its subsidiaries (hereinafter together: "the Company") as of December 31, 2022. These control components have been determined as explained in the next paragraph. The Company's management and Board of Directors are responsible for maintaining effective internal control over financial reporting, and for an assessment of the effectiveness of components of internal controls over financial reporting, which is enclosed with the periodic report as of the said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting which we audited were determined in accordance with Israeli Auditing Standard 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting" (hereafter: "Israel Auditing Standard 911"). Those Components are: (1) Entity-level control, including controls over the process of preparation and closing of financial reporting and general controls over information technology; (2) controls over revenue; (3) controls over goodwill (all the above together hereinafter - "the audited control components").

We have conducted our audit in accordance with Israel Audit Standard 911. This standard requires us to plan and perform the audit to identify the audited control components, and to achieve reasonable assurance whether these control components have been effectively maintained in all material aspects. Our audit consisted of an understanding of internal control over financial reporting, identification of the audited control components, assessment of the risk of material weakness in the audited control components, as well as review and assessment of the effectiveness of design and operation of said control components, based on the assessed risk. Our audit, with regard to the aforementioned control components, also consisted of other procedures we deemed necessary under the circumstances. Our audit is only in reference to the audited control components, unlike internal control of all material processes related to financial reporting, and therefore our opinion only refers to the audited control components. Further, our audit did not refer to mutual influence among audited control components and non-audited ones, and therefore our opinion does not take into account such potential influence. We believe that our audit provides an appropriate basis for our opinion within the aforementioned context.

Because of its inherent limitations, internal control over financial reporting in general and certain components thereof in particular, may not prevent or detect misstatement. Also, projections of any evaluation of the effectiveness of specific controls or internal control over financial reporting overall to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit, the Company effectively maintained, in all material aspects, the audited control components as of December 31, 2022.

We have also audited, in accordance with generally accepted audit standards in Israel, the Company's consolidated financial statements as of December 31, 2022 and 2021, and for each of the three years ended on December 31, 2022, and our report dated March 8, 2021 included our unqualified opinion of said financial statements.

Tel Aviv, Israel
March 8, 2023

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

Consolidated Statements of Financial Position

	Note	December 31, 2021	December 31, 2022
		NIS millions	
Current assets			
Cash and cash equivalents	9	644	**773**
Current deposits		23	**143**
Trade receivables	10	927	**869**
Current tax assets	30	12	**9**
Other receivables	10	44	**35**
Deferred expenses - rights of use	31C	62	**66**
Inventory	11	88	**117**
		1,800	**2,012**
Non-current assets			
Trade and other receivables	10	163	**211**
Deferred expenses - rights of use	31C	327	**340**
Property, plant and equipment, net	12	1,383	**1,480**
Intangible assets and others, net	13	2,129	**2,154**
Investments in equity accounted investees	8	134	**131**
Right of use assets, net	14	629	**665**
Deferred tax assets	30	5	**5**
		4,770	**4,986**
		6,570	**6,998**
Current liabilities			
Current maturities of debentures and loans from financial institutions	19	383	**587**
Current taxation liabilities	30	7	**4**
Current maturities of lease liabilities	14	184	**185**
Trade payables and accrued expenses	15	737	**791**
Provisions	16	109	**83**
Other payables, including derivatives	17	290	**274**
		1,710	**1,924**
Non-current liabilities			
Debentures	19	2,373	**2,317**
Long-term lease liabilities	14	478	**521**
Provisions	16	29	**24**
Other long-term liabilities	18	1	**32**
Liability for employee rights upon retirement, net	20	13	**10**
Deferred tax liabilities	30	45	**66**
		2,939	**2,970**
		4,649	**4,894**
Equity			
Total equity	21	1,921	**2,104**
		6,570	**6,998**

The accompanying notes are an integral part of these consolidated financial statements.

March 8, 2023			
Date of approving the financial statements	Nataly Mishan-Zakai Chairman of the board	Daniel Sapir CEO	Gadi Attias CFO

Consolidated Statements of Income

	Note	2020	2021	2022
		For year ended December 31,		
		NIS millions		
Revenues	24	3,676	4,100	**4,300**
Cost of revenues	25	(2,800)	(2,963)	**(3,034)**
Gross profit		876	1,137	**1,266**
Selling and marketing expenses	26	(580)	(666)	**(650)**
General and administrative expenses	27	(330)	(301)	**(300)**
Credit losses		(27)	(5)	**(2)**
Other income, net	28	38	44	**44**
Operating profit (loss)		(23)	209	**358**
Financing income		10	3	**27**
Financing expenses		(182)	(168)	**(182)**
Financing expenses, net	29	(172)	(165)	**(155)**
Share in losses of equity accounted investees		(14)	(5)	**(1)**
Profit (loss) before taxes on income		(209)	39	**202**
Tax benefit (taxes on income)	30	39	(12)	**(45)**
Profit (loss) for the year		(170)	27	**157**
Profit (loss) per share				
Basic profit (loss) per share (in NIS)	21	(1.11)	0.17	**0.96**
Diluted profit (loss) per share (in NIS)		(1.11)	0.16	**0.95**
Weighted-average number of shares used in the calculation of basic loss per share (in shares)		153,751,724	162,775,715	**164,050,212**
Weighted-average number of shares used in the calculation of diluted loss per share (in shares)		153,751,724	163,672,339	**166,191,036**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income and loss

	For year ended December 31,		
	2020	2021	2022
	NIS millions		
Profit (loss) for the year	(170)	27	**157**
Other comprehensive income (loss) items that after initial recognition in comprehensive income were or will be transferred to profit or loss			
Changes in fair value of cash flow hedges transferred to profit or loss, net of tax	(2)	1	**1**
Other comprehensive income (loss) items that will not be transferred to profit or loss			
Re-measurement of defined benefit plan, net of tax	2	(2)	**1**
Total other comprehensive profit (loss) for the year, net of tax	-	(1)	**2**
Total comprehensive profit (loss) for the year	(170)	26	**159**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

	Equity attributed to the Company's shareholders							
	Share capital	share premium	receipts on account of share options	Capital reserve	retained earnings	Total	Non-controlling interest	Total equity
	NIS millions							
Balance as of January 1, 2020	2	623	24	-	1,236	1,885	2	1,887
Comprehensive loss for the year								
Loss for the year	-	-	-	-	(170)	(170)	-	(170)
Other comprehensive profit (loss) for the year, net of tax	-	-	-	(2)	2	-	-	-
Transactions with owners recognized directly in equity								
Share based payments	-	-	-	-	20	20	-	20
Option issue	-	-	5	-	-	5	-	5
Deduction of non-controlling interest due to loss of control in subsidiaries	-	-	-	-	-	-	(2)	(2)
Exercise of share options	-	169	(29)	-	-	140	-	140
Balance as of December 31, 2020	**2**	**792**	**-**	**(2)**	**1,088**	**1,880**	**-**	**1,880**
Comprehensive loss for the year								
Profit for the year	-	-	-	-	27	27	-	27
Other comprehensive profit (loss) for the year, net of tax	-	-	-	1	(2)	(1)	-	(1)
Transactions with owners recognized directly in equity								
Share based payments	-	-	-	-	15	15	-	15
Balance as of December 31, 2021	**2**	**792**	**-**	**(1)**	**1,128**	**1,921**	**-**	**1,921**
Comprehensive loss for the year								
Profit for the year	**-**	**-**	**-**	**-**	**157**	**157**	**-**	**157**
Other comprehensive profit for the year, net of tax	**-**	**-**	**-**	**1**	**1**	**2**	**-**	**2**
Transactions with owners recognized directly in equity								
Share based payments	**-**	**-**	**-**	**-**	**24**	**24**	**-**	**24**
Balance as of December 31, 2022	**2**	**792**	**-**	**-**	**1,310**	**2,104**	**-**	**2,104**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

	For year ended December 31,		
	2020	2021	2022
	NIS millions		
Cash flows from operating activities:			
Profit (loss) for the year	(170)	27	**157**
Adjustments for:			
Depreciation and amortization	924	896	**830**
Share-based payments	20	15	**24**
Net change in fair value of investment property	7	7	**8**
Tax expenses (Tax benefit)	(39)	12	**45**
Financing expenses, net	172	165	**155**
Other expenses (income)	7	(8)	**-**
Share in losses of equity accounted investees	14	5	**1**
Changes in operating assets and liabilities:			
Change in inventory	(7)	(15)	**(29)**
Change in trade receivables (including long-term amounts)	125	54	**(34)**
Change in other receivables (including long-term amounts)	(50)	(77)	**(75)**
Change in receivables (including long-term receivables)	-	5	**11**
Change in trade payables, accrued expenses and provisions	53	(23)	**(57)**
Change in other liabilities (including long-term amounts)	(51)	2	**48**
Payments for derivative hedging contracts, net	(3)	(5)	**4**
Income tax paid	(9)	(8)	**(12)**
Net cash from operating activities	993	1,052	**1,076**
Cash flows used in investing activities			
Acquisition of property, plant and equipment	(296)	(366)	**(335)**
Acquisition of intangible assets and others	(203)	(232)	**(257)**
Acquisition of equity accounted investee	(3)	-	**-**
Change in current investments, net	89	407	**(120)**
Receipts (payments) from other derivative contracts, net	1	(2)	**-**
Interest received	5	1	**8**
Acquisition of subsidiary, less cash purchased	(608)	-	**-**
Net cash used in investing activities	(1,015)	(192)	**(704)**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows (cont'd)

	For year ended December 31,		
	2020	2021	2022
	NIS millions		
Cash flows used in financing activities			
Receipts (Payments) for derivative contracts, net	(6)	2	**5**
Payments for long-term loans from financial institutions	(212)	(188)	**-**
Repayment of debentures	(417)	(389)	**(396)**
Proceeds from issuance of debentures, net of issuance costs	583	-	**491**
Interest paid	(130)	(123)	**(110)**
Equity offering	5	-	**-**
Proceeds from exercise of share options	140	-	**-**
Payment of principal of lease liabilities	(228)	(235)	**(233)**
Net cash used in financing activities	(265)	(933)	**(243)**
Changes in cash and cash equivalents	(287)	(75)	**129**
Cash and cash equivalents as at the beginning of the year	1,006	719	**644**
Effects of exchange rate changes on cash and cash equivalents	-	(2)	**-**
Cash and cash equivalents as at the end of the year	719	644	**773**

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - Reporting Entity

Cellcom Israel Ltd. (the "Company") is a company incorporated and domiciled in Israel and its official address is 10 Hagavish Street, Netanya 4250708, Israel. The consolidated financial statements of the Group as at December 31, 2022, comprise the Company and its subsidiaries (together referred to as the "Group") and the Group’s holdings in included entities. The Group operates and maintains a cellular mobile telephone system in Israel and provides cellular telecommunications services, landline telephony services, internet services, international calls services, television over the internet services and transmission services. The Company is controlled by Koor Industries Ltd. (directly and through agreements with other shareholders of the Company), a wholly owned subsidiary of Discount Investment Corporation Ltd. ("DIC."). The Company's shares are traded on the Tel Aviv Stock Exchange (TASE). On 9 May 2022, the Company’s shares where deregistered in the US thus concluding its reporting obligations towards the SEC.

Note 2 - Basis of Preparation of the Financial Statements

A. Statement of compliance

The consolidated financial statements have been prepared by the Group in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have also been prepared with the provisions of the Securities Regulations (Annual Financial Statements), 2010.

These consolidated financial statements were approved by the Company's Board of Directors on March 8, 2023.

B. Functional and presentation currency

These consolidated financial statements are presented in Israeli Shekels ("NIS"), which is the Group's functional currency, and are rounded to the nearest million unless otherwise indicated. NIS is the currency that represents the primary economic environment in which the Group operates.

C. Basis of measurement

These consolidated financial statements have been prepared on the basis of historical cost except for the following assets and liabilities: current investments and derivative financial instruments that are measured at fair value through profit or loss, investment property that are measured at fair value, deferred tax assets and liabilities, provisions, assets and liabilities in respect of employee benefits and Investments in associates.

For further information regarding the measurement of these assets and liabilities see Note 3, regarding Significant Accounting Policies.

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

D. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The preparation of accounting estimates used in the preparation of the Group's financial statements requires that management of the Company makes assumptions regarding circumstances and events that involve considerable uncertainty. Company Management prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about estimates, uncertainty and critical judgments about provisions and contingent liabilities, is described in Notes 16 and 32. In addition, information about critical estimates, made while applying accounting policies and that have the significant effect on the consolidated financial statements are described below:

Impairment testing of trade and other receivables
The financial statements include an impairment loss in trade and other receivables which properly reflect, according to management's estimation, the potential loss from non-recoverable amounts. The Group provides for impairment loss based on its experience in collecting past debts, as well as on information on specific debtors. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. See also Note 23.

Impairment testing and useful life of assets
The Group regularly reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. See also Note 3(I).
The useful economic life of the Group's assets is determined by management at the time the asset is acquired and regularly reviewed for appropriateness. The Group defines useful life of its assets in terms of the assets' expected utility to the Group. This judgment is based on the experience of the Group with similar assets. The useful economic life of capitalized customer acquisition costs is based on the expected service period from these contracts. See also Notes 3(D) and 3(F).

Impairment testing of goodwill
The Group reviews a cash generating unit containing goodwill for the purpose of testing it for impairment at least once a year. Determining the recoverable amount requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit and also to choose a suitable discount rate for those cash flows which represents market estimates as for the time value of the money and the specific risks that are related to the cash-generating unit. Determining the estimates of the future cash flows is based on management past experience and management best estimates as for the economic conditions that will exist over the rest of the remaining useful life of the cash generating unit. See also Note 3(I).

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

D. Use of estimates and judgments (cont'd)

Legal claims
In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the Group takes into consideration the opinion of its legal counsels and their best professional judgment, the stage of proceedings and historical legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates. See also Note 32.

Uncertain tax positions
When assessing amounts of current and deferred taxes, the Group takes into consideration the effect of the uncertainty that its tax positions will be accepted and the risk of it incurring any additional tax and interest expenses.

The Group is of the opinion that the cumulative tax liability is fair for all the years in respect of which final tax assessments have not yet been received, based on an analysis of a number of matters including interpretations of tax laws and the Group's past experience. This assessment is based on estimates and assumptions that may also include assessments and exercising judgment regarding future events. It is possible that new information will become known in future periods that will require the Group to change its estimate regarding the tax liability that was recognized, and any such changes will be expensed immediately in that period. See also Note 30.

Recognition of deferred tax asset in respect of tax losses
The Group assesses the probability that in the future there will be taxable profits against which carried forward losses can be utilized and accordingly the Group recognizes (or not recognizes) a deferred tax asset in respect of losses carried forward. In the absence of certainty for the existence of taxable income, deferred taxes are not recognized as an asset in the carrying amount. The possible effects of this estimate is the recognition or cancellation of deferred tax assets in statement of income.
For information on losses for which a deferred tax asset was recognized, see Note 30.

Determining the lease term and the discount rate of a lease liability
In order to determine the lease term, the Group takes into consideration the period over which the lease is non-cancellable, including renewal options that it is reasonably certain it will exercise and/or termination options that it is reasonably certain it will not exercise. In addition, The Group discounts the lease payments using its incremental borrowing rate. The Possible effects of this estimate is an increase or decrease in the right-of-use asset and lease liability and in depreciation and financing expenses in subsequent periods. See also Note 14.

On June 27, 2021, the Israeli Ministry of Communications, or MOC, resolved to shutdown the 2G and 3G networks (the "Old Technologies") on December 31, 2025 (the "Due Date") (with an option to advance such date to January 1, 2025, subject to certain conditions) and certain interim arrangements until the Due Date, as part of the MOC intention to promote mobile communications infrastructure in Israel and turn radio frequency resources for the strengthening of 4G and 5G technologies. Further to this decision, the MOC ordered the extension of the allocations of the frequency bands allocated for the Old Technologies, to be used also with more advanced technologies, until 2030 year-end.

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

D. Use of estimates and judgments (cont'd)

As a result, the Company changed the useful life estimate of the equipment used by the Company to operate 2G and 3G networks until 2025 year-end, and extended the amortization period of its license fees regarding 2G and 3G frequencies until 2030 year-end.

The effect of those changes on the financial statements in current year and subsequent years are following:

	For the year ended December 31,				
	2022	2023	2024	2025	2026 - 2030
	NIS millions				
Decrease (increase) in depreciation expenses	12	3	(3)	(10)	(14)

The company examines every year the estimate of the useful life of the customer acquisition assets and the installations in the customer's home. As part of the yearly examination, it was found that the average life expectancy of customers increased as a result of a decrease in churn rates. In view of the above, on April 1, 2022, the company updated the estimated useful life of customer acquisition assets and installation cost assets for three years and five years, respectively.

The effect of those changes on the financial statements in current year and subsequent years are following:

	For a period of one year ending on December 31				
	2022	2023	2024	2025	2026
	NIS millions				
Decrease (increase) in depreciation expenses	36	8	(27)	(12)	(5)

E. Exchange rates and known Consumer Price Indexes are as follows:

	Exchange rates of US$	Consumer Price Index (points)*
As of December 31, 2022	**3.519**	**240.77**
As of December 31, 2021	3.110	228.70
As of December 31, 2020	3.215	223.34
Change during the year:		
Year ended December 31, 2022	**13.15%**	**5.28%**
Year ended December 31, 2021	(3.27)%	2.40%
Year ended December 31, 2020	(6.97)%	(0.59)%

*According to 1993 base index.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Group for all periods presented in these consolidated financial statements.

A. Basis of consolidation

1. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost. The accounting policies applied on subsidiaries have been changed when necessary, in order to ensure consistency with the accounting policies adopted by the Group.

2. Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company.

Measurement of non-controlling interests on the date of the business combination

Non-controlling interests that are instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis. All other components of non-controlling interests are measured at fair value as of date of purchase unless a different measurement basis is required in accordance with IFRS.

Allocation of profit and loss and other comprehensive income to the shareholders

Profit and loss are allocated to the owners of the Company and the non-controlling interests. Total profit and loss is allocated to the owners of the Company and the non-controlling interests even if the result is a negative balance of non-controlling interests.

Transactions with non-controlling interests, not resulting in loss of control

Transactions with non-controlling interests in subsidiaries not resulting in loss of control, are accounted for as equity transactions.

3. Realizing rights in subsidiaries

When the Group losses control of a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis of consolidation (cont'd)

4. Investment in associates and joint ventures (equity accounted investees)

Associates are those entities in which the Group has significant influence, in most cases expressed in holding between 20% and 50% of the voting rights. In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account.

Joint ventures are joint arrangements in which the Group has rights to the net assets of the arrangement.

Associates and joint ventures are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group’s share of the income and expenses in profit and loss of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Long-term interests that are in substance form part of the net investment, such as long-term loans that their repayment is not expected and is unlikely to occur in the foreseeable future, are first accounted for in accordance with the instructions of IFRS 9 and then apply the instructions of IAS 28 with respect to the remainder of those interests, so that the long-term interests are in the scope of both IFRS 9 and IAS 28.

5. Transactions eliminated on consolidation

Intra-group balances and transactions in the Group, and any unrealized income and expenses arising from intra-group transactions, were eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group’s interest in these investments.

B. Translation of balances and transactions in foreign currency

Transactions in foreign currency other than the operating currency (hereinafter - foreign currency) are translated into the operating currency at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as of the reporting date are translated to NIS at the prevailing foreign exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost, are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to NIS at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on translation are recognized in profit and loss, except when attributed to other comprehensive profit as cash flow hedging.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments

(1) Non-derivative financial assets

Initial recognition and measurement of financial assets
The Group initially recognizes trade receivables and debt instruments issued on the date that they are created. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price. Receivables originating from contract assets are initially measured at the carrying amount of the contract assets on the date classification was changed from contract asset to receivables.

Derecognition of financial assets
Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. When the Group retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

Classification of financial assets into categories and the accounting treatment of each category
Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost or fair value through profit and loss.
Financial assets are not reclassified in subsequent periods unless, and only if, the Group changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the period following the change in the business model. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit and loss:

a. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b. The contractual terms of the financial asset give rise to cash flow entitlement on defined dates that are solely payments of principal and interest on the outstanding principal balance.

All financial assets not classified as measured at amortized cost or financial assets designated at fair value through profit and loss, are measured at fair value through profit and loss. On initial recognition, the Group designates financial assets at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has balances of trade and other receivables that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

Assessment of the business model for debt assets

The Group assesses the objective of the business model within which the financial asset is held on the level of the portfolio, since this best reflects the manner by which the business is managed and information is provided to management. The following considerations are taken into account in the assessment of the Group's business model:

1. The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
2. How the performance of the business model and the financial assets within the model is evaluated and reported to the entity's key management people;
3. The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

Assessment whether cash flows are solely payments of principal and interest

For the purpose of assessing whether the cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

1. Contingent events that would change the timing or amount of the cash flows;
2. Terms that may change the stated interest rate, including variable interest;
3. Extension or prepayment features; and
4. Terms that limit the Group's claim to cash flows from specified assets.

Subsequent measurement and gains and losses

Financial assets at fair value through profit and loss
These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit and loss (other than certain derivatives designated as hedging instruments).

Financial assets at amortized cost
These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit and loss. Any gain or loss on derecognition is recognized in profit and loss.
Financial assets at amortized cost comprise cash and cash equivalents and trade and other receivables.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include: loans and borrowings from banks and others, marketable debt instruments, finance lease liabilities, and trade and other payables.

Initial recognition of financial liabilities
The Group initially recognizes debt securities issued on the date that they originated. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Subsequent measurement of financial liabilities
Financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.
Transaction costs directly attributable to an expected issuance of an instrument that will be classified as a financial liability are recognized as an asset in the framework of deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon its initial recognition, or are amortized as financing expenses in the statement of income when the issuance is no longer expected to occur.

Derecognition of financial liabilities
Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Material modification in terms of debt instruments
An exchange of debt instruments having substantially different terms, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Furthermore, a substantial modification of the terms of an existing financial liability, or an exchange of debt instruments having substantially different terms between an existing borrower and lender, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value.

In such cases the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit and loss as financing income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative criterion, the Group examines, inter alia, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments, therefore, as a rule, exchanges of CPI-linked debt instruments with unlinked instruments are considered exchanges with substantially different terms even if they do not meet the aforementioned quantitative criterion.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(2) Non-derivative financial liabilities (cont'd)

Nonmaterial modification in terms of debt instruments
In a non-substantial modification in terms (or exchange) of debt instruments, the new cash flows are discounted using the original effective interest rate, and the difference between the present value of the new financial liability and the present value of the original financial liability is recognized in profit and loss.

Offset of financial instruments
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle the financial asset and financial liability on a net basis or to realize the asset and settle the liability simultaneously.

(3) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments for the purpose of hedging transactions of currency risks, as well as derivatives not used for hedging.

Measuring derivative financial instruments
Derivatives financial instruments are recognized initially at fair value of the derivative contract, and remeasured at fair value in subsequent periods. Attributable transaction costs are recognized in profit and loss as incurred. Changes in fair value are accounted for as described below:

Fair value hedging
Changes in fair value of a derivative financial instruments used for hedging transactions are recognized to profit and loss to the financing expenses section.

Fair value hedging
Hedge accounting is not applied to derivative instruments that economically hedge financial assets and liabilities denominated in foreign currencies or CPI-linked. Changes in the fair value of such derivatives are recognized in profit or loss under financing income or expenses.

Derivatives that do not serve hedging purposes
The changes in fair value of derivatives that do not serve hedging purposes are recognized in profit or loss, as financing income or expense.

(4) Assets and liabilities linked to the Israeli CPI that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured every period in accordance with the actual increase/decrease in the CPI.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(5) Issuance of parcel of securities

The consideration received from the issuance of a parcel of securities is attributed initially to financial liabilities that are measured each period at fair value through profit and loss, and then to financial liabilities that are measured only upon initial recognition at fair value. The remaining amount is the value of the equity component. When a number of equity components are issued in a parcel of securities, the consideration of the parcel attributes to their relative fair value. The fair value of each of the components of the package, are based on the average market prices of the securities three business days after their issuance.

Direct issuance costs are attributed to the specific securities in respect of which they were incurred. Joint issuance costs are attributed to the securities on a proportionate basis according to the allocation of the consideration from the issuance of the parcel, as described above. Issuance costs that allocated to equity components are presented net from equity.

D. Fixed asset

Fixed asset items are presented at cost less accumulated depreciation and accumulated impairment losses.

(1) Recognition and measurement

The cost of fixed assets includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located (when the Group has an obligation to dismantle and remove the asset or to restore the site), and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Communications networks consist of several significant components with different useful lives. Each component is treated separately and is depreciated over its estimated useful life.

Changes in the obligation to dismantle and remove the items and to restore the site on which they are located, other than changes deriving from the passing of time, are added or deducted from the cost of the asset in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount on the date of change, and any balance is recognized immediately in profit and loss.

Gains or losses for realization of fixed assets are determined by comparing the net received to book value, and recognized within "other (income) expenses" in statement of income.

(2) Subsequent costs

The cost of replacing part of a fixed asset item is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing are recognized in profit and loss as incurred.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed asset (cont'd)

(3) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognized in profit and loss on a straight-line basis over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The annual depreciation rates for the current and comparative periods are as follows:

	%
Communications network	5-25
Equipment and infrastructure for television services	15-33
Vehicles, Computers, Furniture and Landline communications equipment	6-33

Leasehold improvements are depreciated over the shorter of their estimated useful lives or the expected lease terms.

Depreciation methods, useful lives and residual values are reviewed at least once per year and updated as necessary.

E. Rights of use of communications lines and right of use of fiber-optic infrastructure

The Group implements IFRIC 4, "Determining Whether an Arrangement Contains a Lease", which defines criteria for determining at the beginning of the arrangement, whether the right to use asset constitutes a lease arrangement.

According to IFRIC 4, as mentioned above, acquisition transactions of irrevocable rights of use of underwater cables capacity and right of use of fiber-optic infrastructure are treated as service receipt transactions. The amount which was paid for the rights of use of communications lines and right of use of fiber-optic infrastructure are recognized as a prepaid expense and is amortized on a straight-line basis over the period stated in the agreements, including the option period, which constitutes the estimated useful life of those capacities.

F. Intangible assets and others

(1) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets.
In subsequent periods goodwill is measured at cost less accumulated impairment losses.

Note 3 - Significant Accounting Policies (cont'd)

F. Intangible assets and others (cont'd)

(2) Development activities

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized to intangible assets only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group has the intention and sufficient financing resources to complete development and to use or sell the asset. Direct development costs associated with internally developed information system software, and payroll costs for employees devoting time to the software projects, incurred during the application development stage, are capitalized and recognized as an intangible asset. Development costs previously recognized as an expense are not recognized as an asset in subsequent periods. Development costs that were capitalized are depreciated from the point in time when the asset is available for use, i.e., when it is the location and condition necessary in order to operate as intended by management, over its useful life.
Development costs not yet available for use are examined once per year in order to identify impairment, according to IFRS 36 “Impairment of Assets”.

(3) Incremental customer acquisition costs and customer maintenance costs

The group capitalizes sales commissions for distributors resulting from sale contracts into assets, which would not have surfaced had the sale contracts not been procured. The commissions are recognized in the profit or loss statement over an average period of a customer’s lifespan.

(4) Other intangible assets

Customer and brand relationships that are formed upon the acquisition of subsidiaries have a finite useful life and are amortized according to the expected benefits rate from these assets in each period.

Other intangible assets and others - licenses and frequencies, software and information systems costs are measured at cost less accumulated amortization and accumulated impairment losses and including direct costs necessary to prepare the asset for its intended use.

(5) Subsequent expenditure

Subsequent expenditure is capitalized to intangible asset only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit and loss as incurred.

Note 3 - Significant Accounting Policies (cont'd)

F. Intangible assets and others (cont'd)

(6) Amortization

Amortization of an intangible asset spans its useful life. The amortizable amount is the cost of the asset less its residual value.

Amortization is recognized in profit and loss on a straight-line basis, over the estimated useful lives of the intangible assets from the date they are available for use, since such method most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset. Goodwill and intangible assets having an indefinite useful life are not systematically amortized but are tested for impairment at least once a year.

Internally generated intangible assets are not systematically amortized as long as they are not available for use, i.e. they are not yet on site or in working condition for their intended use. Accordingly, these intangible assets, such as development costs, are tested for impairment at least once a year, until such date as they are available for use.

The annual amortization rates for the current and comparative periods are as follows:

	%	
Frequencies Licenses	4-7	(mainly 4)
Software and computer licenses	15-25	
Customer acquisition costs	20-33	
Customer relationship and brand	10-16	

Amortization methods, useful lives and residual values are reviewed at least each year-end and adjusted if appropriate.

The Group examines the useful life of an intangible asset that is not periodically amortized at least once a year in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

G. Investment property

Investment property is property (land or building – or part of a building – or both) held (by the owner or as a right of use assets) either to earn rental income or for capital appreciation or for both, and not used by the Group in production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business.

Furthermore, some of the rental properties that are leased by the Group are classified and treated as investment property.

Investment property is initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property. In subsequent periods the investment property is measured at fair value with any changes therein recognized in profit and loss.

Any gain or loss on disposal of an investment property is recognized in profit and loss under other income or other expenses, as relevant.

Note 3 - Significant Accounting Policies (cont'd)

H. Inventory

Inventory of cellular phone equipment, accessories and spare-parts are measured at the lower of cost and net realizable value. Cost is determined by the moving average method and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The Group periodically evaluates the condition and age of inventories and makes provisions for impairment of inventories accordingly.

I. Impairment

(1) Non-derivative financial assets

Financial assets and contract assets

The Group recognizes a provision to loss for expected credit losses on Financial assets that are debt instruments measured at amortized cost and for contract assets (as defined in IFRS 15).

The Group measures the provision for expected credit losses in respect of trade receivables and contract assets at an amount equal to the full lifetime credit losses of the instrument.

Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial asset. The maximum period considered when assessing expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following events:

1. Significant financial difficulty of the issuer or borrower;
2. A breach of contract such as a default or payments being past due;
3. The restructuring of a loan or payment due to the Group on terms that the Group would not consider otherwise;
4. It is probable that the borrower will enter bankruptcy or other financial reorganization; or
5. The disappearance of an active market for a security because of financial difficulties.

Presentation of provision for expected credit losses in the statement of financial position

Provisions for expected credit losses of financial assets measured at amortized cost are deducted from the gross carrying amount of the financial assets.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

(1) Non-derivative financial assets (cont'd)

Write-off

The gross carrying amount of a financial asset is written off when the Group does not have reasonable expectations of recovering a financial asset at its entirety or a portion thereof. This is usually the case when the Group determines that the debtor does not have assets or sources of income that may generate sufficient cash flows for paying the amounts being written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Write-off constitutes a de-recognition event.

(2) Fixed assets, Intangible assets and others

Timing of impairment testing

Impairment testing for cash generating units (or group of cash generating units), to which goodwill has been attributed, is performed once per year, and at any time there is indication for impairment of the unit, or by compared the carrying value of the unit, including goodwill, to its recoverable amount.
Impairment of other non-financial assets is tested in case of events or changes in circumstance indicating that their carrying value shall not be recoverable.

Determining cash-generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

Measurement of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit, for which the estimated future cash flows from the asset or cash-generating unit were not adjusted.

Allocation of goodwill to cash generating units

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Goodwill acquired in a business combination is allocated to groups of cash-generating units, including those existing in the Group before the business combination, that are expected to benefit from the synergies of the combination.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

(2) Fixed assets, Intangible assets and others (cont'd)

The Company's corporate assets

The Company's corporate assets do not generate separate cash inflows and are utilized by more than one cash-generating unit. Corporate assets that cannot be allocated reasonably and consistently to cash-generating units are allocated to a group of cash-generating units if there are indications that a corporate asset may be impaired or indications of impairment in a group of cash-generating units, in which case the recoverable amount is determined for the group of cash-generating units that uses the corporate asset.

Recognition of impairment loss

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss. As regards cash-generating units that include goodwill, an impairment loss is recognized when the carrying amount of the cash-generating unit, after including the balance of goodwill, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

Reversal of impairment loss

An impairment loss in respect of goodwill is not reversed in subsequent periods. In respect of other assets, for which impairment losses were recognized in prior periods, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(3) Investments in associates

An investment in an associate and joint venture is tested for impairment when objective evidence indicates there has been impairment. Goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not recognized separately, and therefore is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value in use and its net selling price. In assessing value in use of an investment in an associate or joint venture, the Group either estimates its share of the present value of estimated future cash flows that are expected to be generated by the associate or joint venture, including cash flows from operations of the associate or joint venture and the consideration from the final disposal of the investment, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

(3) Investments in associates (cont'd)

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount. An impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or in the joint venture.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized, and only to the extent that the investment's carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

J. Employee benefits

(1) Post-employment benefits

Part of the Group's liability for post-employment benefits is covered by a defined contribution plan financed by deposits with insurance companies or with funds managed by a trustee. A defined contribution plan is a post-employment benefit plan under which the Group makes fixed deposits to a separate independent entity without the Group having a legal or constructive obligation to make further deposits. The Group's obligation of contribution to defined contribution pension plan is recognized as an expense in profit and loss in the periods during which services are rendered by employees. In addition, the Group has a net obligation in respect of defined benefit plan. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. This benefit is presented at present value deducting the fair value of any plan assets and is determined using actuarial assessment techniques which involves, among others, determining estimates regarding the capitalization rates, anticipated return on the assets, the rate of the increase in salary and the rates of employee turnover. There is significant uncertainty in respect to these estimates because of the long-term programs. For further information, see Note 20.

The Group recognizes remeasurements of net liabilities (assets) for a defined benefit to other comprehensive profit, in the period created. Interest costs and interest income on plan assets that were recognized in profit and loss are presented under financing income and expenses, respectively.

(2) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary retirement. Termination benefits for voluntary retirements are recognized as an expense if the Group has made an offer of voluntary retirement, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Note 3 - Significant Accounting Policies (cont'd)

J. Employee benefits (cont'd)

(3) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be wholly settled.

(4) Share-based payment and restricted stock unit transactions

The Group has several programs for share-based payment to employees, settled by equity instruments of the companies in the Group, whereby the Group receives services from employees in exchange for instruments of the Group. The grant date fair value of share-based payment and restricted stock units ("RSU") awards granted to employees are recognized as a salary expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment and RSU awards that are conditional upon meeting service and non-market performance conditions, are adjusted to reflect the number of awards that are expected to vest. For share-based payment and RSU awards with non-vesting conditions or with market performance vesting conditions, the grant date fair value of the share-based payment and RSU awards are measured to reflect such conditions, and therefore the Group recognizes an expense in respect of the awards whether or not the conditions have been met.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, to consider exercise restrictions and behavioral considerations.

K. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date.

The Group recognizes a reimbursement asset if, and only if, it is virtually certain that the reimbursement will be received if the Company settles the obligation. The amount recognized in respect of the reimbursement does not exceed the amount of the provision.

A provision for claims is recognized if, as a result of a past event, the Company has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably.

Note 3 - Significant Accounting Policies (cont'd)

L. Recognition of revenue

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

Revenues derived from services, including cellular services, internet services, international calls services, fixed local calls, interconnect, roaming revenues, content and value added services, transmission services and television over the internet services, are recognized when the services are provided, in proportion to the stage of completion of the transaction and all other revenue recognition criteria are met.

Usually, the sale of equipment to the customer is executed with no contractual obligation of the client to consume services in a minimal amount for a predefined period. As a result, the Group refers to the sale transaction as a separate transaction and recognizes revenue from sale of equipment upon delivery of the equipment to the customer. Revenue from services is recognized and recorded when the services are provided.

Identifying the contract

The Group accounts for a contract with a customer only when the following conditions are met:

(a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
(b) The Group can identify the rights of each party in relation to the goods or services that will be transferred;
(c) The Group can identify the payment terms for the goods or services that will be transferred;
(d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
(e) It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

For the purpose of paragraph (e) the Group examines, inter alia, the percentage of the advance payments received and the spread of the contractual payments, past experience with the customer and the status and existence of sufficient collateral.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: the Group has no remaining obligations to transfer goods or services to the customer and any consideration promised by the customer has been received and cannot be returned; or the contract has been terminated and the consideration received from the customer cannot be refunded.

Note 3 - Significant Accounting Policies (cont'd)

L. Recognition of revenue (cont'd)

Identifying performance obligations
On the contract's inception date the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:
(a) Goods or services (or a bundle of goods or services) that are distinct; or
(b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Group's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer goods or services is separately identifiable, the Group examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

In contracts with customers for the provision of various communication services in one package, the Group has identified more than one performance obligations in each contract with a customer, according to the services promised to the customer.

Option to purchase additional goods or services
An option that grants the customer the right to purchase additional goods or services constitutes a separate performance obligation in the contract only if the option grants the customer a material right it would not have received without the original contract.

Determining the transaction price
The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Group takes into account the effects of determining the transaction price and the existence of a significant financing component.

Variable consideration
The transaction price includes fixed amounts and amounts that may change as a result of discounts, refunds, credits, price concessions, incentives, penalties, claims and disputes and contract modifications that the consideration in their respect has not yet been agreed by the parties.

The Group includes variable consideration, or part of it, in the transaction price only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. At the end of each reporting period and if necessary, the Group revises the amount of the variable consideration included in the transaction price.

Allocating the transaction price to performance obligations
In a multiple performance obligations transaction, the transaction price is allocated between the components of the transaction according to the ratio of their stand-alone selling prices.

Note 3 - Significant Accounting Policies (cont'd)

L. Recognition of revenue (cont'd)

Existence of a significant financing component
In order to measure the transaction price, the Group adjusts the amount of the promised consideration in respect of the effects of the time on the value of money if the timing of the payments agreed between the parties provides to the customer or the Group a significant financing benefit. When assessing whether a contract contains a significant financing component, the Group examines, inter alia, the expected length of time between the date the Group transfers the promised goods or services to the customer and the date the customer pays for these goods or services, as well as the difference, if any, between the amount of the consideration promised and the cash selling price of the promised goods or services.

When the contract contains a significant financing component, the Group recognizes the amount of the consideration using the discount rate that would be reflected in a separate financing transaction between it and the customer on the contract’s inception date. The financing component is recognized as other income over the period, which are calculated according to the effective interest method.

Revenues from long-term credit arrangements (more than 12 monthly payments) are recognized on the basis of the present value of future cash flows, discounted according to market interest rates at the time of the transaction. The difference between the original credit and its present value is recorded as other income (instead of interest income) over the credit period.

In cases where the difference between the time of receiving payment and the time of transferring the goods or services to the customer is one year or less, the Group applies the practical exemption included in the standard and does not separate a significant financing component.

Satisfaction of performance obligations
Revenue is recognized when the Group satisfies a performance obligation by transferring control over promised goods or services to the customer.

Contract procurement costs
Incremental costs of obtaining a contract with a customer are recognized as an asset when the Group is expected to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognized as an expense as incurred.

Warranty
In order to assess whether a warranty provides a distinct service to the customer and is therefore a distinct performance obligation, the Group examines, inter alia, the following characteristics: does the customer have the option to purchase the warranty separately; is the warranty required by law; the period of the warranty and the nature of the actions the Group promises to execute.

In respect to contracts with customers, the Group provides warranty services to customers in accordance with the contract, the Regulations of the Law or as is customary in the industry. Warranty services are provided to ensure the quality of the work and to meet the specifications agreed between the parties and do not constitute additional service provided to the customer. Therefore, the Group does not recognize the liability as a separate performance obligation, but treats it in accordance with the Instructions of IAS 37 and recognizes the provision for liability according to the estimated cost of the said services.

Note 3 - Significant Accounting Policies (cont'd)

L. Recognition of revenue (cont'd)

Principal vendor or agent
When the Group is a principal vendor it recognizes revenue in the gross amount of the consideration. If the Company is obligated to arrange that another party provides the goods or services than the Group is an agent and therefore recognizes revenue in the amount of the net commission.

The Group is a principal vendor when it controls the promised goods or services before their transfer to the customer. Indicators that the Group controls the goods or services before their transfer to the customer include, inter alia, as follows: the Group is the primary obligor for fulfilling the promises in the contract; the Group has inventory risk before the goods or services are transferred to the customer; and the Group has discretion in setting the prices of the goods or services.

M. Cost of revenues

Cost of revenue mainly includes equipment purchase costs, salaries and related expenses, value added services costs, royalties expenses, ongoing license fees, interconnection and roaming expenses, cell site leasing, property tax and electricity costs, depreciation and amortization expenses and maintenance expenses, directly related to services rendered.

The Group recognizes discounts from suppliers as a decrease in Cost of Sales.

N. Advertising expenses

Advertising costs are expensed as incurred.

O. Lease payments

(1) Determining whether an arrangement contains a lease
On the inception date of the lease, the Group determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the following two rights throughout the lease term:

(a) The right to obtain substantially all the economic benefits from use of the identified asset; and
(b) The right to direct the identified asset’s use.

For cell and switches sites lease contracts that contain non-lease components, such as services or maintenance, that are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.
For office buildings, warehouses, service centers, retail stores and motor vehicles lease contracts that contain non-lease components, such as services or maintenance, that are related to a lease component, the Group elected to separate the components and account the lease component separately.

Note 3 - Significant Accounting Policies (cont'd)

O. Lease payments (cont'd)

(2) Leased assets and lease liabilities

Upon initial recognition, the Group recognizes a liability at the present value of the balance of future lease payments, and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments.

Since the interest rate implicit in the Group's leases is not readily determinable, the incremental borrowing rate of the Group is used. Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model, and depreciated over the shorter of the lease term or useful life of the asset.

Variable lease payments that are linked to the CPI are initially measured by using the index known at the beginning of the lease, and are included in calculating the liability for lease. When there is a change in the cash flow of the lease as result of change to the index, the Group remeasures the liability for the lease based on updated contractual cash flows, as an adjustment to the right of use asset.

(3) The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the lessee will or will not exercise the option, respectively. According to past experience the Company estimated that the options for extending the contracts shall be exercised.

The group reassesses the lease period upon the occurrence of a significant event or a significant change in circumstances that is within the group’s control and which affects the decision as to whether it is reasonably certain that the group will or will not exercise an option that was not previously included when determining the lease period. When there is a change in the period where the lease cannot be canceled, the group updates the lease period and remeasures the lease liability by capitalizing the updated lease payments using an updated capitalization rate. In general, the difference between the balance of the lease obligation before the change of the lease period and the balance of the updated lease obligation is recognized against the adjustment of the right-of-use asset.

(4) Depreciation of right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

• Cell and switches sites	5-15 years
• Office buildings, warehouses, service centers and retail stores	4-10 years
• Motor vehicles	2-3 years

(5) Reassessment of lease liability

Upon the occurrence of a significant event or a significant change in circumstances that is under the control of the Group and had an effect on the decision whether it is reasonably certain that the Group will exercise an option, which was not included before in the lease term, or will not exercise an option, which was previously included in the lease term, the Group re-measures the lease liability according to the revised leased payments using a new discount rate. The change in the carrying amount of the liability is recognized against the right-of-use asset, or recognized in profit and loss if the carrying amount of the right-of-use asset was reduced to zero.

Note 3 - Significant Accounting Policies (cont'd)

O. Lease payments (cont'd)

(6) Lease modifications (cont'd)

The group treats lease modifications as a separate lease in instance where the lease modification increases the scope of the lease by adding a right to use one or more underlying assets, and the consideration for the lease increased by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the contract’s circumstances, the Group accounts for the modification as a separate lease.

In all other cases, on the initial date of the lease modification, the Group allocates the consideration in the modified contract to the contract components, determines the revised lease term and measures the lease liability by discounting the revised lease payments using a revised discount rate.

For lease modifications that decrease the scope of the lease, the Group recognizes a decrease in the carrying amount of the right-of-use asset in order to reflect the partial or full cancellation of the lease, and recognizes in profit and loss a profit (or loss) that equals the difference between the decrease in the right-of-use asset and re-measurement of the lease liability.

For other lease modifications, the Group re-measures the lease liability against the right-of-use asset.

(7) Subleases

In leases in which the Group subleases the underlying asset, the Group examines whether the sublease is a finance lease or operating lease with respect to the right-of-use received from the head lease.

P. Financing income and expenses

Financing income is comprised of interest income on funds invested, dividend income, changes in the fair value of financial instruments measured at fair value through profit and loss and income from exchange rate differences.

Changes in the fair value of financial assets at fair value through profit and loss also include income from dividends and interest.

Financing expenses are comprised of interest expenses, linkage expenses, discount amortization expenses, changes in fair value of financial instruments measured at fair value through profit and loss, losses from exchange rate differences and unwinding of the discount on provisions.

Gains and losses from exchange rate differences and changes in the fair value of financial instruments measured at fair value through profit and loss, are presented on a net basis, as financing income or financing expenses.

Interest income and expenses are recognized in the profit and loss using the effective interest method.

Note 3 - Significant Accounting Policies (cont'd)

P. Financing income and expenses (cont'd)

In the statements of cash flows, payments for derivative contracts which are used for economic hedges of financial liabilities arising from financing activities, are presented as part of cash flows from financing activities. Payments for derivative instruments which are used for economic hedges of acquisitions in foreign currencies, and changes in the fair value of those derivatives, are presented as part of cash flows from operating activities. Interest received and dividends received are presented in cash flows from investment activity. Interest paid and dividends paid are presented in cash flows from financing activity.

Q. Taxes on income

Taxes on income comprise current and deferred tax. Current tax and deferred tax are recognized in profit and loss except to the extent that it relates to a business combination, or are recognized directly in equity or in other comprehensive income to the extent they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in its subsidiaries and the Group’s holdings in included entities ,where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their current tax assets and liabilities will be realized simultaneously.

Note 3 - Significant Accounting Policies (cont'd)

R. Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, RSUs and share options granted to employees.

S. New standards and amendments not yet adopted

1. Amendment to IAS 1, *Financial Reporting Standards*

The amendment to IAS 1 clarifies the classification of Liabilities as Current or Non-current and requires the following:

(a) Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendment no longer refers to unconditional rights, since loans are rarely unconditional. The assessment determines whether a right exists, but it does not consider whether the entity will exercise the right. So, management's expectations do not affect classification.

(b) The right to defer only exists if the entity complies with any relevant conditions at the reporting date.

(c) 'Settlement' is defined as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

These amendment should be applied for annual periods beginning on or after 1 January 2024. Earlier application is not expected to have a material effect on the consolidated financial statements of the group.

2. Amendment to International Accounting Standard 1 - Presentation of Financial Statements, "Disclosure of Accounting Policy" (hereinafter - the Amendment to IAS 1)

The Amendment to IAS 1 requires companies to disclose their material accounting policy rather than their significant accounting policy. 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 primary users of the financial statements make on the basis of these financial statements.

The Amendment to IAS 1 even clarifies that information about the accounting policy is expected to be material if, without it, the users of the financial statements are prevented from understanding other material information in the financial statements. In addition, the amendment clarifies that there is no need to disclose information about an immaterial accounting policy. However, inasmuch as such information is provided, it should not draw away from material information about accounting policy.

Note 3 - Significant Accounting Policies (cont'd)

S. New standards and amendments not yet adopted (cont'd)

2. Amendment to International Accounting Standard 1 - Presentation of Financial Statements, "Disclosure of Accounting Policy" (hereinafter - the Amendment to IAS 1) (cont'd)

The Amendment to IAS 1 shall be applied for annual periods beginning on or after 1 January 2023. According to the provisions of the amendment, its early implementation is possible. The group is examining the impact of implementing the Amendment to IAS 1 on the information provided regarding its accounting policy as part of the consolidated financial statements.

3. Amendments to IFRS 9, *Financial Instruments*

This amendment clarifies which fees should be included in the 10% test for derecognition of financial liabilities. Costs and fees paid to third parties (and not to the lender) will not be included in the 10% test.

The amendment applied since 1 January 2022. The application of the amendment to IFRS 9 doesn't have a material effect on the consolidated financial statements of the group.

4. Amendments to IAS 12, *Deferred Tax*

The amendment introduce a further exception from the initial recognition exemption. Under the amendment, the entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendment to IAS 12, the entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The Board also adds an illustrative example to IAS 12 that explains how the amendments are applied.

(a) to recognise a deferred tax asset – to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised – and a deferred tax liability for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities; and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related asset; and

(b) to recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Note 3 - Significant Accounting Policies (cont'd)

S. New standards and amendments not yet adopted (cont'd)

3. Amendments to IAS 12, *Deferred Tax* (cont'd)

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. Earlier application is not expected to have a material effect on the consolidated financial statements of the group.

4. Amendments to IFRS 3 Business Combinations

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.
Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.
Pursuant to the provisions of the amendment to IFRS 3, the group implemented the amendment for business combinations whose acquisition dates fall within annual reporting periods beginning on or after 1 January 2022. The application of the amendment to IFRS 3 doesn't have a material effect on the consolidated financial statements of the group.

Note 4 - Fair Value

A. Determination of Fair Value

A number of the Group's accounting policies and disclosures require the determination of fair value, of certain assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables
The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the appropriate interest rate at the reporting date.

Current investments and derivatives
The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.

The fair value of investments in debt securities and investments in equity instruments are based on quoted market prices.

Investment property
The fair value of investment property is estimated using the comparison technique, with the valuation model being based on the price per square meter of comparable properties, as arising from observable transactions in an active market.

Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Share-based payment transactions
Fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior) and the risk-free interest rate (based on government bonds). Service conditions attached to the transactions are not taken into account in determining fair value.

B. Fair Value Hierarchy

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: inputs that are not based on observable market data (unobservable inputs).

Note 5 - Financial Risk Management

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's financial risk management framework. The Board has established a sub-committee for financial exposures management, which is responsible for supervising and monitoring the Group's financial exposures management policies. The sub-committee recommends to the Board of Directors changes in the Group's financial exposures management policy.

The Group's risk management policies are established to identify and analyze and manage the financial risks faced by the Group, and to monitor risks and adherence on policy. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Financial Disclosures Committee oversees how management monitors compliance with the Group's financial risk management policies and procedures, and reviews the adequacy of the financial risk management framework in relation to the risks faced by the Group. See also Note 23, regarding Financial Instruments.

Credit risk
Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group's credit risk arises principally from the Group's receivables from customers. The carrying amounts of financial assets and contract assets represent the Group's maximum credit risk exposure.

Trade receivables, other receivables and contract assets
The Group conducts credit risk evaluations on receivables and adjusts the amount of credit allowed and requires financial guarantees against her, according to the risk level of each customer. Management monitors outstanding receivable balances and credits appropriate allowances for irrecoverable amounts included in the financial statements which adequately reflect the loss embodied in irrecoverable debts. The Group is exposed to credit risk arising mainly from its operation in Israel.

Cash and cash equivalents
Most of the Group's cash and cash equivalents are maintained with major banking institutions in Israel.

Derivatives
The counterparties of the derivatives held by the Group are major banks in Israel.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives, in the consolidated statement of financial position. Financial instruments that could potentially subject the Group to credit risks consist primarily of trade receivables. Credit risk with respect to these receivables is limited due to the composition of the subscriber base, which includes a large number of individuals and businesses.
The Company examines the customer's credit risk before sale using various parameters regarding the customer's financial condition, credit scoring, purchase amount and the customer's segment. Customer ratings are determined while using quantitative and qualitative data that can predict the risk of default.

Note 5 - Financial Risk Management (cont'd)

Credit risk (cont'd)

Assessment of expected credit losses for corporate customers
The Group records credit losses on existing balances based on past statistics that project the loss from credit risk and anticipated collection and exercises discretion based on past experience.

The Group uses data matrixes based among others on aging of customer debts in order to measure the projected credit losses that is comprised of a large number of small debt accounts.
Calculating the default rate is based on weighing the likelihood of a debtor for default in the range from full collection to write off.

Liquidity risk
The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The cash surpluses held by Group that are not required for financing their current activity, were invested in interest-bearing investment channels such as short-term deposits. These investment channels are chosen based on future forecasts of the cash Group will require in order to meet its liabilities.

The Group examines current forecasts of its liquidity requirements so as to make certain that there is sufficient cash for its operating needs. These forecasts take into consideration matters such as the Group's plan to use debt for financing its activity, compliance with required financial covenants, and compliance with external requirements such as laws or regulation.

The Group has contractual commitments to purchase inventories and fixed assets, to incur capital expenditure with regard to its investment in a jointly controlled entity and an obligation to pay lease payments. For further information about material commitments see Note 32, regarding Commitments.

Market risk
In the ordinary course of business, the Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out according to the policy established by the Board of Directors.

Interest rate and CPI risks
The Group is exposed to fluctuations in the interest rate, including changes in the CPI, as part of its borrowings are linked to the CPI. As part of its risk management policy the Group from time to time enters into forward contracts that partially hedge the exposure to changes in the CPI. All such transactions are carried out within the policy established by the Board of Directors.

Currency risk
The Group's operating income and cash flows are exposed to currency risk (mostly USD), mainly due to handset and network related acquisitions, purchase of TV content, purchase of telecommunications capacity and its international roaming services activity. The Group also manages bank accounts that are denominated in a currency other than its respective functional currency, primarily USD. As part of its financial exposures hedging policy, the Group uses forward and option contracts to partially hedge the exposure to fluctuations in foreign exchange rates.

Note 5 - Financial Risk Management (cont'd)

Capital management

The Group's capital management aim is to ensure a sound and efficient capital structure which takes into consideration, among others, the following factors:

A gearing ratio that supports the Group's cash flow needs with respect to its potential cash flow generation and also supporting its dividend policy, considering the limitation imposed on dividend distribution as established in the indenture of the Group's Series H - M debentures and in the Company's loan agreements, while maintaining a Net Debt to Adjusted EBITDA ratio as established in such documents. The Group considers Net Debt to Adjusted EBITDA ratio to be an important measure for investors, debentures holders, analysts, and rating agencies. This ratio is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The Group's debt mainly consists of short and long-term debentures traded publicly in the Tel Aviv Stock Exchangeד.

Note 6 - Operating Segments

The Group operates in two reportable segments, as described below, which are the Group's strategic business units. The strategic business unit's allocation of resources and evaluation of performance are managed separately. The operating segments were determined based on internal management reports reviewed by the Group's chief operating decision maker (CODM).

- Cellular segment - the segment includes the cellular communications services, cellular equipment and supplemental services.
- Fixed-line segment - the segment includes landline telephony services, internet services, television services, transmission services, landline equipment and supplemental services.

	Year ended December 31, 2022				
	NIS millions				
	Cellular	Fixed-line	Reconciliation for consolidation	Consolidated	Reconciliation of subtotal adjusted segment EBITDA to profit for year
Externals revenues	2,887	1,413	-	4,300	
Inter-segment revenues	14	141	(155)	-	
*** Adjusted segment EBITDA**	768	429			1,197
Depreciation and amortization					(830)
Share based payments					(24)
Other income					15
Financing income					27
Financing expenses					(182)
Share in losses of accounted investees					(1)
Tax on income					(45)
Profit for the year					157

Note 6 - Operating Segments (cont'd)

	Year ended December 31, 2021				
	NIS millions				
	Cellular	Fixed-line	Reconciliation for consolidation	Consolidated	Reconciliation of subtotal adjusted segment EBITDA to profit for year
Externals revenues	2,769	1,331	-	4,100	
Inter-segment revenues	13	141	(154)	-	
*** Adjusted segment EBITDA**	684	449			1,133
Depreciation and amortization					(896)
Share-based payments					(15)
Other expenses					(13)
Financing income					3
Financing expenses					(168)
Share in losses of accounted investees					(5)
Tax on income					(12)
profit for the year					27

	Year ended December 31, 2020				
	NIS millions				
	Cellular	Fixed-line	Reconciliation for consolidation	Consolidated	Reconciliation of subtotal adjusted segment EBITDA to loss for year
Externals revenues	2,349	1,327	-	3,676	
Inter-segment revenues	15	153	(168)	-	
*** Adjusted segment EBITDA**	525	393			918
Depreciation and amortization					(924)
Share-based payments					(20)
Other income					3
Financing income					10
Financing expenses					(182)
Share in losses of accounted investees					(14)
Tax benefits					39
Loss for the year					(170)

* Adjusted segment EBITDA as reviewed by the Group's CODM, represents earnings before interest (financing expenses, net), taxes, other income (expenses) not part of the Company’s current activity, depreciation and amortization, profits (losses) of equity account investees and share based payments. In addition, it includes other income (expenses) that are part of the company's current activities, such as interest income for sale transactions in installments and expenses for a voluntary retirement plan. Adjusted Segment EBITDA is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies.

Note 7 – Subsidiaries

A. Presented hereunder is a list of the Group’s significant subsidiaries:

Name of subsidiary	Principal location of the subsidiary's activity	The Group’s ownership interest in the subsidiary for the year ended December 31 2021	2022
Cellcom Fixed Line Communication L.P.	Israel	100%	**100%**
Dynamica Cellular Ltd.	Israel	100%	**100%**
Golan Telecom Ltd.	Israel	100%	**100%**

Note 8 - Equity Accounted Investees and Joint Operations

In July 2019, the Company and the Israel Infrastructure Fund, or IIF, completed the co-investment in Israel Broadband Company (2013) Ltd. (“IBC”). After completion of the transaction, the Company and IIF hold by jointly and equally owned limited partnership 70% of IBC's share capital. Therefore, the Company indirectly holds 35% of the equity and the voting rights of IBC and accounts for the investment by the equity method. After the report period, the transaction for Hot’s investment in IBC was completed, whereby the Company, as of such date, indirectly holds 23.3% of the equity and the voting rights in IBC.

For additional information, see Note 31 (E), regarding commitments.

	As of December 31,	
	2021	2022
	NIS millions	
Investment in equity accounted investees:		
Purches of share capital	160	**160**
Share in losses of equity accountes investees	(12)	**(13)**
Other	(14)	**(16)**
	134	**131**

Note 9 - Cash and Cash Equivalents

Composition:

	As of December 31,	
	2021	2022
	NIS millions	
Current balances in banks	162	**105**
Demand deposits	482	**668**
	644	**773**

Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value. The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in Note 23.

Note 10 - Trade and Other Receivables

Composition

	As of December 31,	
	2021	2022
	NIS millions	
Current		
Trade Receivables *		
Open accounts	355	**306**
Checks and credit cards receivables	242	**244**
Accured income	95	**103**
Current maturity of long-term receivables	235	**216**
	927	**869**
Other Receivables		
Prepaid expenses	35	**24**
Other	9	**11**
	44	**35**
	971	**904**
Non-current		
Trade Receivables *	158	**184**
Other	5	**27**
	163	**211**
	1,134	**1,115**

* Net of allowance for doubtful debts see note 23.

Non-current trade receivables balances are in respect of equipment sold in installments (mainly 36 monthly payments) which current amount as of December 31, 2022, is calculated at a 4.3% annual discount rate (December 31, 2021 - 3.3%).

Note 11 - Inventory

A. Composition

	As of December 31,	
	2021	2022
	NIS millions	
Handsets	53	**63**
Accessories	18	**32**
Spare parts	17	**22**
	88	**117**

B. The Group is testing slow moving inventory for impairment. In the framework of the test conducted in 2022 impairment was credited in the amount of NIS 2 million (2021 - NIS 5 million). The write-down is included in Cost of revenues.

Note 12 - Property, Plant and Equipment, net

Composition:

	Communication network	Communication equipment and infrastructure	,Vehicles ,computers furniture and other equipment	Leasehold improvements	Total
			NIS millions		
Cost					
Balance as of January 1, 2021	5,272	479	169	63	5,983
Additions	222	114	15	3	354
Deductions	(4)	-	(13)	(1)	(18)
Balance as of December 31, 2021	5,490	593	171	65	6,319
Additions	**310**	**102**	**31**	**2**	**445**
Deductions	**(9)**	**(165)**	**(82)**	**(21)**	**(277)**
Balance as of December 31, 2022	**5,791**	**530**	**120**	**46**	**6,487**
Accumulated depreciation					
Balance as of January 1, 2021	4,189	238	107	47	4,581
Depreciation for the year	221	121	24	7	373
Deduction of depreciation	(4)	-	(13)	(1)	(18)
Balance as of December 31, 2021	4,406	359	118	53	4,936
Depreciation for the year	**223**	**98**	**20**	**7**	**348**
Deduction of depreciation	**(9)**	**(165)**	**(82)**	**(21)**	**(277)**
Balance as of December 31, 2022	**4,620**	**292**	**56**	**39**	**5,007**
Amortized balance as of December 31, 2021	1,084	234	53	12	1,383
Amortized balance as of December 31, 2022	**1,171**	**238**	**64**	**7**	**1,480**

The Group purchases, in the ordinary course of business some of its fixed assets on credit. The cost of acquisitions, which has not yet been paid at the reporting date, amounted to NIS 208 million (December 31, 2021 and 2020, NIS 155 million and NIS 167 million, respectively).

Note 13 - Intangible Assets and Others, net

A. Composition:

	Software and computer licenses	Information systems	Customer acquisition cost	Goodwill	Customer relations and other	Total
			NIS millions			
Cost						
Balance as of January 1, 2021	674	303	586	1,563	455	3,581
Additions	2	59	135	-	-	196
Deductions	-	(19)	-	-	-	(19)
Balance as of December 31, 2021	676	343	721	1,563	455	3,758
Additions	**8**	**71**	**152**	**-**	**-**	**231**
Deductions	**(9)**	**(118)**	**-**	**-**	**-**	**(127)**
Balance as of December 31, 2022	**675**	**296**	**873**	**1,563**	**455**	**3,862**
Accumulated depreciation						
Balance as of January 1, 2021	511	159	407	-	316	1,393
Depreciation for the year	22	69	143	-	21	255
Deduction of depreciation	-	(19)	-	-	-	(19)
Balance as of December 31, 2021	533	209	550	-	337	1,629
Depreciation for the year	**18**	**60**	**107**	**-**	**21**	**206**
Deduction of depreciation	**(9)**	**(118)**	**-**	**-**	**-**	**(127)**
Balance as of December 31, 2022	**542**	**151**	**657**	**-**	**358**	**1,708**
Amortized balance as of December 31, 2021	143	134	171	1,563	118	2,129
Amortized balance as of December 31, 2022	**133**	**145**	**216**	**1,563**	**97**	**2,154**

The Group purchases in the ordinary course of business some of its Intangible assets on credit. The cost of acquisitions, which has not yet been paid at the reporting date, amounted to NIS 42 million (December 31, 2021 and 2020, NIS 29 million and NIS 67 million, respectively).

B. Impairment testing for cash-generating units containing goodwill

The recoverable amount of each of the Company's cash-generating units was evaluated by the company with the assistance of an independent external appraiser using the Value In Use model which was calculated using discounted cash flows method based on a projected five-year cash flows including a representative year. The five-year projected cash flows were estimated in light of the long-term growth rate. The Company used a relevant discount rate, which reflected the specific risks associated with the future cash flows of its cash-generating units. The carrying amount of the goodwill allocated to the cellular-segment and fixed-line segment as of December 31, 2021 amount NIS 831 million and NIS 732 million, respectively.

Actual results may differ from those assumed in the Company's valuation method. It is reasonably possible that the Company's assumptions described above could change in future periods. If any of these were to vary materially from the Company's plans, it may record impairment of goodwill in the future.

Note 13 - Intangible Assets and Others, net (cont'd)

B. Impairment testing for cash-generating units containing goodwill (cont'd)

These assumptions are as follows:

	Cash generating unit Cellular segment	Cash generating unit Fixed-line segment
Pre-tax discount rate	**11.07%**	**10.92%**
Terminal value growth rate	**1.5%**	**1%**
ARPU	**NIS 39**	**N/R**

1. The discount rate and the terminal value growth rate are denominated in real terms.
2. The cash generating units have cash flows for 5 years including a representative year, as included in their discounted cash flow model.
3. The long-term growth rate has been determined as 1.5% which represents, among others, the natural population growth rate.
4. The pre-tax discount rate is estimated and calculated using several assumptions, among others, cash generating units' Cost of Equity, risk premium for normative debt leveraging of the Group and estimates of the normative leverage ratio for the industry.
5. ARPU (Average revenue per user) in terminal year (except revenue from hosting services and national roaming services), in NIS.

Sensitivity to changes in assumptions

The estimated recoverable amount of the cash generating units exceeds their carrying amount by approximately NIS 589 million and NIS 896 million in Cellular segment and Fixed-line segment respectively. Management has identified key assumptions for which there reasonably could be a possible change that could cause the carrying amount to exceed the recoverable amount. The table below shows the amount that these assumptions are required to change individually in order for the estimated recoverable amount to be equal to the carrying amount:

	Cash generating unit Cellular segment	Cash generating unit Fixed-line segment
Pre-tax discount rate	**12.82%**	**15.1%**
Terminal value growth rate	**(0.37)%**	**(4.23)%**
ARPU	**NIS 37.37**	**N/R**

Based on the above valuation performed, the Company concluded that the recoverable amount of its cash generating units as of December 31, 2022, is higher than their carrying amount and thus, no impairment was recognized.

Determination of the fair value of cash generating units requires significant discretion, including considerations regarding the appropriate capital rates, final growth rates, weighted costs of capital and, the amount and timing of the expected future cash flows. the Company will continue to monitor the recoverable amount of its cash generating units to determine whether events and changes in circumstances such as deterioration in the business climate or operating results, continuous decline in the share price, changes in management’s business strategy or downward adjustments to the Company’ cash flows projections, warrant further impairment testing in future periods.

Note 14 – Leases

A. From January 1, 2019, the Group implements IFRS 16, Leases. The Group's mainly leases are assets used for cell and switches sites, buildings and motor vehicles.

B. Right-of-use Assets and Investment Property

	Cell and switches sites	Buildings	Motor vehicles	Total	Investment property	Total
	Right of use assets					
	NIS millions					
Cost						
Balance as of January 1, 2021	766	192	68	1,026	26	1,052
Additions, changes in agreements and revaluation	88	199	14	301	-	301
Deductions for ended agreements	(100)	(105)	(13)	(218)	-	(218)
Balance as of December 31, 2021	**754**	**286**	**69**	**1,109**	**26**	**1,135**
Additions, changes in agreements and revaluation	**291**	**45**	**16**	**352**	**3**	**355**
Deductions for ended agreements	**(101)**	**(10)**	**(32)**	**(143)**	-	**(143)**
Balance as of December 31, 2022	**944**	**321**	**53**	**1,318**	**29**	**1,347**
Cumulated depreciation and devaluation						
Balance as of January 1, 2021	275	99	26	400	13	413
Depreciation for year	137	51	23	211	-	211
Change in fair value of real estate for investment	-	-	-	-	7	7
Deductions for ended agreements	(98)	(11)	(11)	(120)	-	(120)
Changes in agreements and revaluation	(5)	-	-	(5)	-	(5)
Balance as of December 31, 2021	**309**	**139**	**38**	**486**	**20**	**506**
Depreciation for year	**149**	**38**	**24**	**211**	-	**211**
Change in fair value of real estate for investment	-	-	-	-	**8**	**8**
Deductions for ended agreements	**(52)**	**(11)**	**(31)**	**(94)**	-	**(94)**
Changes in agreements and revaluation	**52**	**-1**	-	**51**	-	**51**
Balance as of December 31, 2022	**458**	**165**	**31**	**654**	**28**	**682**
Amortized cost balance as of December 31, 2021	445	147	31	623	6	629
Amortized cost balance as of December 31, 2022	**486**	**156**	**22**	**664**	**1**	**665**

Note 14 – Leases (cont'd)

C. Leases liabilities

	Cell and switches sites	Buildings	Motor vehicles	Total
	NIS millions			
Balance as of January 1, 2021	512	113	46	671
Additions for new contracts, changes in agreements and revaluation	98	211	13	322
Deductions for ended agreements	(1)	(92)	(3)	(96)
Financing expenses	18	4	1	23
Payments for lease	(168)	(65)	(25)	(258)
Balance as of December 31, 2021	**459**	**171**	**32**	**662**
Additions for new contracts, changes in agreements and revaluation	278	50	16	344
Deductions for ended agreements	(50)	-	(1)	(51)
Financing expenses	22	5	1	28
Payments for lease	(187)	(65)	(25)	(277)
Balance as of December 31, 2022	**522**	**161**	**23**	**706**
Current maturities of liabilities for leases	105	56	23	184
Liabilities for long-term leases	354	115	9	478
Balance as of December 31, 2021	**459**	**171**	**32**	**662**
Current maturities of liabilities for leases	135	35	15	185
Liabilities for long-term leases	387	126	8	521
Balance as of December 31, 2022	**522**	**161**	**23**	**706**

D. Options to extend the lease

Some leases of buildings that the Group leases contain an option to extend the lease that was not taken into account in the calculation of the lease liability in light of the management estimate regarding the prospects of not exercising the option. Extending the period of the lease following exercise of the option shall lead to an increase to the leases liability by approximately NIS 34 million (based on the last Capitalization rate).

Note 15 - Trade Payables and Accrued Expenses

Composition

	As of December 31,	
	2021	2022
	NIS millions	
Trade payables	384	**474**
Accrued expenses	353	**317**
	737	**791**

Trade payables as of December 31, 2022 includes reverse factoring of trade payables transactions in amount of approximately NIS 60.2 million (in 2021 - NIS 36.5 million).

Note 16 - Provisions

Composition

	Dismantling and restoring sites	Legal claims	Other contractual liabilities	Total
	NIS millions			
Balance as of January 1, 2021	30	59	117	206
Provisions created in the year	1	50	2	53
Provisions cancelled in the year	(2)	(27)	(92)	(121)
Balance as of December 31, 2021	29	82	27	138
Provisions created in the year	**-**	**10**	**4**	**14**
Provisions cancelled in the year	**(5)**	**(31)**	**(9)**	**(45)**
Balance as of December 31, 2022	**24**	**61**	**22**	**107**
Non-current	**24**	**-**	**-**	**24**
Current	**-**	**61**	**22**	**83**
	24	**61**	**22**	**107**

Dismantling and restoring sites

The Group is required to incur certain costs in respect of a liability to dismantle and remove assets and to restore sites on which the assets were located. These dismantling costs are calculated on the basis of the identified costs for the current financial year, extrapolated for future years using the best estimate of future trends in prices, inflation, etc., and are discounted at a risk-free rate. Forecast of estimated site departures or asset returns is revised in light of future changes in regulations or technological requirements.

Litigations

The Group is involved in a number of legal claims and other disputes with third parties. The Group's management, after taking legal advice, included provisions in the financial statements which are credited and attributed specifically to each case. The timing of cash outflows associated with legal claims cannot be reasonably determined. For detailed information regarding legal proceedings against the Group, refer to Note 32.

Other contractual obligations

Provisions for other contractual obligations and exposures include various obligations that are derived either from a constructive obligation or legislation for which there is a high uncertainty regarding the timing and amount of future expenditure required for settlement.

Note 17 - Other Payables, Including Derivatives

Composition

	As of December 31,	
	2021	2022
	NIS millions	
Employees and related liabilities	114	**119**
Government institutions	33	**43**
Interest payable	55	**58**
Accrued expenses	41	**10**
Deferred revenue	43	**44**
Derivative financial instruments	4	**-**
	290	**274**

Note 18 - Other Long-term Liabilities

Composition

	As of December 31,	
	2021	2022
	NIS millions	
Long-term liabilities	-	**21**
Deferred revenue	1	**3**
Other	-	**8**
	1	**32**

Note 19 - Debentures and Long-term Loans from Financial Institutions

A. This note provides information about the contractual terms of the Group's debentures and long-term loans from financial institutions, which are measured at amortized cost. For more information about the Group’s exposure to interest rate, foreign currency and liquidity risks, see Note 23.

	December 31,	
	2021	2022
	NIS millions	
Non-current liabilities		
Debentures	2,373	**2,317**
	2,373	**2,317**
Current liabilities		
Current maturities of debentures	383	**587**
	383	**587**

Note 19 - Debentures and Long-term Loans from Financial Institutions (cont'd)

B. The terms and debt repayment schedule

1. Debentures

The terms and repayment schedule of the Company's debentures are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2021 Face value	December 31, 2021 Carrying amount	December 31, 2022 Face value	December 31, 2022 Carrying amount
				NIS millions			
Debentures (Series H) - linked to the Israeli CPI	NIS	1.98%	2018-2024	456	450	**304**	**320**
Debentures (series I) - unlinked	NIS	4.14%	2018-2025	450	442	**338**	**333**
Debentures (Series J) - linked to the Israeli CPI	NIS	2.45%	2021-2026	88	90	**72**	**78**
Debentures (series K) - unlinked	NIS	3.55%	2021-2026	604	602	**497**	**496**
Debentures (series L) - unlinked	NIS	2.50%	2023-2028	1,225	1,172	**1,330**	**1,286**
Debentures (series M) - unlinked	NIS	4.73%	2025-2030	-	-	**395**	**391**
Total debentures				2,823	2,756	**2,936**	**2,904**

2. In August 2022 Maalot updated the Company’s rating forecast from 'ilA' with stable outlook to 'ilA' with positive outlook thus no change was made to the annual interest rates following such update.

3. In connection with the issue of Series H-M debentures, the Company has undertaken to comply with certain financial and other covenants. Inter alia:
   a. An undertaking not to distribute more than 95% of the profits suitable for distribution under the Companies Law (the “**Profits**”); provided (1) if the Company’s net debt to EBITDA ratio exceeds a ratio of 3.5:1, the Company shall not distribute more than 85% of the Profits; (2) if the Company’s net debt to EBITDA ratio exceeds 4:1, the Company shall not distribute more than 70% of the Profits; and (3) of the Company’s net debt to EBITDA ratio exceeds 5:1 or 4.5:1 for a duration of four consecutive quarters and/or if the Company equity will be less than NIS 700 million, for two consecutive quarters (series M only), the Company shall not distribute dividends.
   b. An undertaking to rate the debentures through a rating company (insofar as this is under the Company’s control).
   c. An undertaking to pay additional interest at a rate of 0.25% for a two point decrease in the rating of the debentures Series H to K, 0.25% for one point decrease in the rating of the debenture series M and 0.5% for a two point decrease in the rating of debentures Series L, and additional interest of 0.25% for any one point decrease in the rating of the debentures, up to a maximum addition of 1%, compared to their rating before being issued.
   d. The Company’s undertaking not to issue additional debentures of any series should the Company fail to meet the financial criteria, or if such issue shall cause a decrease in the debentures’ rating.
   e. The net debt to EBITDA ratio is the ratio between the Company’s net debt and the adjusted EBITDA in a period of 12 consecutive months, neutralizing non-recurring events. In this respect, “net debt” is defined as credit and loans from banking and other corporations (without obligations for leases arising from the implementation of IFRS 16) and obligations for debentures, less cash and cash equivalents and current investments in marketable securities. “Adjusted EBITDA” – see definition in Note 6.

As of December 31, 2022, the Group is in compliance with the criteria that were determined.

Note 19 - Debentures and Long-term Loans from Financial Institutions (cont'd)

B. The terms and debt repayment schedule (cont'd)

4. In addition, the Company's debentures include Events of Default, including:
   a. An undertaking not to create pledges (negative pledge), subject to certain exceptions. Failure to fulfill such undertaking shall be deemed a cause for acceleration.
   b. Acceleration of a different debt of the Company (cross default) by a lender that is not a supplier, except with respect to a debt of NIS 150 million or less. The restriction on accelerating such debt shall not apply to a cross default that was caused by a different series of the Company's debentures.
   c. A case where the Company shall cease to act in the field of cellular communications and/or ceased to hold its cellular license for a period exceeding 60 days.
   d. A suspension of trading the debentures on TASE, for a period exceeding 45 days.
   e. Making a distribution that does not comply with the Company's undertaking with respect to the restrictions on distributing Profits.
   f. Failure to rate the debenture for a period exceeding 60 days.
   g. A motion or court order for stay of proceedings against the Company or submitting a motion for a creditors arrangements.
   h. Selling a material part of the Company's assets or merger (except for certain exceptions).
   i. Failure to publish financial statements on time.
   j. A net debt to EBITDA ratio exceeding 1:5, or exceeding 1:4.5 for four consecutive quarters. Net debt to EBITDA ratio as of December 31, 2022 is 1.71.
   k. Failure to comply with the Company's undertaking not to create pledges.
   l. A material deterioration of the Company's business compared to its situation on the issue date of the debentures, and a real concern that the Company may not repay the debentures on time.
   m. There is real concern that the Company shall not fulfill its material undertakings towards its debenture holders.
   n. Including a comment in the Company's financial statements regarding the concern of the Company's continued existence as a "going concern" for a period of two consecutive quarters.
   o. A breach of the Company's undertakings with respect to the issue of additional debentures.

5. In July 2022, the company issued debenture, through the expansion of an existing series of debentures (series L), in the amount of 105 million par value and in exchange for a total amount of approximately NIS 100 million, which reflects an annual effective interest rate of 4.5%.

6. In September 2022, the company issued debenture (series M) in the amount of 395 million par value and in exchange for a total amount of approximately NIS 391 million (gross amount of approximately NIS 395 million).
   Debentures bearing fixed annual interest at the rate of 4.73%, interest shall be paid semi-annually, on 5 January and on 5 July of each of the years 2023 to 2029 (inclusive). Principal to be repaid in six unequal annual installments as described: 5% of the principal shall be paid on 5 January 2025, 10% of the principal shall be paid on 5 January 2026, 15% of the principal shall be paid on 5 January of each of 2027 and 2028 and 27.5% of the principal shall be paid on 5 January of each of 2029 and 2030.

Note 19 - Debentures and Long-term Loans from Financial Institutions (cont'd)

C. In February 2022 the Company engaged with an institutional entity (the “Lender”) under an agreement for providing a credit facility of up to NIS 250 million, for a period of 24 months from the date of providing the credit facility (the “Credit Facility”) that shall allow the Company to receive loans, per the Company’s selection, not linked to any index, of two kinds:

1. Short-term loans to be repaid from time to time and pursuant to the company’s choice until 24 months after the date the credit facility was provided. The loans shall bear variable interest according to the interest rate of the Bank of Israel Interest plus a margin to be determined between the parties. The interest shall be repaid quarterly
2. Long-term loans to be repaid in equal semi-annual installments from the date the loans were provided until 7 years after the date the credit line was provided. The loans shall bear variable interest at the rate of the Bank of Israel Interest or fixed interest at the government bond yield rate as it shall be on the date the loan is provided, as per the Company’s choice, a margin to be determined between the parties. The interest shall be repaid in quarterly installments.

The Company shall pay the lender on each of the interest payment dates, a fee for failing to utilize the credit facility at a rate to be determined between the parties, from the unutilized credit line amount. Provision of the loan is contingent upon the Company complying with its representations and undertakings according to the agreement, on no occurrence of an event of default and on the absence of legal impediment on the lender to extend the loan.

The agreement is not secured by security interests and includes generally accepted terms and undertakings, including a restriction on creating charges subject to certain exceptions, restrictions on a distribution of profits, financial stipulations and events of default that generally also apply with respect to the bonds (series H – M) of the Company, with certain changes, and an option for early redemption, under certain conditions.

As of 31 December, 2022, the credit facility has not yet been used.

Note 19 - Debentures and Long-term Loans from Financial Institutions (cont'd)

D. Movement in liabilities deriving from financing activities

	Loans	Debentures	Derivatives	Interest payable	Total
	NIS millions				
Balance as of January 1, 2021	(188)	(3,099)	(8)	(62)	(3,357)
Changes from financing cash flow					
Repayment of loans, debentures and derivativec contracts	188	389	(2)	-	575
Interest paid	-	-	-	100	100
Total cash, net, deriving from financing activities	188	389	(2)	100	675
Other changes	-	-	9	-	9
Financing expenses recognized in profit or loss	-	(46)	(3)	(93)	(142)
Balance as of December 31, 2021	-	(2,756)	(4)	(55)	(2,815)
Changes from financing cash flow					
Repayment of loans, debentures and derivative contracts	**-**	**396**	**(11)**	**-**	**385**
Proceeds from issuance of debentures, net of issuance costs		**(491)**	**-**	**-**	**(491)**
Interest paid	**-**	**-**	**-**	**82**	**82**
Total cash, net, deriving from financing activities	**-**	**(95)**	**(11)**	**82**	**(24)**
Other changes	-	-	-	-	-
Financing expenses recognized in profit or loss	**-**	**(53)**	**19**	**(85)**	**(119)**
Balance as of December 31, 2022	**-**	**(2,904)**	**4**	**(58)**	**(2,958)**

Note 20 - Liability for Employee Rights upon Retirement, Net

The obligation of the Group, under law and labor agreements, to pay severance pay to employees who are not covered by the pension or insurance plans as mentioned in section A below, as of December 31, 2022 and 2021 is NIS 10 million and NIS 13 million respectively, and they are presented in the consolidated statements of financial position, under Liability for employee rights upon retirement, net.

A. Post-employment benefit plans - defined contribution plan

The Group’s liability for severance pay for its employees is calculated pursuant to Israeli Severance Pay Law. The Group’s liability is mostly covered by monthly deposits with severance pay funds, insurance policies and by an accrual on the consolidated statements of financial position. For most of the Group's employees, the payments to pension funds and to insurance companies exempt the Group from any obligation towards its employees, in accordance with Section 14 of the Severance Pay Law-1963. Accumulated amounts in pension funds and in insurance companies are not under the Group's control or management and accordingly, neither those amounts nor the corresponding accrual for severance pay are presented in the consolidated statements of financial position.

B. Post-employment benefit plans - defined benefit plan

Severance payments which is not covered against deposits in defined contribution plans, as aforementioned, are accounted for by the Group as a defined benefit plan, according to which a liability for employee benefits is recognized and in respect of which, the Group deposits amounts in central severance pay funds and in appropriate insurance policies. The total liability as at December 31, 2022 is NIS 16 million (2021 - NIS 19 million). The fair value of the plan assets, the severance pay fund, is NIS 11 million (2021 - NIS 11 million). The expense recognized in the consolidated statement of income for the year ended December 31, 2022 in respect of defined benefit plans, is NIS 1 million (2021 - NIS 1 million).

C. As of December 31, 2022, the Group's liability for adaptation grants to employees is NIS 5 million (31 December, 2021 - NIS 5 million).

Note 21 - Capital and Reserves

A. Share capital

	2020	2021	2022
		NIS millions	
Issued and paid at January 1	1,472,885	1,627,758	1,633,213
Exercise of share options	154,873	5,455	15,839
Issued and paid at December 31	1,627,758	1,633,213	1,649,052

The share capital is comprised of ordinary shares of NIS 0.01 par value each.

1. In May 2020, the Company issued to the public:
   A. NIS 222,000,000 par value debentures Series L (for information see Note 19).
   B. 2,220,000 Series 4 Options. Each Option entitled its holder to purchase one ordinary share at an exercise price of NIS 9.6, as of September 30, 2020.

2. Until June 30, 2020, 7,024,194 Series 3 Options were exercised, while the balance expired. Until September 30, 2020, 8,644,981 Series 4 Options were exercised, while the balance expired. The total proceeds received from exercising the Options in the reporting period was NIS 140 million.

3. On December 31, 2022, 2021 and 2020, the authorized share capital was comprised of 300 million ordinary shares.

B. Basic and diluted earnings (loss) per share

The calculation of basic earnings (loss) per share was based on the profit (loss) attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding (164,050,212, 162,775,715 and 153,751,724 during the years 2022, 2021 and 2020, respectively). In 2020, the basic loss per share was adjusted to the diluted loss since the effect of the exercise addition of the Options is anti-dilutive.

The average market value of the Company’s shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

Note 22 - Share-Based Payments

In March 2015, the Company's board of directors approved shared based incentive plan - "2015 Share Incentive Plan" for employees, directors, consultants and sub-contractors of the Company and the Company's affiliates. Under the plan, the Company's board of directors is authorized to determine the terms of the grants, including the identity of grantees, the number of options or restricted stock units ("RSUs") to be granted, the vesting schedule and the exercise price. The terms of the share based payments include a dividend adjustment mechanism. The options will be exercised at net exercise mechanism, with no cash transfer.

The details of the grants:

Grant date/ Employees entitled	**Number of instruments In thousands**	**Instruments conditions**	**Vesting conditions**	**Contractual life of options**	**Adjusted exercise price per share as of December 31, 2022**
Share options granted in May 2019 to employees	2,944	Exercisable into one share of NIS 0.01 par value, at the market price.	Four equal portions over four years of employment	5 years	NIS 15.66
Restricted stock units (RSU) granted in May 2019 to senior employees	686	At fixed dates, the RSU is exercisable into one share of NIS 0.01 par value.	Four equal portions over four years of employment	5 years	-
Restricted stock units (RSU) granted in May 2019 to non-profit organization employees	333	At fixed dates, the RSU is exercisable into one share of NIS 0.01 par value.	Two equal portions over two years	2 years	-
Share options granted in January 2020 to the CEO	4,153	Exercisable into one share of NIS 0.01 par value, at the market price.	Five equal portions over five years of employment	8 years	NIS 14.2-17.25
Share options granted to employees in July 2020	2,407	Exercisable into one share of NIS 0.01 par value, at the market price.	Four equal portions over four years of employment	5 years	NIS 12.35
Restricted stock units (RSU) granted in July 2020 to employees	629	At fixed dates, the RSU is exercisable into one share of NIS 0.01 par value.	Four equal portions over four years of employment	5 years	-
Share options granted in August -December 2020, to senior employees	4,930	Exercisable into one share of NIS 0.01 par value, at the market price.	Three equal portions over three years of employment	4 years	NIS 13.00-18.7
Share options granted in January 2021, August 2021, to senior employees	1,105	Exercisable into one share of NIS 0.01 par value, at the market price.	Three equal portions over three years of employment	4 years	NIS 14.8-19.7
Share options granted to senior employees in August and October 2021	1,195	Exercisable into one share of NIS 0.01 par value, at the market price.	Three equal portions over three years of employment	4 years	NIS 11.4-14.8

Note 22 - Share-Based Payments (cont'd)

Grant date/ Employees entitled	Number of instruments In thousands	Instruments conditions	Vesting conditions	Contractual life of options	Adjusted exercise price per share as of December 31, 2021
Share options granted to the CEO in January 2020	1,124	Exercisable into one share of NIS 0.01 par value, at the market price.	Five equal portions over three years of employment	8 years	NIS 18.3- 21.9
Share options granted to senior employees in March 2022	3,125	Exercisable into one share of NIS 0.01 par value, at the market price.	Three equal portions over three years of employment	4 years	NIS 18.4
Restricted stock units (RSU) granted in March 2022 to employees	851	At fixed dates, the RSU is exercisable into one share of NIS 0.01 par value.	Four equal portions over four years of employment	5 years	-
Share options granted to senior employees in March 2022	942	Exercisable into one share of NIS 0.01 par value, at the market price.	Four equal portions over four years of employment	5 years	NIS 18.6- 20.4
Share options granted to senior employees in June 2022	2,429	Exercisable into one share of NIS 0.01 par value, at the market price.	Three equal portions over three years of employment	4 years	NIS 18.4- 20.2

The changes in the balances of the options were as follows:

	Number of Options (thousands)	Weighted average of exercise price (NIS)	Number of Options (thousands)	Weighted average of exercise price (NIS)	Number of Options (thousands)	Weighted average of exercise price (NIS)
	2022		**2021**		**2020**	
Balance as at January 1	**13,358**	**14.9**	13,389	14.7	3,564	17.8
Granted during the year	**8,002**	**19.7**	2,300	15.7	11,490	14.5
Forfeited during the year	**(4,942)**	**15.8**	(972)	15.0	(1,639)	19.9
Exercised during the year	**(5,532)**	**14.6**	(859)	13.3	(26)	15.7
Total options outstanding as at December 31	**11,386**	**17.5**	13,858	14.9	13,389	14.7
Total of exercisable options as at December 31	**1,003**	**14.9**	2,923	14.7	579	15.8

The weighted average of the remaining contractual life of options outstanding as at December 31, 2022 is 2.7 years.

Note 22 - Share-Based Payments (cont'd)

Fair value of share options and assumptions:

The fair value of employee stock options was measured using the Black and Scholes model. The model assumptions include the share price at the measurement date, expected volatility based on historical volatility in the company's shares, life of instruments based on past experience and risk-free interest rate.

	2020	2021	2022
Fair value at grant date in NIS	2.2-4.3	2.7-3.7	**3.1-5.9**
Fair value assumptions:			
Share price at grant date NIS	11.1-15.8	10.8-13.9	**15.1-18.3**
Exercise price NIS	12.3-18.7	11.4-19.7	**18.3-21.9**
Expected volatility (weighted average)	38.2%-52.4%	49.5-51%	**45.6%-48.8%**
Option life (expected weighted average life)	3.8	2.3	**3.1**
Risk free interest rate	0.05%-0.5%	0.05%-0.25%	**0.1%-1.9%**

The changes in the balances of the RSU were as follows:

	Number of RSU (thousands)		
	2020	2021	2022
Balance as at January 1	987	1,104	**587**
Granted during the year	629	-	**851**
Forfeited during the year	(203)	(102)	**(108)**
Exercised during the year	(309)	(415)	**(218)**
Total RSU outstanding as at December 31	1,104	587	**1,112**

	2020	2021	2022
		NIS	
Fair value of restricted stock units:			
Fair value of restricted stock units at grant date	11.1	-	**16.5**

	2020	2021	2022
		NIS Millions	
Salary expenses arising from share-based payments (NIS millions)	20	15	**23**

Note 23 - Financial Instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	As of December 31,	
	2021	2022
	NIS millions	
Trade receivables including long-term amounts	1,085	**1,053**
Loans and other receivables, including long-term amounts	25	**40**
Investment in debt securities and deposits	23	**143**
Cash and cash equivalents in banks	644	**773**
Derivative financial instruments	-	**5**
	1,777	**2,014**

The maximum exposure to credit risk of financial assets at the reporting date by type of counterparty is:

	As of December 31,	
	2021	2022
	NIS millions	
Receivables from subscribers	930	**976**
Receivables from distributors and other operators	155	**77**
Deposits	23	**143**
Cash and cash equivalents in banks	644	**773**
Other	25	**45**
	1,777	**2,014**

Impairment losses

The aging of financial assets at the reporting date was as follows:

	Gross	Devaluation	Gross	Devaluation
	2021		2022	
	NIS millions			
Not past due	1,871	109	**2,084**	**97**
Past due less than one year	12	2	**25**	**2**
Past due more than on year	5	1	**5**	**1**
	1,888	112	**2,114**	**100**

Note 23 - Financial Instruments (cont'd)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2021	2022
	NIS millions	
Balance as of January 1	177	**112**
Write-off of lost debts	(69)	**(14)**
Doubtful debt expenses	4	**2**
Balance as of December 31	112	**100**

The allowance accounts in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the amount considered irrecoverable is written off against the trade receivable directly.

Liquidity risk

The following are the maturities of contractual financial liabilities and other non-contractual liabilities, including estimated interest payments and excluding the impact of netting agreements:

	As of December 31, 2022						
	Carrying amount	Contractual cash flow	First year	Second year	Third year	Four to five years	More than five years
	NIS millions						
Debentures*	**(2,962)**	**(3,284)**	**(688)**	**(674)**	**(554)**	**(797)**	**(571)**
Trade and other payables	**(967)**	**(967)**	**(967)**	**-**	**-**	**-**	**-**
Other long-term liabilities	**(24)**	**(24)**	**(21)**	**(3)**	**-**	**-**	**-**
Lease liabilities	**(706)**	**(728)**	**(196)**	**(141)**	**(101)**	**(144)**	**(146)**
	(4,659)	**(5,003)**	**(1,872)**	**(818)**	**(655)**	**(941)**	**(717)**

	As of December 31, 2021						
	Carrying amount	Contractual cash flow	First year	Second year	Third year	Four to five years	More than five years
	NIS millions						
Debentures*	(2,811)	(3,121)	(473)	(645)	(628)	(867)	(508)
Trade and other payables	(932)	(932)	(932)	-	-	-	-
Forward exchange contracts on foreign currencies	(4)	(4)	(4)	-	-	-	-
Other long-term liabilities	(1)	(1)	-	(1)	-	-	-
Lease liabilities	(662)	(728)	(196)	(141)	(101)	(144)	(146)
	(4,410)	(4,786)	(1,605)	(787)	(729)	(1,011)	(654)

* Including accrued interest

Note 23 - Financial Instruments (cont'd)

Currency risk and CPI

The Group's exposure to foreign currency risk and CPI is as follows:
The Group's exposure to linkage and foreign currency risk in respect of derivatives is as follows:

	December 31, 2021			December 31, 2022		
	In or linked to foreign currency (mainly USD)	Linked to CPI	Unlinked	In or linked to foreign currency (mainly USD)	Linked to CPI	Unlinked
	NIS millions			NIS millions		
Current assets						
Cash and cash equivalents	31	-	613	**25**	**-**	**748**
Current investments, including derivatives	-	-	23	**-**	**-**	**143**
Trade receivables	45	-	882	**41**	**-**	**828**
Other receivables	-	12	11	**4**	**10**	**7**
Long-term assets						
Long-term receivables	-	2	158	**-**	**21**	**187**
Current liabilities						
Current maturities of debentures and loans from financial institutions	-	(166)	(217)	**-**	**(177)**	**(410)**
Trade payables and accrued expenses	(193)	-	(544)	**(227)**	**-**	**(564)**
Other current liabilities, including derivatives	(4)	(42)	(317)	**-**	**(30)**	**(287)**
Current maturities of lease liabilities	(2)	(178)	(4)	**(8)**	**(177)**	**(1)**
Long-term liabilities						
Debentures	-	(375)	(1,998)	**-**	**(221)**	**(2,096)**
Other non-current liabilities	-	-	(42)	**-**	**(8)**	**(55)**
Long-term lease liabilities	(5)	(462)	(11)	**(22)**	**(497)**	**(2)**
	(128)	(1,209)	(1,446)	**(187)**	**(1,079)**	**(1,502)**

Note 23 - Financial Instruments (cont'd)

Currency risk and CPI (cont'd)

	December 31, 2022			
	Currency/linkage receivable	Currency/linkage payable	Face value	Fair value
			NIS millions	
Instruments not used for hedging				
Forward contracts on exchange rates	USD	NIS	**(85)**	**3**
Forward contracts on CPI	CPI	NIS	**(315)**	**-**
Foreign currency put options	NIS	USD	**(77)**	**-**

	December 31, 2021			
	Currency/linkage receivable	Currency/linkage payable	Face value	Fair value
			NIS millions	
Instruments not used for hedging				
Forward contracts on exchange rates	USD	NIS	(3)	(4)
Forward contracts on CPI	CPI	NIS	(240)	-
Foreign currency put options	NIS	USD	(70)	-

Sensitivity analysis

A change of the CPI as at December 31, 2021 and 2020 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2020.

		Equity	Net profit
	Change	NIS millions	
December 31, 2022			
Increase in the CPI of	2%	**(6)**	**(6)**
Increase in the CPI of	1%	**(3)**	**(3)**
Decrease in the CPI of	(1)%	**3**	**3**
Decrease in the CPI of	(2)%	**6**	**6**
December 31, 2021			
Increase in the CPI of	2%	(22)	(22)
Increase in the CPI of	1%	(11)	(11)
Decrease in the CPI of	(1)%	11	11
Decrease in the CPI of	(2)%	22	22

Sensitivity of change in foreign exchange rate is immaterial as at December 31, 2022 and 2021.

Note 23 - Financial Instruments (cont'd)

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments, not including derivatives, was:

	Carrying amount	
	2021	2022
	NIS millions	
Fixed rate instruments		
Financial liabilities	(2,756)	**(2,904)**
	(2,756)	**(2,904)**
Variable rate instruments		
Financial assets	505	**143**

Cash flow sensitivity analysis for variable rate instruments

A change of 1% in interest rates at the end of the reporting period would have increased (decreased) equity and profit or loss by immaterial amounts.

Fair Value

(1) Financial instruments measured at fair value for disclosure purposes only

The book value of certain financial assets and liabilities, including cash and cash equivalents, trade and other receivables, current investments, including derivatives, trade and other payables, including derivatives and other long-term liabilities, are equal or approximate to their fair value.

The fair values of the remaining financial liabilities and their book values as presented in the consolidated statements of financial position are as follows:

	December 31, 2022		December 31, 2021	
	Carrying amount	Fair value*	Carrying amount	Fair value*
	NIS millions		NIS millions	
Debentures, including current maturities and interest payable	(2,811)	(2,935)	**(2,962)**	**(2,916)**

* The fair value as of December 31, 2022 includes principal and interest in a total sum of approximately NIS 58 million, paid in January 2023, after the end of the reporting period.
The fair value as of December 31, 2022 includes principal and interest in a total sum of approximately NIS 55 million, paid in January 2022.

The fair value of marketable debentures is determined by reference to the quoted closing asking price at the reporting date (level 1), with the addition of principal and interest amounts, which were paid during the following month after the end of the reporting period.

Note 23 - Financial Instruments (cont'd)

Fair Value (cont'd)

(2) Fair value hierarchy of financial instruments measured at fair value

The table below analysis financial instruments carried at fair value, by valuation method, to the different levels.

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
	NIS millions			
Financial assets by fair value through profit or loss				
Current investments in debt securities	**143**	**-**	**-**	**143**
Derivatives	**-**	**6**	**-**	**6**
Total assets	**143**	**6**	**-**	**149**

There have been no transfers during the year between Levels 1 and 2.

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
	NIS millions			
Financial assets by fair value through profit or loss				
Current investments in debt securities and shares	23	-	-	23
Total assets	**23**	**-**	**-**	**23**
Financial liabilities by fair value through profit or loss				
Derivatives	-	(4)	-	(4)
Total liabilities	**-**	**(4)**	**-**	**(4)**

There have been no transfers during the year between Levels 1 and 2.

(3) Details regarding fair value measurement at Level 2

Financial instrument	Valuation method for determining fair value
Forward contracts	Fair value measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
Foreign currency options	Fair value is measured based on the Black-Scholes formula.

Note 23 - Financial Instruments (cont'd)

Fair Value (cont'd)

(4) Offset of financial assets and financial liabilities

The following table sets out the carrying amounts of recognized financial instruments that were offset in the consolidated statements of financial position:

	Note	December 31, 2022 Gross amount of financial assets (liabilities) recognized	Gross amount of financial assets (liabilities) recognized and offset in the consolidated statements of financial position	Net amount of financial assets (liabilities) presented in the consolidated statements of financial position
		NIS millions		
Financial assets				
Trade receivables	10	**127**	**(97)**	**30**
Financial liabilities				
Trade payables and accrued expenses	15	**(104)**	**97**	**(7)**

	Note	December 31, 2021 Gross amount of financial assets (liabilities) recognized	Gross amount of financial assets (liabilities) recognized and offset in the consolidated statements of financial position	Net amount of financial assets (liabilities) presented in the consolidated statements of financial position
		NIS millions		
Financial assets				
Trade receivables	10	241	(123)	118
Financial liabilities				
Trade payables and accrued expenses	15	(158)	123	(35)

Note 24 - Revenues

By type of revenue:

Composition

	For year ended December 31,		
	2020	2021	2022
		NIS millions	
Revenues from services			
Cellular services*	1,543	1,762	**1,865**
Land-line communications services	1,153	1,086	**1,150**
Other services	102	91	**96**
Total revenues from services	2,798	2,939	**3,111**
Revenues from sale of end equipment	878	1,161	**1,189**
Total revenues	3,676	4,100	**4,300**

* For 2022, 2021 and 2020, includes revenue from interconnection ("IC") services between Israeli operators in the amount of ILS 452 million, ILS 445 million and ILS 403 million, respectively.

Note 25 - Cost of Revenues

Composition

	For year ended December 31,		
	2020	2021	2022
		NIS millions	
According to its components			
Cost of equipment sold	757	977	**989**
Electricity, maintenance and technological network expenses	66	85	**82**
Salaries and other related expenses	196	162	**162**
Fees to communication operators	795	792	**848**
Cost of content	221*	198*	**189**
Depreciation and amortization	597	565	**559**
Frequencies fees	86	90	**94**
Other	82*	94*	**111**
Total cost of revenues from services	2,043	1,986	**2,045**
	2,800	2,963	**3,034**

*reclassified

Note 26 - Selling and Marketing Expenses

Composition

	For year ended December 31,		
	2020	2021	2022
	NIS millions		
Salaries and related expenses	251	288	**293**
Distributors' Commissions and customer service	78	75	**89**
Advertising and public relations	39	57	**56**
Depreciation and amortization	167	197	**158**
Collection fees	19	22	**20**
Other	26	27	**34**
	580	666	**650**

Note 27 - General and Administrative Expenses

Composition

	For year ended December 31,		
	2020	2021	2022
	NIS millions		
Salaries and related expenses	82	85	**98**
Depreciation and amortization	160	134	**113**
Maintenance and insurance	19	23	**26**
Data processing and professional services	28	25	**26**
Welfare expenses, car allowance and transportation workers	31	25	**27**
Other	10	9	**10**
	330	301	**300**

Note 28 - Other Income (Expenses), net

Composition

	For year ended December 31,		
	2020	2021	2022
	NIS millions		
Interest income from installment sale transactions	18	12	**11**
Profit of operating Contractor	23	39	**15**
Other	(3)	(7)	**18**
Other revenues (expenses), net	38	44	**44**

Note 29 - Financing Income and Expenses

Composition

	For year ended December 31,		
	2020	2021	2022
	NIS millions		
Net change in the fair value of financial assets measured by fair value through profit or loss	-	-	**18**
Interest revenues from loans	4	-	**1**
Other	6	3	**8**
Financing revenues	10	3	**27**
Net change in the fair value of financial assets measured by fair value through profit or loss	(19)	-	**-**
Interest expenses and index linkage differentials for long-term liabilities	(96)	(109)	**(111)**
Net change in the fair value of derivatives	(8)	-	**-**
Expenses from discount amortization	(29)	(31)	**(28)**
Financing expenses for liabilities for leases	(25)	(22)	**(26)**
Other	(5)	(6)	**(17)**
Financing expenses	(182)	(168)	**(182)**
Financing expenses, net	(172)	(165)	**(155)**

Note 30 - Income Tax

A. Details regarding the tax environment of the Group

Corporate tax rate

The tax rate relevant to the Group in the years 2020-2022 is 23%.

The deferred tax balances as at December 31, 2021 and at December 31, 2022 were calculated according to the tax rate of 23% - the tax rate expected to apply on the date of reversal.

Current taxes for the reported periods are calculated according to the tax rates presented above.

B. Composition of tax on income (tax benefit)

	For year ended December 31,		
	2020	2021	2022
	NIS millions		
Current tax expenses (income)			
Current year	4	6	**9**
Adjustments for past years, net	1	(1)	**7**
	5	5	**16**
Deferred tax income			
Creation and reversal of temporary differences	(44)	7	**29**
Tax on income (tax benefit)	(39)	12	**45**

Note 30 - Income Tax (cont'd)

C. Reconciliation between the theoretical tax on the pre-tax profit (loss) and the tax expense (income)

	For year ended December 31,		
	2020	2021	2022
	NIS millions		
Profit (loss) before taxes on income	(195)	44	**203**
Primary tax rate of the group	23.0%	23.0%	**23%**
Tax calculated according to the Group's primary tax rate	(45)	10	**47**
Addition (saving) tax in respect of:			
Non-deductible expenses	8	6	**8**
Taxes in respect of previous years	(1)	-	**-**
Other differences	(1)	(4)	**(10)**
Tax on income (tax benefit)	(39)	12	**45**

Note 30 - Income Tax (cont'd)

E. Recognized deferred tax assets and liabilities

Deferred taxes are calculated according to the tax rate anticipated to be in effect on the date of reversal as stated above.

The movement in deferred tax assets and liabilities is attributable to the following items:

	Provision to doubtful debts	Fixed assets and intangible assets	Deduction and losses for carrying for tax purposes	Other	Total
			NIS millions		
Deferred tax asset (liability) balance as of January 1, 2022	**25**	**(180)**	**76**	**39**	**(40)**
Changes recognized in profit or loss	**(4)**	**17**	**(31)**	**(4)**	**(22)**
Changes recognized in other profit or loss	**-**	**-**	**-**	**1**	**1**
Balance of deferred tax asset (liability) as at December 31, 2022	**21**	**(163)**	**45**	**36**	**(61)**
Deferred tax asset					**112**
Offset of balances					**(107)**
Deferred tax asset in the consolidated statements of financial position as at December 31, 2022					**5**
Deferred tax liability	**-**	**(169)**	**-**	**(4)**	**(173)**
Offset of balances					**107**
Deferred tax liability in the consolidated statements of financial position as at December 31, 2022					**(66)**

Note 30 - Income Tax (cont'd)

E. Recognized deferred tax assets and liabilities (cont'd)

	Provision to doubtful debts	Fixed assets and intangible assets	and losses for carrying for tax	Other	Total
			NIS millions		
Balance of deferred tax asset (liability) as at January 1, 2021	40	(188)	73	39	(36)
Changes recognized in profit or loss	(15)	8	3	(1)	(5)
Changes recognized in other comprehensive income	-	-	-	1	1
Balance of deferred tax asset (liability) as at December 31, 2021	25	(180)	76	39	(40)
Deferred tax asset	25	6	76	42	149
Offset of balances					(144)
Deferred tax asset in the consolidated statements of financial position as at December 31, 2021					5
Deferred tax liability	-	(186)	-	(3)	(189)
Offset of balances					144
Deferred tax liability in the consolidated statements of financial position as at December 31, 2021					(45)

F. Tax assessments

1. The Company has received final tax assessments up to and including the year ended December 31, 2017 (2017 fiscal year).

2. Golan Telecom Ltd. has received final tax assessments up to and including the year ended December 31, 2019 (2019 fiscal year).

3. Dynamica network stores Ltd. has received final tax assessments up to and including the year ended December 31, 2019 (2019 fiscal year).

Note 31 - Commitments

A. The Group has commitments regarding the license it was granted in 1994, including:

1. Not to pledge any of the assets used to execute the license without the advance consent of the Ministry of Communications.

2. The Company's shareholders' joint equity, combined with the Company's equity, shall not amount to less than US$ 200 million. Regarding this stipulation, a shareholder holding less than 10% of the rights to the Company's equity is not taken into account.

As of the date of singing the financial statements the Group is in compliance with the above conditions.

B. As at December 31, 2022, the Group has commitments to purchase equipment for the communications networks, end user equipment, systems and software maintenance, and content and related services, in a total amount of approximately NIS 293 million.

C. The Group has 2 agreements for purchase of rights of use (IRU):

1. Rights of use in communication lines to the global internet: The Group engaged in several agreements for the purchase of indefeasible rights of use (IRU) in certain communication capacities in communication lines connecting the Israeli internet to the global internet, as well as maintenance and operation services in connection with the foregoing communication lines. The agreement period in connection with most of the capacity is until May 2032. The balance of the liability from all of the existing agreements as of December 31, 2022, is NIS 15 million.

2. Rights of use in IBC's optic fiber infrastructure, for addition information NIS see Section F of this note.

D. Network sharing agreement with Wecom (previously- Marathon (018) Xfone):
Sharing agreement for the 4G and 5G Networks and hosting services for 2G and 3G Networks with Wecom, came into effect in April 2017, and updated in March 2022 (the "**Completion Da**te"), as part of creditor arrangement for Wecom (the "Sharing Agreement" or "Network Sharing Agreement"). Wecom began operating in the cellular market in April 2018.

The Sharing Agreement with Wecom sets the terms under which the shared 4G and 5G networks will operate, the terms under which hosting services for the 2G and 3G networks will be provided, and also determines, inter alia, the following terms:

1. Arrangements for using the parties' relevant frequencies; management and operation using a joint corporation (the "**Joint Corporation**"); arrangements of the parties' holding of active components of the shared network; arrangements for future investments in the shared network's active components; arrangements for an indefeasible right of use (IRU) of these components, of each sharing party towards the other sharing parties; the grant of an indefeasible right of use (IRU) from the Group to Wecom and to the Joint Corporation with respect to the shared network's passive components; arrangements for services the Group shall provide the Joint Corporation as a subcontractor; arrangements for the parties' separation; and arrangements for adding an additional joint party. The Sharing Agreement includes Wecom's undertaking to obtain from the Ministry of

Note 31 - Commitments (Cont'd)

D. Network sharing agreement with Wecom (previously- Marathon (018) Xfone) (Cont'd)

Communications an amended cellular license and allocation of frequencies under the 2020 Tender, and to pay the license and frequency fees thereunder to the Ministry of Communications.

2. **The agreement period** – The agreement is made for 10 years from the Completion Date. For circumstances allowing Wecom to shorten the period of the agreement to seven years, see below.

3. **The consideration –** The annual consideration to be received by the Group during the agreement period within the framework of the Wecom Agreement includes: (1) payment for the IRU on the active and passive components of the shared network; (2) payment for a certain share of Wecom in the cost of the active components of the shared network from the Completion Date; and (3) payment for participation in the regular operating costs of the shared network and the Group's 2G and 3G networks, according to the number of Wecom subscribers . The Company estimates that the total consideration from the Sharing Agreement, including participation in purchasing equipment for the shared network, shall amount to NIS 400-600 million over the period (10 years). In the Company's estimates, discounts as set forth in subsection (d) below, if granted, do not materially change the Company's estimates with respect to the total consideration from the Sharing Agreement, while shortening the agreement, if shortened, would proportionally reduce the total consideration.

4. **Call option, loan option and put option** – Clear Communications Holdings Limited Partnership – the controlling shareholder in Wecom after completing Wecom's creditors' arrangement ("Clear") was granted the possibility to obligate the Company to purchase all (100%) of Wecom's share capital within a period of three to five and a-half years of completing the transaction, in consideration for NIS 130 million (that could increase in certain instances) ("Call Option"). Should such Call Option, which is contingent upon obtaining regulatory approvals from the Ministry of Communications and the Director General of Competition, not be exercisable, clear shall have the option to obligate the Company to provide an interest bearing loan to Wecom in the same amount against collateral as agreed between the parties, and subject to applicable law ("Loan Option"). The Company is unable to estimate whether the Call Option shall be exercised, and if so, whether approvals necessary for exercising it shall be obtained and on what terms. The company cannot estimate whether the Call Option will be exercised, and if exercised, whether the required approvals will be obtained for purpose of its exercise and under what terms.

   Under certain circumstances, should it be impossible to exercise the Call Option and the Loan Option, Wecom shall be entitled to a certain discount for incremental payments it must pay the Company and shall be entitled to shorten the period of the agreement by three years (to seven years). Should Wecom decide to shorten the Sharing Agreement, the Company shall have the option to obligate the shareholders of Wecom to sell to the Company all of Wecom's issued and outstanding share capital for consideration of NIS 130 million, subject to regulatory approvals ("**Put Option**"). The Company cannot estimate whether circumstances shall exist as to confer the right to discounts, shortening the agreement or the Put Option, whether such rights shall be exercised and if the Put Option is exercised – whether regulatory approvals necessary for exercise shall be obtained and on what terms.

Note 31 - Commitments (Cont’d)

E. Collective employment agreements:

In April 2021, the Company and its subsidiary Dynamica, have entered into a collective employment agreement with the Company's employees' representatives and the Histadrut, an Israeli labor union, for a term of three years (2021-2023). The agreement includes policy and employment terms similar to those practiced with certain modifications, including a 3% average salary increase in 2022 and 2023 to entitled employees and mechanisms to allow the Company to improve its service level and operational excellence, among others, by constant improvement to our employees' quality and quantity. Employees' participation in the Company's gains – 12.5% over an annual operational net profit of NIS 400 million, divided quarterly, remains unchanged.

F. Investment agreements in IBC:

1. In September 2020, the Group engaged, together with IIF, in investment agreements with Hot Cable Communication Systems Ltd. (together with entities related to it) (“Hot”) in IBC. In addition to standard, customary terms, the transaction includes an obligation to significantly increase the deployment of IBC’s fiber-optic cable network (1.7 million households) in upcoming years, and most of the following:

   A. Investment agreements - between the IBC Partnership and Hot, in the framework of which Hot will become an equal partner in the IBC Partnership (so that each of the partners shall indirectly hold 23.3% of IBC’s share capital), by performing an investment that is materially identical to the investment performed by each of the Group and IIF, by the transaction completion date. In addition, the investment agreements include additional corporate governance rights and other mechanisms.
   B. An agreement for purchasing IRU in IBC’s fiber-optic infrastructure - between IBC and Hot, in the framework of which Hot undertakes to purchase indefeasible rights of use in IBC’s fiber-optic network.
   C. Service agreements - between IBC and Hot, in the framework of which IBC undertakes to purchase certain services from Hot and is permitted to purchase additional services.
   D. IBC also undertakes to continue purchasing from the Group certain services that are provided to it by the Group, beyond the completion date.

   In March 2023, after the reporting period, after the parties' negotiations, the Company's board of directors approved the Company's engagement in an Agreement with IBC (the "Agreement"), in which it was determined, among other things, that as of July 1, 2023, the Company's Group undertaking to purchase an indefeasible right of use (IRU) from IBC of IBC's infrastructure lines shall be not less than 12.5% of the customer's households in connected buildings to the IBC's network (instead of 10%, as of the date of this Agreement) and will reach 15% as of July 1, 2024, all regarding to the balance of the first service period.
   In view of IBC's undertaking to act to expand the scope of its infrastructure deployment beyond its obligations under the terms of its license, the Company's Group undertook that it will purchase IRU services on infrastructure lines exclusively from IBC, for a fixed period not less than 3 years and under certain conditions, all as detailed in the Agreement.
   In addition, it was agreed that the Company's Group will receive a quarterly discount at a variable rate for maintenance fees paid under the IRU agreement, starting from July 1, 2023 until December 31, 2025, in amounts that are not material to the Company.
   The signing of the Agreement is expected to take place in March 2023. It is clarified that there is no certainty that the Agreement will be signed, due to factors which are outside of the Company's control.

Note 32 - Contingent Liabilities

A. Legal actions

The Group is involved in various lawsuits against it deriving from the ordinary course of business. The costs that may result from these lawsuits are only accrued for when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded in the financial statements is based on a case-by-case assessment of the risk level, while events that occur in the course of the litigation may require a reassessment of this risk. The Group's assessment of risk is based both on the advice of its legal counsels and on the Group's estimate of the probable settlements amounts that are expected to be incurred, if such settlements will be agreed by both parties. The provision recorded in the financial statements in respect of all lawsuits against the Group amounted to NIS 61 million.

Most of the lawsuits and the motions for approval of class certification that are filed against the Group are claims by end customers of the Group, primarily for arguments regarding unlawful charges, conduct in violation of law or license, or breach of agreements with the customers, while causing pecuniary and non-pecuniary damages to the customers (hereinafter: "Consumer Claims"). In addition, various legal proceedings have been brought against the Group by employees, subcontractors, suppliers, authorities and others, most for arguments of violation of law with respect to termination of employment and mandatory payments to employees, arguments for breach of contract, copyright infringement, patent infringement and mandatory payments to authorities (hereinafter: "Other Claims").

Following the reporting period, a claim and a motion for approval as class action were filed against the Group, the amount of the claim was not specified, at this preliminary stage their prospects of success cannot be estimated. Also four claims ended (See more details below regarding one of the claims that ended) in an amount estimated by the plaintiffs at approximately NIS 47.5 million.

In February 2023, after the reporting period, a hearing was held on the appeal the company filed to the Supreme Court against the district court's class action ruling for which the company created a provision in the financial statements for 2021 in the amount of approximately ILS 32 million. During the hearing the Supreme Court rendered a judgment validating the parties' settlement whereby the company must refund its customers a reduced sum from the amount set aside in the financial statements. The company thus reduced accordingly the provision in the financial statements by approximately ILS 10 million (an increase of ILS 8 million in net profit).

Described hereunder are the outstanding lawsuits against the Group as of 31 December, 2022, classified into groups with similar characteristics. The amounts presented below are calculated based on the claims amounts as of the date of their submission to the Group:

Note 32 - Contingent Liabilities (cont'd)

A. Legal actions (cont'd)

Group of claims	The exposure amount for claims whose chances cannot yet be assessed	Exposure amount for claims without an estimate of chance of success	Total
Consumer Claims	1,156 (1) (2)	-	1,156
Other Claims	6	-	12
Total	**1,162**	**-**	**1,162**

(1) Including claims against the Group and other defendants together in a total amount of approximately NIS 300 million, without the Group noting the separate claim amount, and two additional claims against the Group and other defendants, while the amount being claimed from the Group was estimated by the plaintiffs at NIS 3 million.
(2) There are additional claims against the Group for which no claim amount was noted, for which Group may have additional exposure.

Described hereunder the number of amount of the claims as at December 31, 2022, broken down by amount of the claim:

Claim amount	Number of claims	Total claims amount (NIS millions)
Up to NIS 100 million *	32	454
NIS 100-500 million	1	405
Unquantified claims	14	-
Against the Group and other defendants together without specifying the amount claimed from the Group	1	300
Against the Group and other defendants together, in which the amount claimed from the Group has been quantified	1	3
Unquantified claims against the Group and other defendants	5	-
Total	**54**	**1,162**

* Including 20 claims filed against the Group by employees, subcontractors, suppliers, authorities and others as of December 31, 2022, with a total amount of approximately NIS 6 million.

B. Liens and guarantees

1. **Liens:** As part of issuance of the Series H to M debentures and the loan agreements which the Company entered into, the Company committed not to create liens on its assets, subject to certain exceptions.

2. **Guarantees:** The Group has given bank guarantees as follows:

   A. To government institutions - NIS 26 million.
   B. To suppliers and others - NIS 128 million.

Note 33 - Regulation and Legislation

A. In November 2021, legislative changes were enacted as part of the Economic Policy Law, 2021 (the Arrangements Law), regarding the promotion of retiring advanced communication infrastructures in Israel and reducing exposure to non-ionizing radiation, and as part thereof amended the existing regulation regarding exemption from building permits for the establishment, replacement or introduction of certain cellular sites and the inclusion of cellular sites in the definition of national infrastructure purposed with relaxing protocols for retiring communication infrastructures.

B. The company recruits internet customers on (IBC and Bezeq) fiber infrastructure and on Bezeq's copper infrastructure. In December 2022, the Ministry of Communications published forecast indicators for the demand for data capacity on the Bezeq network, which are used to determine the wholesale market rates for the copper infrastructure. These indicators led to an increase in wholesale market rates in the copper infrastructure for 2023. In addition, the ministry published an update regarding the wholesale market rates for fiber infrastructure in the Bezeq network, which have increased relative to 2022. These rates were reduced by Bezeq as part of the understandings it reached with the Ministry of Communications in connection with the approval of its IRU agreement with Partner.

C. In March 2020 the Ministry of Communications informed the Group and an additional cellular operator that they are required to switch from the 850 MHZ frequency band that was allocated to them, to the 800 MHZ frequency band, so that they shall resemble the European standards and the region where the State of Israel is located. As of the date of the report, the group's bandwidth in the 850 MHZ frequency band was reduced from 10 MHZ to 5 MHZ, and it was moved to a substitute band. At a later date to be determined, the frequency band in the 850 MHZ area shall be terminated, and instead the group shall be offered a frequency band that is completely in the 800 MHZ frequency band. The Ministry of Communications shall consider allocating part of the revenue from frequency tenders in the 800 or 900 MHZ frequency bands, if any such tenders shall be conducted, to accelerating the process of switching frequencies, as aforesaid. The completing of the foregoing switching of frequencies shall require material investments and replacing radio equipment in most of the group's cellular sites.

D. In August 2020, the company and Wecom, its partner in the shared network, gained additional frequencies for 4th and 5th generation services in exchange for the payment of license fees totaling ILS 115 million. In 2022, the company paid approximately ILS 70 million for the frequencies; and per company compliance with the eligibility conditions for the grant, the company received a refund of approximately ILS 26 million.

E. In December 2020, the Communications Law was amended updating the obligations of optical fiber deployment and the service delivery obligations of operators with a general license - owners of their own infrastructure (who were previously required to perform a universal deployment of each network they deploy), and establishing incentives to encourage the deployment of infrastructure in areas where no deployment obligation exists, based on economic viability tests. The group is mainly impacted by an additional 0.5% tax imposed on its annual revenue (as defined) starting in 2021 until the time the deployment obligation was set forth for each of the incentive zones.

F. In June 2021 the Ministry of Communications decided to shut down the 2G and 3G networks by the end of 2025. Such measure includes limitations on importing equipment that only supports such networks from the end of 2021 and limitations on connecting new subscribers holding such equipment from the end of 2022. Such measure shall allow the Group to save costs of operating those networks and utilize the vacant frequencies for improving performance of the 4G and 5G networks.

Note 33 - Regulation and Legislation (cont'd)

G. In June 2022, the Minister of Communications decided to amend the Communication (Bezek and Broadcasting) Regulations (Payments for Interconnection), 5742-1982. As part of the amendment, an outline has been set forth to gradually reduce interconnection fee rates for calls that end in networks of a cellular operator and a national domestic operator, such that said rate reduction will begin in June 2023 (the "Effective Date" and the "Reduction Framework" as applicable). According to the Reduction Framework, the maximum interconnection rates for calls will be reduced, in general, in two phases over 36 months from the Effective Date, at which point each operator shall bear its own costs, and, as a general rule, there will be no interconnection payment transfers with respect to call minutes. With regard to international calls, the oversight was removed from the completion segment of an incoming international call from abroad, and the foregoing framework for gradual reduction shall apply to outgoing calls abroad. In the company's estimation, implementing the change outline as aforesaid is not expected to have a material impact on the results of the group's activities.

H. On 16 August 2022, the approval of the Ministry of Communications was received for the framework agreement entered into by the company in November 2021, whereby the activity of sharing the passive infrastructure in cellular sites shall be expanded with Pelephone and PHI Networks (2015) Limited Partnership (the latter was later replaced by Partner and Hot Mobile) (the "Sharing Agreement"). In the company's estimation, expanding cooperation may facilitate and optimize the activity of setting up mobile sites.

Note 34 - Related Parties

A. Balance sheet

	December 31, 2021	December 31, 2022
	NIS millions	
Current assets	-	**5**
Current liabilities	1	**-**

B. Transactions with related and interested parties executed in the ordinary course of business at regular commercial terms:

	Year ended December 31,		
	2020	2021	2022
	NIS millions		
Income:			
Revenues	7	5	**6**
Expenses:			
Cost of revenues and other	5	3	**6**

Note 34 - Related Parties (cont'd)

B. Transactions with related and interested parties executed in the ordinary course of business at regular commercial terms (cont'd)

In 2022 the Company recorded profits of NIS 7 million that derived from recording revenues from deploying fiber-optics for IBC after offsetting expenses (NIS 39 million in 2021). Such profits were recorded to the other revenues item in profit and loss. For additional information, see Note 8, regarding Equity Accounted Investees and Joint Operations and Note 31 (F), regarding commitments.

In 2003, the Company engaged in a lease agreement with an interested party, Migdal Insurance and Financial Holdings Ltd.. In November 2021 the Group extended the lease agreement for eight more years (from January 1, 2023 to December 31, 2030) only with respect to an area of 18,000 sqm serving the Company’s headquarters and also with respect to underground parking areas. The Company has an option to extend the agreement for another period of 5 years. In light of reducing leased areas, rent and ancillary expenses decreased by approximately NIS 12 million per year, from 2021.

The total insurance policies purchased in 2022 from Migdal Insurance Company amounted to about NIS 0.9 million in annual cost.

In February 2022 the Company engaged with an institutional entity (the “Lender”) under an agreement for providing a credit facility of up to NIS 250 million, for a period of 24 months from the date of providing the credit facility (the “Credit Facility”) that shall allow the Company to receive loans, per the Company’s selection, not linked to any index. For further see Note 19 (C), regarding Debentures and Long-term Loans from Financial Institutions.

In the ordinary course of business, from time to time, the Group purchases, leases, sells and cooperates in the sale of goods and services or otherwise engages in transactions with entities that are members of the DIC/IDB group (including companies holding companies in DIC/IDB group) or other interested or related parties.

The Group has examined said transactions and believes them to be on commercial terms comparable to those that the Group could obtain from/ provide to unaffiliated parties.

Note 34 - Related Parties (cont'd)

C. Key management personnel compensation

In addition to their salaries, the Group also provides non-cash benefits to executive officers (such as a car, medical insurance, etc.).

The Group has undertaken to indemnify the Group's directors and officers, as well as certain other employees for certain events listed in the indemnifications letters given to them. The aggregate amount payable to all directors and officers and other employees who may have been or will be given such indemnification letters is limited to the amounts the Group receives from the Group’s insurance policy plus 30% of the Group’s shareholders’ equity as of December 31, 2022, adjusted for changes in the Israeli CPI.

In August 2020, an update was made to the release and indemnity letters granted to directors on behalf of the controlling shareholders and to those to be granted to officers as of such approval date, as follows: (1) it was set forth that the maximum indemnity amount shall not exceed an amount equal to 25% of the Company’s equity according to its last consolidated financial statements before the date of paying the indemnity; and (2) it was set forth that the release shall not apply with respect to a decision or transaction in which a controlling shareholder of the Company or officer of the Company has a personal interest. This without derogating from the rights of directors and shareholders to which letters of release and indemnity were granted before the date of such approval.

Executive officers also participate in the Group’s share option program (see Note 22, regarding Share-Based Payments).

Key management personnel compensation is comprised of:

	Year ended December 31,		
	2020	**2021**	**2022**
		NIS millions	
Short-term employee benefits	3	3	**5**
Share-based payments	5	-	**3**
	8	3	**8**

Note 34 - Related Parties (cont'd)

D. Non-exceptional transactions

The Group contractually engages from time to time in the ordinary course of business, in negligible, non-exceptional transactions, with the controlling shareholder or in transactions in which the controlling shareholder has a personal interest in their approval, of the following types and characteristics: providing communication services, purchasing various services such as securities distribution and marketing services, maintenance services for equipment and facilities used in the Company's operations, transportation services, security services, marketing services, services, management and maintenance services of buildings and rental of real estate.

According to Company protocols, in the absence of special quality considerations arising from all the case circumstances, such a transaction that is not an exceptional transaction will be considered a negligible transaction for the above purposes if the scope of the particular transaction does not exceed NIS 10 million and the transaction is less than 0.5%. from the relevant quantifiable test among the following indices: asset ratio – the volume of assets subject to the transaction (assets acquired or sold) divided by the total assets in the Company's balance sheet; profit ratio – actual or projected profits or losses associated with the transaction divided by the average annual profit or loss (in absolute value) of the Company in the last twelve quarters ended before that transaction. For this purpose, "profit" or "loss" is: a net profit or loss for the year attributed to shareholders in the parent company; sales ratio – the total sales subject to the transaction divided by the total annual sales of the Company; operating expenses ratio – the volume of expenditure subject of the transaction divided by the total annual operating expenses and the cost of end equipment and the ratio of liabilities – the liability subject of the transaction divided by the total liabilities in the balance sheet before the event.

Cellcom Israel Ltd.

Separate Financial Information

As at December 31, 2022

(Audited)

Contents | **Pages**

The accompanying audit report is a non-binding translation into English of the original audit report published in Hebrew. The version in Hebrew is the approved text.

To:
The shareholders of Cellcom Israel Ltd.
Netanya, Israel

Dear Sir/Madam

Re: Auditors' special report on separate financial information in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970

We have audited the separate financial information disclosed in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970 of Cellcom Israel Ltd. (hereafter - "the Company") as of December 31, 2022 and 2021, and for each of the three years, the last of which ended on December 31, 2022. This separate financial information is the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on this separate financial information based on our audit.

We did not audit the financial information included in the financial statements of investees, of which the total assets less total liabilities, net amounted to approximately NIS 92 million and NIS 49 million as of December 31, 2022 and 2021, respectively, and the Company's share in their losses amounted to approximately NIS 22 million, NIS 21 million and NIS 22 million for the years ended December 31, 2022, 2021 and 2020, respectively. The financial statements of those investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar, as it relates to amounts included for those investees, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes assessing the accounting principles used in preparing the separate financial information and significant estimates made by the Company's board of directors and management, as well as evaluating the overall separate financial information presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the separate financial information is prepared, in all material respects, in conformity with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970.

Tel-Aviv,
March 8, 2023

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

Separate Information on Financial Position

	December 31, 2021	December 31, 2022
	NIS millions	
Assets		
Cash and cash equivalents	387	**611**
Deposits	-	**120**
Trade receivables	765	**606**
Current tax assets	11	**9**
Other receivables, including derivatives	37	**31**
Inventory	47	**65**
	1,247	**1,442**
Non-current assets		
Trade and other receivables	183	**222**
Property, plant and equipment, net	1,291	**1,393**
Intangible assets and others, net	398	**438**
Investments in investee companies	2,313	**2,356**
Loans to investees and capital notes	383	**391**
Right of use assets, net	589	**634**
	5,157	**5,434**
	6,404	**6,876**
Liabilities		
Current maturities of debentures	383	**587**
Current maturities of lease liabilities	167	**168**
Trade payables and accrued expenses	469	**591**
Provisions	102	**84**
Loans from investees	210	**220**
Other payables, including derivatives	262	**213**
	1,593	**1,863**
Non-current liabilities		
Debentures	2,373	**2,317**
Long-term lease liabilities	455	**506**
Provisions	29	**24**
Other long-term liabilities	1	**9**
Liability for employee rights upon retirement, net	12	**10**
Deferred tax liabilities	21	**43**
	2,891	**2,909**
	4,484	**4,772**
Total equity	1,920	**2,104**
	6,404	**6,876**

The accompanying notes are an integral part of these Separate financial statements.

March 8, 2023			
Date of approving the financial statements	Nataly Mishan-Zakai Chairman of the board	Daniel Sapir CEO	Gadi Attias CFO

Separate Information on Income

	Year ended December 31,		
	2020	2021	2022
	NIS millions		
Revenues	2,381	2,660	**2,767**
Cost of revenues	(2,020)	(2,116)	**(2,125)**
Gross profit	361	544	**642**
Sales and marketing expenses	(390)	(428)	**(400)**
General and administrative expenses	(237)	(219)	**(216)**
Credit gain (losses)	(25)	(2)	**1**
Other income, net	45	48	**50**
Operating Loss	(246)	(57)	**77**
Financing income	34	18	**38**
Financing expenses	(204)	(171)	**(190)**
Financing expenses, net	(170)	(153)	**(152)**
Share in profit from investees companies	204	241	**261**
Profit (Loss) before taxes on income	(212)	31	**186**
Tax (expenses) income	42	(4)	**(29)**
Profit (Loss) for the year	(170)	27	**157**

The accompanying notes are an integral part of these Separate financial statements.

Separate Information Comprehensive Income and loss

	Year ended December 31,		
	2020	2021	2022
	NIS millions		
Profit (Loss) for year	(170)	27	**157**
Other comprehensive income (loss) items that after initial recognition in comprehensive income were or will be transferred to profit or loss			
Changes in fair value of cash flow hedges transferred to profit or loss, net of tax	(2)	1	**1**
Total other comprehensive income (loss) for the year that after initial recognition in comprehensive income was or will be transferred to profit or loss, net of tax	(2)	1	**1**
Other comprehensive income (loss) items that will not be transferred to profit or loss			
Re-measurement of defined benefit plan, net of tax	2	(2)	**1**
Total other comprehensive income (loss) for the year that will not be transferred to profit or loss, net of tax	2	(2)	**1**
Total other comprehensive income (loss) for the year, net of tax	-	(1)	**2**
Total comprehensive Profit (loss) for the year	(170)	26	**159**

The accompanying notes are an integral part of these Separate financial statements.

Separate Information on Cash Flows

	Year ended December 31,		
	2020	2021	2022
	NIS millions		
Cash flows from operating activities			
Profit (Loss) for the period	(170)	27	**157**
Adjustments for:			
Depreciation and amortization	780	729	**679**
Share-based payments	20	15	**24**
Net change in fair value of investment property	7	7	**8**
Tax expenses (income)	(42)	4	**29**
Financing expenses, net	170	153	**152**
Share in profit from investees companies	(204)	(252)	**(261)**
Changes in operating assets and liabilities:			
Change in inventory	(1)	(6)	**(18)**
Change in trade receivables (including long-term amounts)	154	125	**72**
Change in other receivables (including long-term amounts)	(3)	(5)	**15**
Change in trade payables, accrued expenses and provisions	34	(96)	**11**
Change in other liabilities (including long-term liabilities)	(89)	76	**217**
Receipts (payments) for derivative hedging contracts, net	(3)	(5)	**4**
Income tax paid	(7)	(8)	**(5)**
Net cash from operating activities	646	764	**1,084**
Cash flows from investing activities			
Acquisition of property, plant and equipment	(262)	(308)	**(320)**
Acquisition of intangible assets and others	(181)	(167)	**(223)**
Investments in investee companies	(617)	2	**8**
Change in current investments, net	110	310	**(120)**
Receipts for other derivative contracts, net	1	-	**-**
Dividend received	195	-	**-**
Interest received	6	1	**8**
Net cash used in investing activities	(748)	(162)	**(647)**

The accompanying notes are an integral part of these Separate financial statements.

Separate Information on Cash Flows (cont'd)

	Year ended December 31,		
	2020	2021	2022
	NIS millions		
Cash flows from financing activities			
Receipts (payments) for derivative contracts, net	(6)	1	**5**
Repayment of long-term loans from financial institutions	(212)	(187)	**-**
Repayment of debentures	(417)	(389)	**(396)**
Receipt from issuance of debentures, net of issuance costs	596	-	**491**
Interest paid	(130)	(121)	**(109)**
Equity offering	5	-	**-**
Receipt of loan from investees	90	120	**10**
Proceeds from exercise of share options	140	-	**-**
Payment of principal of lease liabilities	(210)	(215)	**(214)**
Net cash used in financing activities	(144)	(791)	**(213)**
Changes in cash and cash equivalents	(246)	(189)	**224**
Cash and cash equivalents as at the beginning of the period	824	578	**387**
Effects of exchange rate changes on cash and cash equivalents	-	(2)	**-**
Cash and cash equivalents as at the end of the period	578	387	**611**

The accompanying notes are an integral part of these Separate financial statements.

Note 1- Basis of Preparation of the Financial Information

A. Definitions

"The company" – Cellcom Israel Ltd.

"Separate financial information" – separate financial information presented in accordance with regulation 9C to the securities regulations (Periodic and Immediate Reports) – 1970.

Unless stated otherwise, all the terms presented in the separate financial information are as defined in the Company's consolidated financial statements as of December 31, 2022 (hereinafter: "the consolidated financial statements").

"Investee companies" – Subsidiaries and companies, including a partnership or joint venture, the Company's investment in which is stated, directly or indirectly, on the equity basis.

"Inter-company transactions" – transactions between the company and her investees.

"Inter-company balance", "Inter-company revenues and expenses", "Inter-company cash flows" – balances, revenues or expenses, and cash flows, depending on the matter, arising from inter-company transactions, which eliminated in the consolidated financial statements.

B. Main basis of Preparation of the Financial Information

Presented hereunder is financial information from the Group’s consolidated financial statements as at December 31, 2022 (hereinafter – the consolidated financial statements), which are issued as part of the periodic reports, and which are attributed to the Company itself (hereinafter – separate financial information), and are presented in accordance with Regulation 9C (hereinafter – the Regulation) and the tenth addendum to the Securities Regulations (Periodic and Immediate Reports) – 1970 (hereinafter – the tenth addendum) regarding separate financial information of an entity.

The separate financial information does not constitute financial statements, including separate financial statements, prepared and presented in accordance with International Financial Reporting Standards (hereinafter: "IFRS") in general, and the provisions of International Accounting Standard 27 "Separate Financial Statements" in particular.
However, the accounting policies mentioned in Note 3 to the consolidated financial statements, regarding the main principles of the accounting policy, and the manner in which the financial data were classified in the consolidated financial statements, have been applied for the purpose of presenting this separate financial information, with the changes stated below.

The Notes provided below also include disclosures regarding additional material information, in accordance with the disclosure requirements stated in Regulation 9C and as detailed in the appendix and subject to clarification by the Authority's staff, insofar as such information refers the company itself is not included in the consolidated reports.

Note 1- Basis of Preparation of the Financial Information (cont'd)

C. Transactions between the company and its investees

1. Assets and liabilities included in the consolidated reports attributed to the Company itself

The assets and liabilities amounts included in the consolidated financial statements on the financial position are presented neutralization of intercompany balances cancellation that was canceled in the consolidated statements, and which attributed to the company itself and are classified according to the types of assets and liabilities. These data classified in the same way as in the consolidated financial statements.

The aforesaid amounts of assets and liabilities reflect the assets and liabilities included in the consolidated financial statements, with the exception of the amounts of assets and liabilities in respect of investee companies, plus or minus, as the case may be, intercompany balances canceled in the consolidated financial statements.

In addition, a net amount is presented, based on the consolidated financial statements attributed to the Company's owners, of the total assets, less the total liabilities, presented financial information in the consolidated financial statements regarding investee companies, including goodwill.

The aforesaid presentation results in a way that equity attributed to the owners of the company, on the basis of the consolidated reports, is equal to the equity of the company as derived from the separate financial information.

2. Incomes and expenses included in the consolidated reports attributed to the Company itself

The income and expenses amounts included in the consolidated statements are presented by segmentation for statement of income and other comprehensive income, after neutralizing the cancellation of intercompany income and expenses canceled in the consolidated statements, attributed to the company itself, and detailed by the types of income and expenses. These data classified in the same way as in the consolidated financial statements.

The aforesaid amounts of income and expenses reflect the income and expenses included in the consolidated income statements and the consolidated statements of comprehensive income, except for amounts of income and expenses in respect of investees, plus or minus, as the case may be, intercompany income and expenses that was canceled in the consolidated financial statements.

In addition, a net amount is presented, based on the consolidated statements, attributed to the Company's owners, of the total income less total expenses, which presented in the consolidated statements the results of operations in respect of investee companies, including impairment or cancellation of goodwill. These data are presented while segmenting between statement of income and other comprehensive income.

The aforesaid presentation results in the total of both profit for the year attributed to the owner of the company and the total comprehensive profit for the year attributed to the owner of the company, based on the consolidated reports, being the same as the total profit for the year attributed to the company owner and the total comprehensive profit for the year attributed to the company, respectively, as derived from the separate financial information.

3. Cash flows included in the consolidated reports attributed to the Company itself

The cash flow amounts included in the consolidated statements, which are attributed to the Company itself, as stated in the consolidated financial statements of cash flows (ie, the balances of the amounts after the inter-company cash flows in the consolidated statements have been eliminated), Segmented by cash flow from operating activities, cash flow from investing activities, cash flow from financing activities and their components. In addition, as part of each of the aforesaid activities, the net intercompany cash flows presented separately. These data classified in the same way as in the consolidated financial statements.

The aforesaid amounts reflects the cash flows included in the consolidated financial statements, except for the amounts of cash flows in respect of investee companies.

Note 2 - Financial instruments

Liquidity Risk

The following are the maturities of contractual financial liabilities and other non-contractual liabilities, including estimated interest payments and excluding the impact of netting agreements:

	December 31, 2022						
	Carrying amount	**Conractual cash flow**	**st 1 year**	**nd 2 year**	**rd 3 year**	**4-5 years**	**More than 5 years**
	NIS milions						
Debentures	**(2,962)**	**(3,284)**	**(688)**	**(674)**	**(554)**	**(797)**	**(571)**
Trade and other payables	**(979)**	**(979)**	**(979)**	**-**	**-**	**-**	**-**
Other long-term liabilities	**(9)**	**(9)**	**-**	**(1)**	**-**	**(8)**	**-**
Lease liabilities	**(674)**	**(809)**	**(211)**	**(157)**	**(120)**	**(163)**	**(158)**
	(4,624)	**(5,081)**	**(1,878)**	**(832)**	**(674)**	**(968)**	**(729)**

	December 31, 2021						
	Carrying amount	**Conractual cash flow**	**st 1 year**	**nd 2 year**	**rd 3 year**	**4-5 years**	**More than 5 years**
	NIS milions						
Debentures	(2,811)	(3,121)	(473)	(645)	(628)	(867)	(508)
Trade and other payables	(663)	(663)	(663)	-	-	-	-
Forward exchange contracts on foreign currencies	(4)	(4)	(4)	-	-	-	-
Other long-term liabilities	(1)	(1)	-	(1)	-	-	-
Lease liabilities	(622)	(697)	(180)	(128)	(99)	(144)	(146)
	(4,101)	(4,486)	(1,320)	(774)	(727)	(1,011)	(654)

Note 3 - Taxes on income

Composition of tax on income (tax benefit)

	Year ended December 31,		
	2020	**2021**	**2022**
	NIS millions		
Current tax expense (income)			
Current year	-	-	**1**
Adjustments for prior years, Net	1	(1)	**7**
	1	(1)	**8**
Deferred tax expense (income)			
Creation and reversal of temporary differences	(43)	5	**21**
Tax on income (tax benefit)	(42)	4	**29**

Note 4 – Property, plant, equipment, intangible assets

	Property, plant and equipment	**Intangible assets**
	NIS millions	
Cost		
Balance at January 1, 2021	5,715	1,331
Additions	333	164
Disposals	(4)	-
Balance at December 31, 2021	6,044	1,495
Additions	**425**	**202**
Disposals	**(243)**	**(101)**
Balance at December 31, 2022	**6,226**	**1,596**
Accumulated Amortization		
Balance at January 1, 2021	4,420	900
Amortization for the year	337	197
Disposals	(4)	-
Balance at December 31, 2021	4,753	1,097
Amortization for the year	**322**	**162**
Disposals	**(242)**	**(101)**
Balance at December 31, 2022	**4,833**	**1,158**
Carrying amount at December 31, 2021	1,291	398
Carrying amount at December 31, 2022	**1,393**	**438**

Note 5 - Commitments, loans and significant transactions with Investees

A. Investments and ownership interest in investee companies

	Company's ownership interest in the investee	Investments in equity accounted investees at December 31, 2021	2022
		NIS millions	
Cellcom Fixed Line Communication L.P.	100%	1,626	1,629
Golan Telecom Ltd.	100%	401	409
Dynamica Cellular Ltd.	100%	151	187
I.B.C (Unlimited) Holdings L.P.	33.33%	133	131
Other Companies	-	2	-
		2,313	**2,356**

B. Management Fee

The Company has an agreement with a number of investees to provide them management services. The company income from management fees in 2022 and 2021 amounted to 3 NIS million and 2 NIS million, respectively.

In addition, the company and Cellcom Fixed Line Communication L.P. maintain ongoing settlement for salaries expenses, rent expenses and other expenses for which the Company undertakes for the partnership.
Due to this settlement, the company reduced its expenses in the years 2022, 2021 and 2020 by approximately 228 NIS million, 228 NIS million and 266 NIS million, respectively.

C. Loans to investee companies

	December 31, 2021	2022
	NIS millions	
Loan to Golan Telecom Ltd. *	133	**141**
Capital Note - Golan Telecom Ltd.	250	**250**
	383	**391**

* The loan was granted as part of the sharing network agreement singing in 2017, half of which in includes an annual interest rate of 1.85% and is linked to the CPI, the other half includes an interest rate of 3.5% and is not linked.

Note 5 - Commitments, loans and significant transactions with Investees (cont'd)

D. Loans from investee companies

	December 31,	
	2021	2022
	NIS millions	
Current maturities of loan from Cellcom Fixed Line Communication L.P.	210	**220**

The loan includes an annual interest rate of 2.6% and is not linked.

E. Dividend's and share of profits from limited partnerships

	December 31,		
	2020	2021	2022
	NIS milions		
Dynamica Cellular Ltd.	25	-	**-**
Cellcom Fixed Line Communication L.P.	510	-	**-**
	535	-	**-**

Note 6 - Events during and after the reporting period

A. For additional information regarding share based payments and exercise of share options, see Note 22 for the consolidated financial statements.

B. For additional information regarding the network sharing agreement with Wecom (previously- Marathon (018) Xfone), see Note 31 D for the consolidated financial statements.

C. For additional information regarding the expansion of debentures (series L), see Note 19 B for the consolidated financial statements.

D. For additional information regarding the issue of debentures (series M), see Note 19 B for the consolidated financial statements.

Chapter D

Additional Details on the Corporation

December 31, 2022

Regulation 9D – Report regarding list of liabilities

For the Company's list of liabilities, see the immediate report published together with the publication of this Periodic Report.

Regulation 10(c) – Use of securities consideration while referring to the consideration targets under the prospectus

In September 2022, the Company issued NIS 394,915,000 par value of Company debentures (Series 13) to the public, by way of issuing a new series, through publishing a shelf offering report pursuant to the Company's shelf prospectus. For more information see in the annex to the board of directors report.

As stated in the shelf offering report, the Company designated the issue proceeds for refinancing existing debt and for the Company's current activity, pursuant to decisions of the Company's management as shall be made from time to time. As of the report date, the Company has used the issue proceeds for the designated purposes of the issue, as set forth above.

Regulation 11(1) and 11(2) - List of investments in subsidiaries and related companies

The below table presents the Company's investments in subsidiaries and material related companies, as of the date of the report on the financial situation:

Company name	Share no. on TASE	Class of share	Number of shares	Total par value held by the Company	Value in the Company's separate financial statements (in NIS millions)	Rate of Company holdings		
						in equity	in voting rights	in power to appoint directors
Cellcom Wired Communications S.M.	not traded	-	-	-	**1,629**	100%	100%	100%
Golan	not traded	Ordinary of par value NIS 0.01	**21,664**	**217**	**409**	100%	100%	100%
Dynamica	not traded	Ordinary of par value NIS 1	**1,003**	**1**	**187**	100%	100%	100%

Regulation 11(3) - Remaining debentures and loans given and received by the Company to subsidiaries and related companies as of the date of the report on the financial situation

Name of loan-providing company	Name of loan-receiving company	Loan/capital notes balance as of December 31, 2022 (in NIS millions)	Main terms of the loans
The Company	Golan	391	The balance consists of: (a) a loan of NIS 141,000,000 half of which is index-linked and bears interest of 1.85% per annum, and half of which is unlinked and bears interest of 3.5% per annum. The loan was provided in April 2017, for a period of 10 years, and shall be repaid in 6 equal semi-annual installments starting from the eighth year of the agreement period (interest and index differentials to be accrued shall be paid starting from the sixth year); and (b) Capital notes of NIS 250 million. The capital notes are unlinked and do not bear interest, and their repayment date is not before September 2025.
Cellcom Wired Communications S.M.	The Company	220	Unlinked Shekel loans that are from time to time provided according to the framework agreement between the Company and the Cellcom Wired Communications S.M., for periods of up to 12 months. The loans bear interest at a rate identical to the interest set forth under Section 3(j) of the Income Tax Ordinance (as it changes from time to time; as of 2022 – 2.42%) The agreement includes terms for extending the loan periods and their acceleration.

Regulation 12 - Change to investments in subsidiaries and material related companies during the report period

During the report period there were no changes in connection with the Company's investments in subsidiaries and/or material related companies.

Regulation 13: Revenue of subsidiaries and material related companies and the Company's revenue thereof

The table below sets forth the total profit (loss) of subsidiaries and material related companies of the Company (the profit data is the consolidated data of these companies), and the Company's revenue thereof that was received until the date of the report on the financial situation, for 2022 and for the period after the balance sheet date (in NIS millions):

<table>
<tr><th rowspan="2">Company name</th><th rowspan="2">Profit for the period:</th><th rowspan="2">Total profit incl. other for the period</th><th colspan="2">Management fees (received until December 31, 2022)</th><th colspan="2">Interest and linkage differentials (received until December 31, 2022)</th><th colspan="2">Dividends[1] (received until December 31, 2022)</th></tr>
<tr><th>For 2022</th><th>For the period after the balance sheet date</th><th>For 2022</th><th>For the period after the balance sheet date</th><th>For 2022</th><th>For the period after the balance sheet date</th></tr>
<tr><td>Cellcom Wired Communications S.M.</td><td>213</td><td>213</td><td>-</td><td>-</td><td>5</td><td>-</td><td>-</td><td></td></tr>
<tr><td>Dynamica</td><td>42</td><td>42</td><td>1</td><td></td><td></td><td></td><td>-</td><td></td></tr>
<tr><td>Golan</td><td>24</td><td>24</td><td>2</td><td>-</td><td>12</td><td>-</td><td>-</td><td>-</td></tr>
</table>

[1] Cellcom Wired Communications S.M. is a limited partnership, and accordingly it distributes its profits to the Company.

Regulation 20: Trading on TASE

1. In the reporting year there were no trading halts on TASE of Company securities.
2. In 2022, 5,607,454 unregistered options[2] were exercised and 218,321 restricted shares units vested, so that as a result of such exercises and vesting, 1,579,805 Ordinary Shares were listed.
3. During 2022 105,000,000 debentures (Series 12) of the Company were listed for trading as part of an expansion of an existing series of debentures (Series 12) in a private placement to qualified investors.
4. In 2022, 394,195,000 debentures (Series 13) of the Company were listed, by way of an issue of a new series, through publishing a shelf offering report under the Company's prospectus.

Regulation 21 - Remuneration to interested parties and senior officers in 2022

Below are the details of the remuneration given in the reporting year, as recognized in the financial statements of the reporting year, to each of the five biggest remuneration holders among the senior officers in the Company or in companies under its control (including at least three senior officers in the Company itself), and which were given to them in connection with their tenure at the Company or companies under its control, as applicable (the amounts in NIS thousands):

Details of the remuneration recipient				Remuneration for services							Other remuneration			Total
Name	Position	Scope of position	Rate in equity holding	Salary[3]	Grant	Share-based payment[4]	Management fees	Consulting Fees	Commission	Other	Interest	Rent	Other	
Daniel Sapir[(a)]	CEO	100%	-	1,634	1,470	2,866	_	_	_	_	_	_	_	5,970
Eli Adadi[(b)]	VP of Retail and CEO of Dynamics	100%	-	1,238	995	315	-	-	-	-	-	-	-	2,548
Teimuraz Romashvili[(c)]	VP Sales and International Activity	100%	-	1,093	948	258	-	-	-	-	-	-	-	2,299
Nadav Amsalem[(d)]	CEO of Golan	100%	-	1,182	731	258	-	-	-	-	-	-	-	2,171
Gadi Attias[(e)]	CFO		-	809	469	893	-	-	-	-	-	-	-	2,171

[2] The unregistered options were exercised through a net exercise mechanism (for details see Footnote 6 below).

[3] The salary component includes the following components: Gross salary, social and related contribution fees as customary with the Company (such as vacation days, sick days, convalescence fees, officers insurance fund, advanced study fund, pension, severance pay, life insurance, incapacity to work insurance, National Insurance payments, vehicle, medical insurance, telephone, tax grossing up for the benefits etc.).

[4] The amount set forth in the above table in the column "Share-based payment" expresses the costs registered in the Company's consolidated financial statements for the relevant period due to share-based remuneration, based on the fair value of the relevant option on their grant date, according to the accounting rules in connection with share-based remuneration.

Below are additional details about the senior officers' terms of service and employment that are set forth in the above table:

(a) **Mr. Daniel Sapir** has been serving as CEO of the Company since January 25, 2022 (after commencing the handover period on January 9, 2022). Mr. Sapir's employment agreement is for an unlimited period and may be terminated at any time by either party, with three-months prior notice during the first three years of his employment, and thereafter with six-months prior notice, according to the Company's remuneration policy. For his tenure as CEO of the Company, Mr. Sapir is entitled to the following main terms: (a) a monthly salary of NIS 110,000 (linked to the Consumer Price Index); (b) customary related terms, including vacation days, sick days, officers insurance and advanced study fund; (c) a vehicle on behalf o the Company; (d) directors and officers liability insurance, indemnification and released, as accepted with respect to the Company's officers and directors; (e) the possibility of being entitled to an annual bonus and special bonus according to the Company's remuneration policy. In the framework of the agreement, provisions were set forth regarding no competition for a period of 12 months from the end of the employment period, and provisions regarding confidentiality.

On February 28, 2022, the Company's general meeting approved a grant of 1,123,670 (unregistered) options to Mr. Sapir, which are exercisable into ordinary shares of the Company pursuant to a net exercise mechanism in accordance with the Company's equity remuneration plan,[5] with a total value of some NIS 6.65 million. The options will vest in five equal portions after one year, two years, three years, four years and five years from the date they were granted.

For more information regarding the terms of office and employment of the CEO, see the Company's immediate reports dated January 23, 2022, and February 28, 2022 (reference no. 2022-01-010045, 2022-01-010090 and 2022-01-024424, respectively), which are included in this report by way of reference.

(b) **Mr. Eli Adadi** has been the CEO of Dynamics and VP of Retail since November 23, 2020. The employment agreement of Mr. Adadi is for an unlimited period and may be terminated at any time by either party, with six months prior notice, pursuant to the Company's remuneration policy. For his tenure as CEO of Dynamica and VP of the Company, Mr. Adadi is entitled to the following main terms: (a) A monthly salary of

[5] According to a net exercise mechanism, upon exercise the offeree does not pay the exercise price, but rather is issued shares, the number of which is to be determined according to the bonus amount the employee is entitled to, which derives from the number of options they exercised, multiplied by the difference between the market price of the share upon exercise and the exercise price of the option.

NIS 75,000 (linked to the Consumer Price Index); (b) customary related terms, including vacation days, sick days, officers insurance fund and advanced study fund; (c) a vehicle on behalf of the Company; (d) directors and officers liability insurance, indemnification and release, as accepted with respect to the Company's officers and directors; (e) the possibility of being entitled to an annual bonus and special bonus according to the Company's remuneration policy. In the framework of the agreement provisions were set forth regarding no competition for a period of 12 months from the end of the employment period, and provisions regarding confidentiality. In addition, following the approval of the Remuneration Committee and the Company's Board of Directors, after the termination of his employment, Mr. Adadi is entitled to a three-month adjustment period.

On November 22, 2020, following the approval of the Remuneration Committee and the Company's Board of Directors, the Company allocated Mr. Adadi 203,164 options (unregistered) that can be exercised to 203,164 ordinary shares of the Company according to a net exercise mechanism in accordance with the Company's equity remuneration plan,[6] with a total value of approximately NIS 882 thousands.[7] The options will vest in three equal portions after one year, two years and three years from the date of granting them.

(c) **Mr. Teimuraz Romashvili** has been serving as VP Sales and International Activity of the Company since October 23, 2011. Mr. Romashvili's employment agreement is for an unlimited period and may be terminated at any time by either party, with six months prior notice, pursuant to the Company's remuneration policy. For his tenure as VP Sales and International Activity, Mr. Romashvili is entitled to the following main terms: (a) a monthly salary of NIS 65,000 (linked to the Consumer Price Index); (b) customary related terms, including vacation days, sick days, officers insurance fund and advanced study fund; (c) a vehicle on behalf of the Company; (d) directors and officers liability insurance, indemnification and release, as accepted with respect to the Company's officers and directors; and (e) the possibility of being entitled to an annual bonus and special bonus according to the Company's remuneration policy. In the framework of the agreement, provisions were set forth regarding no competition for a period of 12 months from the end of the employment period, and regarding confidentiality.

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[6] See Footnote 6 above.

[7] Prior to his appointment as an officer in the Company, Mr. Adadi was granted options and restricted share units, as part of his previous position. The total capital compensation package of Mr. Adadi was at that time a total value of approximately NIS 1.8 million.

On June 15, 2020, further to the approval of the Company's remuneration committee and board of directors, the Company allocated 523,000 (unregistered) options to Mr. Romashvili that are exercisable into 523,000 Ordinary Shares of the Company, according to a net exercise mechanism under the Company's equity remuneration plan,[8] in total value of approximately NIS 1.8 million. The options will vest in three equal portions one year, two years, and three years after their grant date.

(d) **Mr. Nadav Amsalem** has been Golan's CEO since May 23, 2022, and prior thereto he served as the Company's VP of Business Customers since July 20, 2017. For his tenure as CEO of Golan, Mr. Amsalem is entitled to the following terms: (a) a monthly salary of NIS 75,000 (linked to the Consumer Price Index). As of January 2023, Mr. Amsalem's salary was updated to NIS 77,800; (b) customary related terms including vacation days, sick days, officers insurance fund and advanced study fund as customary with the Company; (c) a vehicle on behalf of the Company; (d) directors and officers liability insurance, indemnification and release, as accepted with respect to the Company's officers and directors; and (e) the possibility of being entitled to an annual bonus and special bonus according to the Company's remuneration policy. Mr. Amsalem's employment agreement is for an indefinite period and can be terminated with 6 months' prior notice. Also, in the framework of the agreement, provisions were set forth regarding no competition for a period of 12 months from the end of the employment period, and provisions regarding confidentiality.

On June 15, 2020, following the approval of the Remuneration Committee and the Company's Board of Directors, the Company allocated Mr. Amsalem 523,000 options (unregistered) that can be exercised into 523,000 ordinary shares of the Company according to a net exercise mechanism in accordance with the Company's equity compensation plan, with a total value of approximately NIS 1.8 million. The options will vest in three equal portions after one year, two years and three years from the date of their grant.

Mr. Gadi Attias has been serving as the Company's CFO from March 1, 2022. Mr. Attias's employment agreement is for an unlimited period and may be terminated at any time by either party, with three-months prior notice during the first three years of his employment, and thereafter with six-months prior notice, according to the Company's remuneration policy. For his tenure as CFO of the Company, Mr. Attias is entitled to the following main terms: (a) a monthly salary of NIS 60,000 (linked to the Consumer

[8] See Footnote 5 above.

Price Index); (b) customary related terms, including vacation days, sick days, officers insurance fund and advanced study fund; (c) a vehicle on behalf of the Company; (d) directors and officers liability insurance, indemnification and release, as accepted with respect to the Company's officers and directors; (e) the possibility of being entitled to an annual bonus and special bonus according to the Company's remuneration policy. Also, in the framework of the agreement, provisions were set forth regarding no competition for a period of 12 months from the end of the employment period, and provisions regarding confidentiality. On April 4, 2022, further to the approval of the Company's remuneration committee and board of directors, the Company allocated 471,157 (unregistered) options to Mr. Attias, which are exercisable into 471,157 Ordinary Shares of the Company according to a net exercise mechanism under the Company's equity remuneration plan, in total value of approximately NIS 1.8 million. The options will vest in three equal portions one year, two years and three years after being granted.

Remuneration for interested parties

The directors serving in the Company and those who shall serve there from time to time, are entitled to payment of participation remuneration and annual remuneration in an amount that is the "maximum amount" as stipulated in the Companies Regulations (Rules regarding Remuneration and Expenses for an External Director), 5760-2000 ("**Remuneration Regulations**") according to the Company's rank and also depending on whether the director is an "expert director" or not an expert. Notwithstanding the above, the external directors who served in the Company as of the date the Company's shares were delisted from trading on the NYSE, continued to receive participation remuneration and annual remuneration of the 'maximum amount' for a director in a company whose shares are listed for trade on a stock exchange outside Israel ("Dual-listed Company"), as set forth in the Remuneration Regulations, until March 2022. The directors are not entitled to a bonus or equity remuneration.

For 2022, the Company paid all the directors remuneration totaling approximately NIS 1,850,000. These remuneration terms comply with the provisions of the Company's remuneration policy.

Similarly, the directors serving in the Company, as they shall be from time to time, are entitled to directors and officers liability insurance, indemnification, and release, as accepted with respect to the Company's officers and directors, for details see Regulation 29A below.

Regulation 21A - The controlling shareholders

As of the date of publication of this Report, the controlling shareholder of the Company is DIC, a public company whose securities are traded on TASE, which holds approximately 35.69% of the Company's issued share capital and approximately 38.01%[9] of its voting rights, through Koor Industries Ltd. ("**Koor**"), a fully owned subsidiary of DIC. As DIC reported, it is a company with no controlling shareholder.

For information regarding an examination of a sale of Company share by the Company's controlling shareholder, see section 3.2 in Chapter A of this report.

Regulation 22 - Transactions with a controlling shareholder

Below are details, to the Company's best knowledge, about transactions with the controlling shareholder or which the controlling shareholder has a personal interest in approving, in which the Company, companies under its control, or its related companies (in this section "the Group") engaged in the reporting year or on a date following the end of the reporting year and until the filing date of the report, or still being in effect as of the report date:

a. **Transactions set forth in Section 270(4) of the Companies Law, 5759-1999 ("Companies Law")**:[10]

For details about release, indemnity, and insurance arrangements that are granted to directors serving the Company on behalf of its controlling shareholder, see Regulation 29A below.

b. **Transactions no set forth in section 270(4) of the Companies Law that are negligible**

The Group engages from time to time in the ordinary course of business, in negligible, non-exceptional transactions, with the controlling shareholder or in transactions in which the controlling shareholder has (or may have) a personal interest in their approval, of the following types and characteristics, among others: providing communication services and related equipment services, purchasing various services such as securities distribution and marketing services, maintenance services for equipment and facilities

[9] To the best of the company's knowledge, about 2.07% of the voting rights that DIC has in the company are by virtue of an agreement with minority shareholders of the company who own about 2.07% of the company's issued share capital, within which voting rights were transferred to DIC. To the best of the company's knowledge, DIC has transferred its rights under the agreement to Koor..

[10] The controlling shareholder of the Company is DIC. For the sake of caution and in light of the provisions of section 268 of the Companies Law, the Company will refer only in this regulation, also to Elco Ltd. and Mega Or Holdings Ltd. as controlling shareholders, due to their holdings in DIC.

used in the Company's operations, security services, management and maintenance services of buildings and rental of real estate.

According to Company protocols, in the absence of special quality considerations arising from all the case circumstances, such a transaction that is not an exceptional transaction will be considered a negligible transaction for the above purposes if the scope of the particular transaction does not exceed NIS 10 million and the transaction is less than 0.5%. from the relevant quantifiable test among the following indices: asset ratio – the volume of assets subject to the transaction (assets acquired or sold) divided by the total assets in the Company's balance sheet; profit ratio – actual or projected profits or losses associated with the transaction divided by the average annual profit or loss (in absolute value) of the Company in the last twelve quarters ended before that transaction. For this purpose, "profit" or "loss" is: a net profit or loss for the year attributed to shareholders in the parent company; sales ratio – the total sales subject to the transaction divided by the total annual sales of the Company; operating expenses ratio – the volume of expenditure subject of the transaction divided by the total annual operating expenses and the cost of end equipment and the ratio of liabilities – the liability subject of the transaction divided by the total liabilities in the balance sheet before the transaction.

For more details see Note 34 to the financial statements.

Regulation 24 - Holdings of interested parties and senior officers of the corporation

For details about holdings of interested parties and senior officers in the Company's securities close to the report date, to the best of the Company's knowledge, see the immediate report of the Company dated January 5, 2023 (reference no: 2023-01-003894), which is included in this Report by way of reference.

Regulation 24A - Registered share capital, issued share capital, and convertible securities

For details regarding the registered share capital and the issued and outstanding share capital of the Company, including regarding convertible securities, see Note 21 to the Financial Statements.

Regulation 24B - Shareholders registry

For details regarding the registry of the Company's shareholders, to the best of the Company's knowledge, see the Company's immediate report dated March 5, 2023, regarding capital position, granting rights to purchase shares and securities registers of the corporation and changes in it (reference no: 2023-01-023865) which is hereby included by way of reference.

Regulation 25A - Registered address, telephone, fax, and email

The corporation's registered address: 10 Ha-Gavish, POB 4060, Netanya.

Telephone number: 052-9989595

Fax: 09-8607986

email: cellcom_sec@cellcom.co.il

Regulation 26 - The directors of the corporation

For details regarding the directors serving in the Company as of the publication date of the report, see **Annex A**, attached to this Report.

Regulation 26A - Senior officers

For details regarding the Company's senior officers that are not members of the board of directors, see **Annex B**, attached to this Report.

Regulation 26B - Independent authorized signatories

As of the report date, the Company has no independent authorized signatories.

Regulation 27 - The corporation's auditing CPA

Kesselman & Kesselman Accountants (PWC Israel), 146 Menachem Begin Road, Tel Aviv-Yafo, 6492103.

Regulation 28 - a change in the memorandum or articles of association of the corporation

There were no changes to the Company's incorporation documents during the reporting period.

Regulation 29 - Directors' recommendations and resolutions

a. The Board of Directors' recommendations to the General Meeting and the decisions of the Board of Directors that do not require the approval of the General Meeting (Regulation 29 (a))

   (1) Payment of dividends or distribution, as defined in the Companies Law, in any other way, or distribution of bonus shares – none.

   (2) Change to the registered or outstanding share capital of the corporation – none.

   (3) Change to the memorandum or articles of the corporation – none.

   (4) Repayment of redeemable securities – none.

   (5) Early repayment of debentures – none.

(6) A transaction not pursuant to market conditions, between the corporation and an interested party therein, except for a transaction of the corporation with a subsidiary thereof – none.

b. Resolutions of the general meeting that were adopted not pursuant to the recommendations of the directors in the items set forth in the articles – none.

c. Resolutions of an extraordinary general meeting

On February 28, 2022, the Company's general meeting approved, pursuant to the approval of the remuneration committee and board of directors, the entering Company CEO, Mr. Daniel Sapir (for details see immediate reports of the Company dated January 23, 2022, and February 28, 2022 (reference no. 2022-01-010045, 2022-01-010090 and 2022-01-024424, respectively)).

Regulation 29A - Company resolutions

Release, insurance, or indemnity undertaking, for an officer, in effect on the report date (Regulation 29A(4))

a. Directors and officers liability insurance

On January 27, 2022, the Company's remuneration committee approved a liability insurance policy for the Company's directors and officers, starting from February 5, 2022, and until February 4, 2023, which grants the Company's directors and officers an insurance coverage with a liability limit of up to a cumulative amount of USD fifty million, plus reasonable legal costs. The premium for the policy for the current insurance period is lower than that paid by the Company for the insurance period of the policy that ended on February 4, 2022. The terms of the policy (including the premium and the deductible) meet the criteria set forth in the Company's Remuneration Policy in relation to the officers' insurance approved at the Company's shareholders meeting in December 2021. The terms of such insurance policy are identical with respect to all the Company's officers and directors (including with respect to the Company's CEO and with respect to directors serving therein on behalf of the Company's controlling shareholder).

On February 2, 2023, the Company's remuneration committee approved a liability insurance policy for the Company's directors and officers, starting from February 5, 2023, and until February 4, 2024, which grants the Company's directors and officers an insurance coverage with a liability limit of up to a cumulative amount of USD fifty million, plus reasonable legal costs. The premium for the policy for the current insurance period is lower than that paid by the Company for the insurance period of the policy that ended on February 4, 2023. The terms of the policy (including the premium and the deductible) meet the criteria set forth in the Company's Remuneration Policy in relation to the officers' insurance approved at the Company's shareholders meeting in December 2021. The terms of such insurance policy are identical with respect to all the Company's officers and directors.

b. <u>Obligation for directors and officers indemnity and release</u>

The Company granted letters of release and indemnity to directors and officers who serve and served in the Company from time to time, and to officers who on behalf of the Company serve and served from time to time in other corporations in which the Company has the means of control (as such are defined in the Companies Law), directly and/or indirectly ("**Other Corporation**"), including to the Company's CEO.

In the framework of the letters of indemnity and release, the Company undertook to indemnify the foregoing for any liability or expense and/or reasonable litigation costs, as set forth in the letter of indemnity, which shall be imposed thereon due to their actions, by virtue of their being officers in the Company and/or officers or employees on behalf of the Company in an Other Corporation, provided the maximum indemnity amount for financial liabilities to be imposed on the foregoing following a judgement (including a judgement given in a settlement or arbitral ruling that was approved by the court) shall not exceed (cumulatively for all the officers, in a single case and cumulatively for all cases) an amount equal to the total insurance rewards, which the Company shall receive from time to time in the framework of any liability insurance of officers in the Company, plus an amount equal to 30% of the Company's equity according to its audited financial statements dated December 31, 2001, it being adjusted from time to time according to the increase in the Consumer Price Index rate since that day (the "**Maximum Indemnity Amount**"). It is clarified that the indemnity shall apply beyond the amount to be paid (if any) in the framework of the directors and officers liability insurance that the Company purchased or shall purchase from time to time.

In addition, in the framework of the letters of indemnity and release, the Company released the foregoing from any liability towards it (to the extent that this is permitted under law), with respect to any damage that it shall sustain by the foregoing, through their actions by virtue of their being officers in the Company and/or officers or employees on behalf of the Company in an Other Corporation, following a violation of the duty of care (except for damage due to a violation of the duty of care in distribution), as defined in the Companies Law.

On August 12, 2020, the Company's general meeting, further to the approval of the Company's remuneration committee and board of directors, approved the renewed granting of letters of release and indemnity in identical form to the directors who from time to time serve and served in the Company on behalf of the Company's controlling shareholder, for a period of three years. In this framework the form of the letters of release and indemnity that were granted to the directors on behalf of the controlling shareholder was updated, as well as those to be granted to officers from such approval date onwards, thus: (1) It was determined that the maximum indemnity amount shall not exceed an amount equal to 25% of the Company's equity according to its latest consolidated financial statements prior to the indemnity payment date; and (2) it was determined that the release shall not apply with respect to a decision or transaction in which the Company's controlling shareholder or any officer have a personal interest. All this without derogating from the rights of the directors and officers, who were granted the letters of release and indemnity before such approval date.

Nataly Mishan Zakai	Daniel Sapir
Chairwoman of the Board	CEO

March 8, 2023

Annex A - Details Regarding Directors of the Corporation as of the Report Date[11] (Under Regulation 26)

Name of director	Nataly Mishan Zakai, Chairwoman	Shmuel Hauser	Michael Yosef Zelkind	Gustavo Traiber
ID number	031781180	053488342	022972020	011148426
Date of birth	September 8, 1974	May 13, 1955	April 18, 1967	November 3, 1961
Address for service of judicial documents	TOHA, 114 Yigal Alon, Tel Aviv	19 Amirim, Savion	53 Hagdarot, Savyon	39 Rupin, Tel Aviv
Citizenship	Israel	Israel	Israel	Israel
Board committee memberships	Security Committee; Option Committee	Audit Committee; Remuneration Committee; Security Committee; Risk Management Committee;		Audit Committee; Remuneration Committee; Security Committee; Risk Management Committee;
External or independent director	No	External director	No	Independent director
Commencement of director's term	Director – June 30, 2022 Chairman of the Board – July 12, 2022	March 29, 2019	June 24, 2021	March 28, 2019
Expertise in financial accounting or professional qualifications?	-	Expertise in accounting and finances	-	Expertise in accounting and finances
Education	LLB in Law, Tel Aviv University; LLM in Commercial Law, Tel Aviv University	BA in Statistics and Economics, The Hebrew University of Jerusalem; certified in Financing and Business Administration, The Hebrew University of Jerusalem; Ph.D., Temple University (Florida).	BA in Business Administration from Boston University, USA; MBA in Business Administration from Columbia University, USA.	BA in Political Science and International Relations, The Hebrew University of Jerusalem; certified in Business Administration, expertise in financing, Interdisciplinary Center Herzliya.
Employment in the past 5 years	CEO of Discount Investment Corporation Ltd. and Property & Building Corporation Ltd. since July 2022. Legal advisor at Harel Insurance Investment & Financial Services Ltd. since August 2014 and until May 2022. Chairman of the board in the pension and provident companies of Harel Group until May 2022.	2006 - today: Vice President Ono Academic College; 1995 - today: Professor of Finance, Ben Gurion University of the Negev; 2011 - 2018: Chairman of the Israel Securities Authority; 2020 - today: Consultant for eToro. 2006 - today: CEO and Chairman of NaraTV Productions Ltd. 2011-2018:	Director and Co-CEO of Elco Ltd.; Chairman of the Board of Electra Ltd. and director in companies of the Elco Group.	2006 - today: Owner of Traiber Investments Ltd.; 2014 - today: Owner and CEO, Spain-Israel Investments Ltd.; 2022-today: co-CEO and partner in Mirablin Real Estate, Limited Partnership.

[11] The order of the directors after the Chairman of the Board is in Hebrew alphabetical order of the last names.

		Co-chairman of the Israel Accounting Standards Board; 2011-2018 member of the Advisory Committee to the Supervisor of Banks; 2017-today: Member of the Advisory Committee to the Capital Market Authority, Insurance and Savings; 2019-2020: Member of the Advisory Committee of CyberRight Tech; 2020-today: Member of the Investments Committee of the Israel Democracy Institute		
As part of his/her education and/or employment in the last 5 years, dose he/she have experience/expertise or skill in information security or cyber?	No	No	No	No
Additional corporations where he/she serves as director	Mehadrin Ltd. (chairman), Gav-Yam Lands Corporation Ltd., Elron Ventures Ltd., Epsilon Underwriting and Issuing Ltd. and additional private companies held by Property & Building Corporation Ltd. Epsilon Investment House Ltd. until February 2023.	Gazit Globe Ltd. (external director); Pocketful Ltd. (chairman); Rainbowtech Merger Ltd., until 2022.	Discount Investment Corporation Ltd., Cellcom Israel Ltd., Gav-Yam Lands Corporation Ltd. (chairman), Electra Consumer Products (1970) Ltd. (and private companies from this group), Electra Real-Estate Ltd., Electra Power (2019) Ltd. (and private companies from this group), G. Zalkind Ltd., Michael and Marcy Zalkind Holdings (1997) Ltd., Theater of Dreams Ltd., Elco Hospitality Ltd., Elco Alpha Ltd., Property & Building Corporation Ltd. until December 2022, Elron Ventures Ltd. until April 2022, Mehadrin Ltd. until November 2021 and Golan Telecom Ltd. until August 2020.	Adama Agricultural Solutions Ltd. (external director) and Agro Exchange Ltd.
Is he/she an employee of the Company, of a subsidiary, or of a company affiliated therewith, or of an interested party therein, and the roles that he/she fulfills as foregoing	CEO of Discount Investment Corporation Ltd. and Property & Building Corporation Ltd., interested party in the Company.	No	No	No
Is he/she a family member of an interest party in the Company	No	No	Mr. Michael Zelkind is the brother of	No

			Mr. Daniel Zelkind, and they are controlling shareholder of Elco Ltd. and an interested party in Discount Investment Corporation Ltd.	
Does the Company consider him/her an expert in accounting and finance for purpose of meeting the minimum number determined by the board of directors under Section 92(a)(12) of the Companies Law	No	Yes	No	Yes

Name of director	Baruch Yitzhak	Varda Liberman	Itamar Yehuda Regev	Eran Shenar
ID number	029274693	05369319	024217879	029509825
Date of birth	July 19, 1972	February 1, 1948	February 5, 1969	August 17, 1972
Address for service of judicial documents	TOHA Tower, 114 Yigal Alon , Tel Aviv	8 Pa'amoni, Tel Aviv	Shilat Industrial Zone, PO Box 117, rural post Center	78 Egoz, Neve Yarak
Citizenship	Israel and US	Israel	Israel	Israel
Board committee memberships	Security Committee	Audit Committee; Remuneration Committee; Option Committee;	-	-
External or independent director	No	External director	No	No
Commencement of director's term	August 2, 2021	March 29, 2019	May 20, 2021	September 14, 2020
Expertise in financial accounting or professional qualifications?	Expertise in accounting and finances	Professional qualifications	-	Expertise in accounting and finances
Education	BA in Business Administration, College of Management; CPA.	BSc in Mathematics and Statistics, Tel Aviv University; PhD in Mathematics, Tel Aviv University.	BA in Economics and Business Administration, Bar Ilan University	BA in Economics and Accounting, Tel Aviv University; certified in Business Administration with expertise in financing, strategy, and entrepreneurship, Tel Aviv University.
Employment in the past 5 years	July 21 to date: CFO of Discount Investment Company Ltd.; May 2020 to date: CFO of Property and Building Corporation Ltd.; 2018-2020: CEO of Sapir Corp. Ltd.; 2016-2018 VP of Elad US Holding Inc .; 2016-2018: Chairman and CEO of Elad National 2017 LLC	February 2022 to today: Vice President to Academic Matters, Reichman University; 2016-today: Founder and Head of the MBA program in healthcare innovation, Reichman University; 2012-today: Head of decision-making, Arison School of Business, Reichman University; 1995-today: Staff member (professor) at the Arison School of business, Reichman University 1995-today: Head of Mathematics-Statistics studies, Reichman University; engaged in giving lectures to organizations on all topics of decision-making and risk management under conditions of uncertainty.	2011- today: CEO of Mega Or Holdings Ltd.	2015-today: Entrepreneur and owner in Set Medical Ltd. and the Multidisciplinary Center for Gastroenterology; 2010-today: Economic and business consultant
As part of his/her education and/or	No	No	No	No

employment in the last 5 years, dose he/she have experience/expertise or skill in information security or cyber?				
Additional corporations where he/she serves as director	Mehadrin Ltd., IDB Group Investments Inc. and held companies of Discount Investment Corporation Ltd. and Property & Building Corporation Ltd. Epsilon Investment House Ltd., until February 2023, and Elron Ventures Ltd. (alternate) until July 2022.	Director of Plus 500 Aquarius Engines (AM) Ltd. (external director) until October 2022.	Director of (private) holding companies of Mega Or Holdings Ltd. and a company privately owned by it.	Best Medical Advance Medicine Ltd.; MBA Management and Initiatives Ltd.; Gastro Experts HYSY Ltd.
Is he/she an employee of the Company, of a subsidiary, or of a company affiliated therewith, or of an interested party therein, and the roles that he/she fulfills as foregoing	VP of Finance at Discount Investment Company Ltd. and VP of Finance at the Property and Building Corporation Ltd.	No	CEO of Mega Or Holding Ltd ("**Mega Or**"); appointed by Mega Or as director at company qualified as the "Israeli entity" at the company according to the cellular license of the company	No
Is he/she a family member of an interest party in the Company	No	No	No	No
Does the Company consider him/her an expert in accounting and finance for purpose of meeting the minimum number determined by the board of directors under Section 92(a)(12) of the Companies Law	Yes	No	No	No

Annex B - Details Regarding the Corporation's Senior Officers as of Report Date (Under Regulation 26A)

Name of officer	Daniel Sapir	Gadi Attias	Larisa Cohen	Daphna Agassi Bar
ID number	027701747	032217085	034211235	027990134
Date of birth	April 18, 1970	May 5, 1975	July 22, 1977	December 24, 1970
Commencement date of tenure	January 25, 2022	March 11, 2022	May 1, 2022	March 1, 2022
Role in the Company	CEO	CFO	VP, General Counsel & Corporate Secretary	VP Marketing
Position fulfilled in a subsidiary, related company or interested party of the Company	Director of Cellcom Holdings (2001) Ltd.; Dynamica Communications Chain Store Ltd.; Netvision Ltd.; 013 Netvision Landline Communications 2006 Ltd.; IBC Holdings GP Ltd; IBC Israel Broadband Company (2013) Ltd., Golan Telecom Ltd.; Golan Telecom International Ltd.; Golan Tel Communication (2011) Ltd.	Director of Cellcom Holdings (2001) Ltd., Golan Telecom Ltd., Golan Telecom International Ltd., Golan Tel Communication (2011) Ltd., IBC Holdings LP Ltd,. CMG Management Network Ltd. and Safeway - Data Protection Solutions Ltd.	Director of Dynamica Communications Chain Store Ltd., Golan Telecom Ltd., Golan Telecom International Ltd. and Golan Tel Communication (2011) Ltd.	-
Is he/she a family member of a senior officer in the Company or of a different interested party in the Company	No	No	No	No
Education	BA in Business Administration, College of Management; Master of Business Administration, Ono Academic Campus.	BA in Accounting and Economics, The Hebrew University of Jerusalem.	LLB in Law and Social Sciences (Political Science), The Hebrew University of Jerusalem. LLM in Law, Tel Aviv University.	Physical Education graduate with a specialization in cardiac rehabilitation, Wingate Institute; Master's in Business Administration with a specialization in marketing, University of Heriot-Watt (UK).

Name of officer	Daniel Sapir	Gadi Attias	Larisa Cohen	Daphna Agassi Bar
Employment in the last five years	2012-2022 CEO of Tikshoov Group.	2019-2022 CFO of Northern Birch Ltd.; 2012-2019 CFO of Tikshoov Business Communication Center Ltd. (Tikshoov Group) ("**Tikshoov**"); 2014-2019 director of held companies of Tikshoov.	Until July 2022 VP, General Counsel & Corporate Secretary of Discount Investment Corporation Ltd. and Property & Building Corporation Ltd. Until July 2022 director of Bartan Holdings and Investments Ltd. (chairman), Epsilon Investment House Ltd. and held companies of Property & Building Corporation Ltd. Until October 2020 director of IDB Group USA Investment Corp. Until September 2020 VP and Corporate Secretary of IDB Development Company Ltd.	2014 - 2022: VP Marketing at Golan..
As part of his/her education and/or employment in the last 5 years, dose he/she have experience/expertise or skill in information security or cyber?	No	No	No	No

Name of officer	Sivan Shushan Lisha	Avraham Grinman	Teimuraz Romashvili	Victor Malka
ID number	066038159	028498558	313974123	069478923
Date of birth	August 27, 1982	May 23, 1971	January 1, 1979	August 7, 1956
Commencement date of tenure	June 15, 2022	June 12, 2022	October 23, 2011	March 18, 2020
Role in the Company	VP Business Department	VP Engineering	VP Sales and International Activity	Chief Information Officer
Position fulfilled in a subsidiary, related company or interested party of the Company	Director of Safeway – Data Protection Solutions Ltd., a subsidiary of the Company.	Director of CMG Network Management Ltd.	-	-
Is he/she a family member of a senior officer in the Company or of a different interested party in the Company	No	No	No	No
Education	BA in Business Administration, Center for Academic Studies.	BA in Business Administration with a specialization in information systems, College of Management. EMBA in Business Administration, Bar Ilan University.	BA in Economics and Management, The Kyiv National Economic University, Ukraine.	B.Sc. Mathematics, Technion - Israel Institute of Technology; M.Sc. in Performance Analysis and Systems Analysis, Technion - Israel Institute of Technology.
Employment in the last five years	Head of Information Technology & ENT Customers Department and Head of ENT Landline Customers at the Company until June 2022.	2020-2022 – Director of Network Operations and Management at Pelephone Director of Network Operations at the Company until 2020.	2011-2020: VP Pre-Paid Activity of the Company	2019-2020: Active communications consultant; 2012-2019: Director of Information Systems Division at the Technology Division in Bezeq The Israel Telecommunication Corporation Ltd.
As part of his/her education and/or employment in the last 5 years, dose he/she have experience/expertise or skill in information security or cyber?	Director of Safeway – Data Protection Solutions Ltd., a company fully (100%) owned by the Company, which provides comprehensive solutions to organizations and companies in data and cyber protection, and she has hours of training and great experience with a variety of data security manufacturers.	Yes. By virtue of his position as VP Engineering, who is also in charge of the field of data security in the Company.	No	Yes. By virtue of his position as VP Information Systems.

Name of officer	Eli Adadi	Ami Stremer	Ronen Shlez	Itzik Ravid
ID number	033141383	040849713	23077316	052761384
Date of birth	August 26, 1976	April 30, 1981	November 9, 1967	August 24, 1954
Commencement date of tenure	November 23, 2020	May 29, 2022	December 1, 2014	March 14, 2017
Role in the Company	VP Retail	VP Human Resources	Comptroller	Internal auditor
Position fulfilled in a subsidiary, related company or interested party of the Company	CEO of Dynamica Communications Chain Store Ltd.	-	Barak I.T.C. (1999) - The International Telecommunications Corporation (Satellite Holdings) Ltd.; Cellcom Fixed Line Communications Inc.	Internal auditor of DIC; Internal auditor of Elron Ventures Ltd.
Is he/she a family member of a senior officer in the Company or of a different interested party in the Company	No	No	No	No
Education	BA in Business Administration, Ben Gurion University of the Negev; certified in Business Administration with expertise in marketing, Ben Gurion University of the Negev.	-	BA in Accounting and Business Administration, College of Management Academic Studies.	BA in Accounting and Economics, Tel Aviv University
Employment in the last five years	2011-today: CEO of Dynamica Communications Chain Store Ltd.	2021 - 2022: VP of customer service at the company; 2021 -2020: Customer Service Manager in the Business Customers Division; 2014 - 2020: Gold / VIP Domain Manager in the Business Customers Division	Company accountant	Managing partner at Raveh Ravid & Co., Accountants
As part of his/her education and/or employment in the last 5 years, dose he/she have experience/expertise or skill in information security or cyber?	No	No	No	No

<u>Annual report regarding the effectiveness of internal control over financial reporting and disclosure pursuant to regulation 9B(a)</u>

The Management, under the supervisions of the Board of Directors of Cellcom Israel Ltd. (hereafter: the "**Company**") is responsible for determining and maintaining appropriate internal control over financial reporting and of disclosure in the Company.

In this regard, the members of the Management are as follows:

1. Daniel Sapir, CEO
2. Gadi Attias, CFO
3. Larisa Cohen, VP Legal Counsel and Corporate Secretary
4. Teimuraz Romashvili, VP Sales and International Activity
5. Victor Malka, Chief Information Officer
6. Eli Adadi, VP Retail and CEO of Dynamica Communications Chain Stores Ltd
7. Ami Shtramer, VP Human Resources
8. Dafna Agassi, VP Marketing
9. Sivan Shushan Lisha, VP Business Customer
10. Avraham Grinman, VP of Engineering
11. Ndadv Amsalem, CEO of Golan Telecom Ltd.
12. Nir Yogev Manager of Regulation and Business Development
13. Bosmat Levi Feuer, Manager of Private Service Sector

The internal control over financial reporting and disclosure includes the existing controls and procedures in the Company, which were determined by the Chief Executive Officer and the senior corporate financial officer or under their supervision, or by someone who in practice carries out these functions, under the supervision of the Company‘s Board of Directors and which are intended to provide a reasonable degree of assurance regarding the reliability of financial reporting and the preparation of the reports according to the provisions of the law and to ensure that the information which the Company is required to disclose in the reports that it publishes according to the provisions of the law is gathered, processed, summarized and reported on the dates and in the format prescribed by law.

The internal control includes, among other things, controls and procedures that were determined to ensure that the information which the Company is required to disclose was accumulated and submitted to the Company‘s Management, including the Chief Executive Officer and the senior corporate financial officer or someone who in practice fulfills these functions, in order to facilitate decision making at the appropriate time, with regard to the disclosure requirements.

Due to its structural constraints, internal control over financial reporting and disclosure is not intended to provide absolute assurance that misrepresentation or the omission of information in the reports will be prevented or revealed.

The management, under the supervision of the Board of Directors, performed an examination and assessment of the internal control over financial reporting and disclosure in the Company and its effectiveness.

The assessment of the internal control over financial reporting and disclosure performed by the management, under the supervision of the Board of Directors included:

Mapping and identifying the accounts and business processes which the Company considers to be very material to the financial reporting and disclosure; Examining key controls and reviewing the effectiveness of the controls; Internal control components included control over editing and preparation of the financial statements and disclosures, entity level control, general controls over information technology and controls in business processes that were defined as very material on the financial reports such as: revenues, and goodwill.

Based on the assessment of the internal control performed by the management, under the supervision of the Board of Directors, as described above, the Board of Directors and the Management of the Company have concluded that the internal control over financial reporting and disclosure in the Company as of December 31, 2022 is effective and no material deficiencies and weaknesses were discovered.

Executive Statements

The statement of the CEO according to regulation 9B(d)(1)

I, Daniel Sapir states as follows:

1. I have reviewed the annual report of Cellcom Israel Ltd. (hereinafter – the "**Company**") for the year 2022 (hereinafter – the "**reports**");
2. Based on my knowledge, the reports do not contain any misrepresentation of a material fact or omit any representation of material fact required so that the representations included therein, in light of the circumstances under which such representations were made, are not misleading with respect to the reports period;
3. Based on my knowledge, the financial statements and other financial information included in the reports adequately reflect in all material aspects the financial position, the results of operations and cash flows of the Company for the dates and periods to which the reports relate;
4. I have disclosed to the Company's auditor, the Board of Directors and the Company's audit committee, based on my most recent assessment regarding the internal control over financial reporting and disclosure:
    a. All material deficiencies and weaknesses in determining or operating the internal control over financial reporting and disclosure, which could reasonably adversely affect the Company's ability to gather, process, summarize and report financial data so as to cast doubt on the reliability of financial reporting and the preparation of financial statements in accordance with law; and –
    b. Any fraud, whether or not material, that involves the CEO or anyone directly subordinated to the CEO or that involves other employees who have a significant role in internal control over financial reporting and disclosure;
5. I, by myself or together with others in the Company, state that:
    a. I have determined such controls and procedures, or ascertained the determination and fulfillment of controls and procedures under my supervision, intended to ensure that material information relating to the Company, including its subsidiaries as defined in the Securities Law (Annual Financial Statements) – 2010, is made known to me by others in the Company and the subsidiaries, particularly during the period in which the reports are being prepared; and –
    b. I have determined such controls and procedures, or ascertained the determination and fulfillment of such controls and procedures under my supervision, intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with law, including in accordance with generally accepted accounting principles;
    c. Assessed the effectiveness of the internal control over financial reporting and disclosure, and presented in this report the conclusion of the Board of Directors and the Management with respect to the effectiveness of the internal control as aforesaid as of the date of the reports.

The foregoing does not derogate from my responsibility or the responsibility of any other person under any applicable law.

____

Daniel Sapir

CEO

Date: 8 March 2023

<u>The statement of the most senior officer in finance according to regulation 9B(d)(2)</u>

I, Gadi Atias states as follows:

1. I have reviewed the financial statements and other financial information included in the reports of Cellcom Israel Ltd. (hereinafter – the "**Company**") for the year 2022 (hereinafter – the "**reports**");
2. Based on my knowledge, the financial statements and other financial information included in the reports do not contain any misrepresentation of a material fact or omit any representation of material fact required so that the representations included therein, in light of the circumstances under which such representations were made, are not misleading with respect to the reports period;
3. Based on my knowledge, the financial statements and other financial information included in the reports, adequately reflect in all material aspects the financial position, the results of operations and cash flows of the Company for the dates and periods to which the reports relate;
4. I have disclosed to the Company's auditor, the Board of Directors and the Company's audit committee, based on my most updated assessment regarding the internal control over financial reporting and disclosure:
    a. All material deficiencies and weaknesses in determining or operating the internal control over financial reporting and disclosure to the extent it relates to the financial statements and other financial information included in the reports, which could reasonably adversely affect the Company's ability to gather, process, summarize and report financial data so as to cast doubt on the reliability of financial reporting and the preparation of financial statements in accordance with the provisions of the law; and –
    b. Any fraud, whether or not material, that involves the CEO or anyone directly subordinated to the CEO or that involves other employees who have a significant role in internal control over financial reporting and disclosure.
5. I, by myself or together with others in the Company, state that:
    a. I have determined such controls and procedures, or ascertained the determination and fulfillment of controls and procedures under my supervision, intended to ensure that material information relating to the Company, including its subsidiaries as defined in the Securities Law (Annual Financial Statements) – 2010, is made known to me by others in the Company and the subsidiaries, particularly during the period in which the reports are being prepared; and –
    b. I have determined such controls and procedures, or ascertained the determination and fulfillment of such controls and procedures under my supervision, intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with law, including in accordance with generally accepted accounting principles;
    c. Assessed the effectiveness of the internal control over financial reporting and disclosure, to the extent it relates to the financial statements and other financial information included in the reports as of the date of the reports; my conclusions with respect to my assessment as aforesaid were brought before the Board of Directors and the Management and are included in this report.

The foregoing does not derogate from my responsibility or the responsibility of any other person under any applicable law.

____

Gadi Atias, CFO

Date: 8 March 2023

Cellcom Israel Ltd.

Goodwill Impairment Test

As of December 31, 2022

BDO Consulting Group
BDO Beit Amot
46-48 Menachem Begin Road
Tel Aviv-Jaffa 66184
Telephone no.: 03-6374391
Fax: 03-6382511
Website: www.bdo.co.il

Greetings,

We were asked by Cellcom Israel Ltd. (hereinafter: "**Cellcom**" and/or "**the Company**" and/or "**the Work Commissioner**") to test and assess whether the Company needs to recognize an impairment loss for the goodwill listed in the Company's balance sheets, which is attributed to its mobile and terrestrial telephone segments (hereinafter: "**Mobile Segment**" and "**Terrestrial Segment**") as of December 31, 2022 (hereinafter: "**the Assessment Date**"), in accordance with International Accounting Standard 36 Impairment of Assets (hereinafter: "**IAS 36**").

The engagement between BDO Ziv Haft Consultation and Management Ltd. (hereinafter: "**BDO**") and the Work Commissioner was approved and signed by Mr. Ronen Shalaz, Company Accountant (hereinafter: "**the Engagement Agreement**"), on December 14, 2022 (hereinafter: "**the Engagement Date**").

Our findings will be used by the Company, its management, and its auditors, for financial reporting purposes within the framework of generally accepted Israeli accounting and financial reporting principles required by law including in accordance with International Accounting Standard 36 Impairment of Assets (IAS 36) This paper is for the exclusive use of the Company, its management and its independent auditors, in accordance with all applicable laws.

In order to prepare this paper, we relied on the accuracy, comprehensiveness and timeliness of the information received from the Company and from various elements connected to the Company's activity. We have no reason to believe that the data at the basis of our work is not reliable, complete or fair, and we did not conduct our own independent examination of this information with the exception of examination of its reasonability. Reliance on this information does not constitute verification or confirmation of its veracity. No due diligence was carried out during the preparation of this opinion and it has no pretense of including all of the information, tests and checks or any other information included in due diligence.

We did not examine the information on an independent basis, other than in terms of reasonability, as follows:

- An analysis of the Company's business results in recent years and performance of a probability test of the forecasts we used in this document;
- Examination of the Company's compliance with its quarterly and annual budgets;
- An examination of the structure of the Company's expenses;

Economic opinions are not a precise science and are supposed to provide a reasonable and fair reflection of a certain situation at a certain time, on the basis of known data, basic assumptions made and forecasts assessed. Changes to key variables and/or information may alter the basis of the base assumptions and accordingly, the conclusions.

Calculations in this paper were performed using an electronic spreadsheet, and therefore rounding errors are possible.

We hereby note that we are not dependent on the Company, and we are not interested parties nor are we expected to become interested parties in any of the Group companies or in their assets in the future. In addition, we have no personal interest in the Company's securities. We are not dependent on the Company as this term is defined in the Securities Law, 1955 and resulting regulations, including the Accountants' Regulations (Conflict of Interest and Harm to Independence as a Result of Other Occupation), 2009, in the auditing standards and rules of professional behavior of the Israeli Institute of Certified Public Accountants, and in accordance with the ruling of the Securities Authority (on the subject of independence), in accordance with Section H(b) of the Securities Law 1968.

We shall also note that no stipulations were made the for the receipt of our fee contingent on the results of this opinion.

Disclosure on the Indemnification of the Appraiser for Their Work

In accordance with the Engagement Agreement, if we are required to pay any sum to any third party pertaining to the performance of the services specified in the Engagement Agreement, via legal proceeding or some other binding proceeding, Cellcom undertakes to indemnify us for any such sum we pay, beyond a sum equal to three times our fee, so long as Cellcom is given the right to defend itself, and all with the exception of cases of negligence or malice on behalf of BDO, in which case no indemnification or compensation shall apply.

Note that only authorized personnel shall have access to this document.

We are aware of the fact and that we agree that this paper will be used in and/or be included in the Company's December 31 2022 reports, including reports included within the framework of shelf prospectuses or shelf offering reports published by the Company, as well as in any immediate report in accordance with the Securities Law, 1968 and its regulations, which according to legal requirements the companies in question will be required to include the economic paper. No other use may be made of this opinion except for that noted above, including publishing it or quoting it in full or in part, and it may not be transferred to any third party without our express advance approval.

Details on the Appraiser and Their Expertise

BDO Consulting and Management Ltd – founded by the partners of the BDO accounting firm. BDO Consulting and Management is part of the international BDO Network, which provides a broad variety of business services needed for national and international businesses in any sector. Our company has extensive experience in the following areas: Business valuation, financial and taxation due diligence, valuation of goodwill and intangible assets, financial analysis, creating business plans, consulting on PFI/PPP project financing, M&A, investment banking and so forth.

The leading team

Mr. Moti Dettelkramer, C.P.A., Head of Corporate Finance

Moti has a B.A. in Economics and Computer Sciences and an MBA from Bar Ilan University. Moti has over 17 years of experience consulting companies and government ministries. In his current role with the consulting company, Moti is a partner, managing dozens of economists and CPAs involved in teams involved in valuation, PPA, business plans, due diligence, impairment assessment, evaluation of financial instruments etc. As part of his work, Moti was involved in a broad variety of valuations, business plans, strategic plans, and due diligence in a variety of areas of activity such as communications, media, technology, traditional industry, food, real estate, medical equipment, and finance. Prior to joining BDO, Moti managed the Economic Department of Tavor Economics and Finance. Previously, Moti was a lecturer at the Technion and at Tel Aviv University, in the Accounting Department, as well as at the Hebrew University in Jerusalem.

Mr. Sagiv Mizrahi, CPA, Partner, Team Leader in the Corporate Finance Department

The work was prepared by a team led by Mr. Sagiv Mizrahi, CPA, partner, and team leader in the Corporate Finance Department. Sagiv has an undergraduate degree in Practical Mathematics from Bar Ilan University, and an MBA (Summa cum Laude), specialized in financial management from Tel Aviv University. Sagiv has over 10 years' experience in economic and business consulting, valuations of companies and financial instruments and diverse economic-accounting work, in conformity with international accounting standards (IFRS) and with US accounting standards (US GAAP). Previously, Sagiv was lecturer on accounting and valuations at Bar Ilan University.

Below are details of valuations of similar or larger scale, compiled by the leading team:

- **El Al** – valuation of operations of the El Al airplane fleet;
- **Discount Investments Corporation** – valuation for review of impairment of Cellcom;
- **Paz –** valuation for review of impairment of Paz Refineries;
- **Partner –** valuation for the purpose of testing impairment of the land-based communications sector;
- **One1 Software Services –** valuation for review of impairment of the software segment.
- **Arko Holdings / GPM Investments –** valuations and reviews for impairment.

Sources of Information

Our work was detailed on the following data, documents, and presentations:

- The Company's audited Financial Statements for 2020-2021, presented in accordance with the International Financial Reporting Standards (hereinafter "**IFRS**";
- The Company's draft Financial Statements as of December 31, 2022, divided into Mobile Segment and Terrestrial Segment;
- Gain/loss data for 2022 presented according to Management data;
- The Company's 2023 budget at the annual and quarterly level as well as an examination of budget versus implementation for 2022;
- Electronic spreadsheets with other information pertaining to the Company's activity;
- Additional data provided by Company Management;
- Public information;

Summary of Findings

Mobile Segment

Based on our work and the findings detailed in it, we have reached the conclusion that as of December 31, 2022, the value in use of the mobile segment cash-generating unit is higher than its carrying amount, and therefore no impairment provision is needed. The following table presents the results of the impairment test (in millions of NIS):

Millions of NIS	31.12.2022
Recoverable Sum	3,627
Carrying Amount	3,038
Need for Impairment	–

Terrestrial Segment

Based on our work and the findings detailed in it, we have reached the conclusion that as of December 31, 2022, the value in use of the mobile segment cash-generating unit is higher than its carrying amount, and therefore no impairment provision is needed. The following table presents the results of the impairment test (in millions of NIS):

Millions of NIS	31.12.2022
Recoverable Sum	2,688
Carrying Amount	1,819
Need for Impairment	–

Respectfully,

Sagiv Mizrahi, C.P.A.

BDO Ziv Haft Consulting and Management Ltd.

Table of Contents

Chapter 1
The Company and its Activity

The Company and its Activity

General

Cellcom Israel Ltd. is a public company incorporated in Israel, the shares and securities of which are listed for trade on the Tel Aviv Securities Exchange. Until February 8 2021 the shares were also listed for trade on the New York Stock Exchange.

Cellcom is a provider of communications services, primarily offering its customers cellular communications services, landline (land-line) telephone services, international telephone services, internet services, transmissions and data communications, television services, and other associated services. The Company's services are divided between the mobile and landline segments as wilk be expanded on below.

The Company is controlled by Discount Investments Corporation Ltd. (hereinafter: "**DIC**"), which is a company with no controlling stake owned by Mega Or (29.9%), Elco (29.8%), Rami Levi (10.8%) and the public (29.5%).

Discount Investments' indirect holding rate, as of this opinion, of the Company's issued stock capital, is 35.79% and Discount Investments' voting rights in the Company amount to 37.87%.

The remaining holdings in Cellcom are held by various institutional bodies (31.76%) and the public (32.45%).

Mobile Segment

Cellcom provides cellular communications services in Israel in accordance with a general license from the Ministry of Communications, which will be in effect until February 1, 2032 (hereinafter: "**the Cellular License**").

Cellular operation

As of December 31, 2022, Cellcom provides cellular service to approximately 3,452 thousand subscribers on multiple networks, mostly with nation-wide coverage, including calling, texting and data connectivity. Cellcom also provides its customers with other associated services and also offers end equipment (mainly mobile phones and other end equipment such as tablets), and repair services for end equipment.

As of December 31 2022, Cellcom (along with Golan Telecom) has the largest market share in Israel in cellular services, with a 30% market share.

Acquisition of Golan Telecom

On August 26 2020, the acquisition of the full stock capital of Golan Telecom Ltd. ("**Golan**") by Cellcom was completed in exchange for NIS 613 million. Pursuant to the approval of the transaction by the Ministry of Communications, the latter established certain conditions for approval, including turning Golan Telecom into a virtual operator (MVNO) on a temporary basis and demanding that Golan Telecom refund monetary benefits it received in the past, to the sum of 75 million NIS. In 2021, Golan paid to the Ministry of Communications these amounts in full, which were provided for on Golan's financial statements prior to consolidation by Cellcom. On October 31, 2021, Golan filed an administrative complaint with the Jerusalem District Court, seeking reversal of the aforementioned decision by the Ministry and reimbursement of part of the amount paid by Golan.

The Company and its Activity

Mobile Segment (Continued)

Hospitality and Sharing Agreement with Marathon

Pursuant to the above, as of December 31, 2021, March 2022 saw the completion of the transaction that included the purchase of Viacom Mobile Ltd., previously Marathon 018, Exphone (hereinafter: "**Marathon**") by Clear Communication Holdings Limited Partnership, which is controlled by Yariv Lerner and the Clear Mark Foundation, pursuant to the composition of creditors, and the revised network sharing agreement between Marathon and the Company entered into force.

The composition of creditors includes agreements between Cellcom and Marathon to make changes to the sharing agreement. Under the original agreement and the four addenda that were made and signed pursuant thereto, and the changes to the sharing agreement signed by Cellcom and Marathon, Cellcom gives Clear Mark a put option to purchase Marathon's share capital, or an option to provide an additional loan to Marathon from Cellcom, or a mechanism of discounts on payments that it is required to pay Cellcom.

The Company and its Activity

Landline Segment

Cellcom provides a variety of services in the Landline segment, including via Cellcom Line Communications:

- Infrastructure-based internet services and copper fiber;
- Television over internet services (hereinafter: "**Cellcom TV Services**");
- Internet access services (hereinafter: "**ISP**" and/or "**Internet Services Provider**");
- International telephone carrier services (hereinafter: "**ITC Services**";
- Landline telephone services;
- Data transmission and communications services;
- Additional services such as conference call services, cloud services and information security;

The telecom services are provided under a license that was granted to it by the Ministry of Communications or pursuant to registration in a dedicated register that is kept by the Ministry of Communications (excluding streaming television services that do not require a license or permit). Cellcom also provides additional services such as videoconference services, cloud services, server hosting services, data security services and IOT solutions. In addition, Cellcom sells end equipment attributed to the landline communications category. As of December 31, 2022, the Company has 323 thousand internet subscribers, 190 fiber subscribers and 257 thousand TV subscribers, including TV service only or in conjunction with triple bundles.

Investment in Fiber Optic Infrastructure

In July 2019, the Company completed its investment transaction in the shares of IBC Israel Broadband Company (2013) Ltd. ("**IBC**"). Pursuant to this, the Company engaged with the Israel Infrastructure Fund ("**IIF**") in agreements to establish a limited partnership, jointly owned in equal shares, which will purchase 70% of IBC's shares ("**the IBC Partnership**") as well as in an agreement to purchase such shares with IBC and with other primary shareholders and debtors. In addition, the Company engaged in agreements with IBC to sell its fiber infrastructure in residential areas to IBC and an irrevocable usage agreement for the IBC fiber network.

Under the agreement, as amended upon the completion of HOT's investment in IBC, Cellcom is required to purchase a irrevocable right to use (IRU) from IBC with respect to the infrastructure lines of IBC at a rate of 10% of customer homes and buildings that are connected to IBC's fiberoptics infrastructure ("**Home Pass**"), and all based on the deployment of fiberoptic infrastructures that will be completed by IBC in the next 15 years, up to a certain quantity of customer homes and connected buildings), including optional extensions of the usage period of these lines by additional periods under certain conditions and without additional payment, to the exclusion of annual maintenance fees).

The payment for the IRU changes according to the actual deployment of the Home Pass infrastructures by IBC, and it is expected to increase every quarter according to the annual additional deployment in that quarter. As a rule, the consideration for the IRU will be paid in 36 quarterly installments (nine years), plus annual predetermined interest and annual maintenance fees. As of December 31, 2021 and 2022, the cumulative amount of home pass subscribers is 735,000 and 1,100,000, respectively.

The Company and its Activity

Landline Segment (Continued)

In March 2023, After the reporting period and negotiations between the parties, the Company's board of directors approved an additional engagement agreement with IBC (hereinafter "**the agreement**"), in which it was agreed, that starting July 1, 2023, the Company's obligation to purchase from IBC a irrevocable right to use (IRU) in the infrastructure lines of IBC at a rate of no less than 12.5% of customer homes and buildings that are connected to IBC's fiberoptics infrastructure (instead of 10% according to the existing agreement) and at a rate of 15% from July 1, 2024, and all in relation to the remaining first service period.

In addition, accordint to IBC's commitment to act to expand the scope of its infrastructure deployment beyond its obligations which determined according to the terms of its license, the Company has committed to purchase IRU services on infrastructure lines only from IBC, for a fixed period which will be no less than 3 years and under certain conditions, and all as detailed in the agreement.

In addition, It was agreed that the Company will receive a quarterly discount at a variable rate for the maintenance fees paid under its IRU agreement with IBC, starting July 1, 2023 until December 31, 2025, in amounts that are not material to the company. The signing of the agreement is expected to be held during March 2023. However, according to the Company's management, due to external circumstances there is no certainty that the agreement will be signed.

Chapter 2
Market Review

Market Review

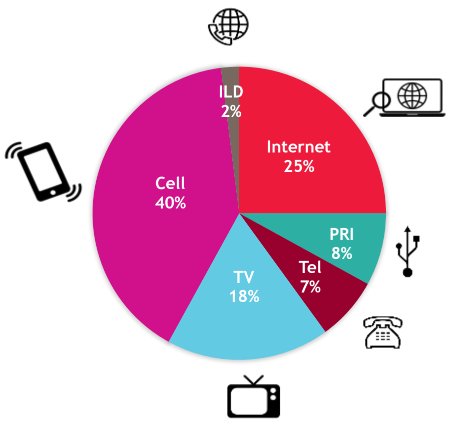
The Communications Industry

The telecom industry worldwide and in particular in Israel, is characterized by rapid development and by frequent technology changes, both in terms of the business structure in the industry and in terms of applicable regulation.

The telecom market, according to the Ministry of Communications, consists of six key sectors: Cellular, land line telephony, international telecommunications, broadcasts, and data transmission and communications. As of 2021, the cellular sector accounts for approximately 40% of revenues in this industry.

The revenues in the telecom market in 2021 increased by 2%, for the first time in three years, from NIS 16.57 billion in 2020 to NIS 16.8 billion in 2021.

The following graph shows the breakdown of revenues of the communications market[1] between the primary operating segments in 2021:



In 2019-2021, revenues in the telecom market were estimated at NIS 17.6 billion, NIS 16.57 billion and NIS 16.8 billion, respectively (a decrease by 5.71% and 1.9% in 2020 and 2021, respectively). Most of the decrease in 2019-2020 originates from the cellular market which, as we'll see below, came from a drop in prices beginning almost 10 years since the cellular market reform, which saw the entrance of the two new players at the time, Golan Telecom Ltd. (hereinafter: "**Golan**") and HOT Mobile Ltd. (hereinafter: "**HOT Mobile**"), as well as the following the entrance of Marathon in early 2018.

The increase in revenues in 2021 in relation to 2020 was caused, inter alia, by the end of the covid crisis because the crisis affected market revenues, and so a return to the known trends before the crisis is evident.

[1] Source: Summary of Communications Market Revenues in 2021 – Ministry of Communications.

Market Review

The Communications Industry (Continued)

An analysis of revenues in the entire sector indicates that a decrease in revenues was observed in 2021 in the following segments:

- International communications– a decrease of 10.4%, similar to the decrease in this segment in recent years, primarily due to free international call solutions.
- Landline telephony – a decrease of 8.7% was observed due to the fact that many young couples and households have abandoned the domestic landline phone.
- Broadcasts – A decrease of 1.6% was observe given the entry of Cellcom and Partner into the television sector and the continued penetration of alternative solutions such as Netflix, Disney+, Amazon Prime, etc. and increased competition.

In comparison, the two sectors that observed an increase in 2021 are the data transmission and communication sector and the cellular's section, which observed an increase by an 88% and 6% respectively. Inter alia, these costs can be attributed to the end of the covid crisis, which had a positive effect on these sectors, reduced restrictions on international flights in the cellular's sector and the expansion of independent infrastructure deployment on the part of market competitors in the data transmission and communication sector.

Moreover, in 2021, the communication market continued its technological acceleration in the landline and the mobile sectors, such that communication consumers in Israel now receive a much higher quality of products.

While in the past, competition in the telecom market focused on competition between independent communications providers in each operating segment separately, in recent years there has been a trend of moving to competition between communications groups operating in parallel in a number of sectors of the telecom market, and offering shared package deals, as detailed in the following table and below:

Operating Segment	Bezeq	Cellcom (Golan Telecom)	Partner	HOT	XFONE
Cellular	פלאפון	Cellcom Golan telecom המון סלולר, מעט כסף.	Partner	HOT mobile	we com
Local Telephone Services	בזק בזק בינלאומי	013 netvision	Partner	HOT	018 אקספון
Internet Services	בזק פלאפון בזק בינלאומי	Cellcom 013 netvision	Partner 012 mobile by Partner	HOT	
International Calls	בזק בינלאומי	013 netvision	012 mobile by Partner		018 אקספון
Television Services	yes STING TV by yes	TV סלקום	Partner tv	HOT NEXT TV+	

Market Review

The Communications Industry (Continued)

The following is a description of the primary players active in the communications industry in Israel:

Cellcom Group– Cellcom (inter alia through Golan) provides cellular communications as well as various services in the landline segment (along with partnership Cellcom Wired Communications), which include, among other things, television services provided over the internet (Cellcom TV), internet infrastructure services (based on the wholesale landline market and the fiber obtics infrastructure of IBC, which is indirectly held by it at a rate of approximately 23%), internet access services (ISP – internet service provider), international carrier services, landline telephone services, data transmission and communications services, sale of end equipment (through the subsidiary, Dynamica), as well as additional services.

As of December 31, 2022, Cellcom reported 3,452 thousand cellular subscribers, 323 internet subscribers, 257 thousand TV subscribers and 175 thousand fiber subscribers. Cellcom is Israel's largest cellular company.

Partner Group– provides cellular communications services and diverse land line services (together with the 012 Smile Partnership), including the following: online TV services (Partner TV), Internet infrastructure services, Internet access services (ISP), international long-distance calling, wire line telephone services, data relay and communications services, sale of terminal equipment and other services. Partner provides Internet infrastructure based on the wholesale market (primarily on Bezeq infrastructure), and, as of 2023, also by means of an IRU agreement signed with Bezeq on December 22, 2022, and through its own fiber infrastructure.

As of September 30, 2022, Partner reported 3,042 thousand cellular subscribers, 222 thousand TV subscribers and 268 thousand fiber subscribers.

HOT Group– HOT owns a nationally-deployed cable infrastructure, and provides multi-channel television services, cellular telephone services via HOT Mobile, terrestrial telephone services, internet transmission infrastructure (fiber optic infrastructure of IBC that's indirectly held by it at a rate of 23%) and data communications using HOT Telecom as well as internet service provider (ISP) services via HOT Net. HOT is a private company fully owned by international communications corporation Altice, owned by Patrick Drahi.

In accordance with Altice's reports from September 30, 2022 HOT has 1,481,000 cellular subscribers and 1,049,000 subscribers in the terrestrial segment. In addition, HOT's cable infrastructure reaches 2,252,000 households, constituting 90% of all households.

Bezeq's Group– Bezeq owns nation-wide copper wire infrastructure and fiber infrastructure, as elaborated below. Bezeq provides land line domestic telecom services, mobile telephony services through Pele phone, multi-channel TV services through DBS Satellite Services (1998) Ltd. (hereinafter: "**Yes**"), infrastructure services through Bezeq, international telecom services and Internet infrastructure services through the wholesale market and Internet access (ISP) services through Bezeq International. Bezeq also provides maintenance and development of telecom infrastructure, provision of telecom services to other telecom providers, dissemination of public TV and radio broadcasts and the and maintenance of equipment and services.

Market Review

The Communications Industry (Continued)

According to Bezeq financial statements as of September 30, 2022, Bezeq had 2,675 thousand cellular subscribers, 1,522 thousand telephony land lines, 1,505 thousand Internet infrastructure subscribers (of which: 481 thousand in the wholesale market and 1,024 thousand direct end customers) and 1.477 million households connected to optical fibers (of which 233 thousand are connected to the fiber network).

Data about existing subscribers of telecom companies presented above are as of September 30, 2022, based on available data for all telecom companies for comparison purposes.

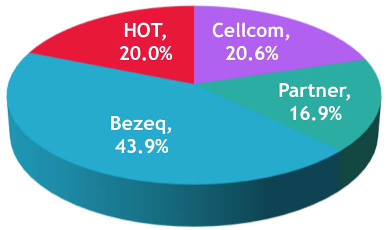
Results of Primary Communications Companies in 2022:

Below are the results of major telecom companies in the market for the 9 months ended September 30, 2022 (NIS in millions), as reported on their financial statements (*):

Q_{1-3} 2022 (NIS in millions)	Cellcom	Partner	בזק	HOT
Revenues	3,239	2,604	6,742	3,144
Gross profit	947	611	–	–
% gross profits	*29%*	*23%*	-	-
Operating profit	263	241	1,389	139
% operating profit	*8%*	*9%*	*21%*	*4%*
Net profit (loss)	108	137	891	–
% net profit	*3.3%*	*5.3%*	*13.2%*	-

(*) HOT's information is published in Altice's reports in euros and were translated according to the average exchange rate in 2022 according to the Bank of Israel.

Below is composition of revenues of the principal telecom companies in the telecommunications market, for the first nine months of 2022:



Corona Virus

In early 2020 the coronavirus (Covid-19, hereinafter: "**Coronavirus**" and/or "**Covid-19**" and/or "**the Virus**"), which was declared a global pandemic by the World Health Organization. The Corona Virus pandemic and uncertainty with regard to further spreading of the Virus resulted in an economic crisis reflected, inter alia, in decrease in economic activity, sharp decline in the price of oil, volatility in foreign currency exchange rates and higher unemployment. As a result, and in order to prevent the virus from spreading, many countries around the world, including Israel, took measures that placed restrictions on movement, crowds, events, business activity and more. The measures applied included several prolonged lock downs, with people only allowed to travel to essential workplaces.

Market Review

The Communications Industry (Continued)

In mid-December 2020, a campaign began that was designed to grant gradual population-wide immunization, and, since the first quarter of 2021, several reliefs were taken regarding the traffic and trade in the country due to the high immunization rates in Israel and the waning of the pandemic. In December 2021, with the renewed outbreak of the Omicron variant virus, a fifth wave broke out in Israel and world-wide, resulting in sharply higher morbidity. However, the government did not impose any restrictions or closed skies. Morbidity rates sharply decreased in 2022, and the waning of the effects exerted by the covid crisis on the Israeli economy continued, with a return to economic routine becoming a reality by the time this work was written.

In 2021, the impact to telecom companies was mostly reflected in revenues from roaming services, with no material impact to other operating segments. Pursuant to reports by the main telecom companies, the end of the crisis and the removal of most restrictions on international flights have supported the recovery of revenues from roaming services in the first nine months of 2022, relative to the corresponding period of the previous year, and we even observe a return to a level of operations that is similar to the one that was in place before the crisis.

Global chip crisis

The Corona Virus pandemic resulted in severe shortage in computer chips, starting in late 2020 and deteriorating in 2021. In recent decades, computer chips have become an essential "raw material" for all electronic products. In early 2020, due to the Corona Virus pandemic, many chip plants shut down, and many companies canceled their orders for chips due to concern about a drop in demand for their products. When the lock downs were lifted, these plants resumed work, although not at full capacity. Consequently, all new chip orders were delayed by at least several months. The chip shortage results, naturally, in issues across the global manufacturing chain, and of course in higher prices of finished goods and world-wide inflationary pressures.

In 2021, some telecom companies have brought forward their orders for equipment in order to avoid shortages, but supply chain delays and the global microchip shortage (caused by supply difficulties and the trade war between the United States and China) continued to have a negative effect on supply dates and prices of equipment from the telecom companies' main suppliers. The concern is about shortage of 5G telecom equipment and routers for broadband internet over optical fibers, along with challenges in supply of some cellular devices[2].

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[2] https://www.globes.co.il/news/article.aspx?did=1001386801

Market Review

Increase in inflation and interest rates

In 2022, changes have occurred in the global economy that affected interest and inflation rates in Israel and around the world. The covid crisis reached its peak in 2021 and continued until the beginning of 2022. It caused disruptions to global supply chains that lead to shortages and increased demands as a result of the end of the crisis. Accordingly, we observed a corresponding increase in prices in Israel and around the world. In 2022, price increases were observed in many markets and the inflation rate in Israel was 5.3% in 2022, a 20-year record in terms of inflation rates in a calendar year. For the sake of comparison, the inflation rate in the United States in 2022 was 7%, and it reached its peak (9.1%) in annual terms in the summer.

Moreover, in 2022, central banks around the world and the Bank of Israel began to increase interest rates, inter alia in order to stop inflation. In March 2022, the Federal Bank in the United States increased the interest rate for the first time in four years, and, after seven more increases at the end of 2022, the interest rate in the United States amounted to 4.5%. The Bank of Israel began to increase interest rates in April 2022, from 0.1% to 3.75% in January 2023. According to the financial statements of the main telecom companies for the first quarter of 2022, they expect a moderate effect from the risk of exposure to changes in inflation and interest rates, and that this effect could primarily be in the context of financing and debt raising.

Mobile Telephone Market

The cellular network operates using two primary components – mobile telephone devices and fixed broadcast facilities. Mobile phones, the end device, broadcasts radio waves to the antenna of the broadcast facility and receives radio waves from it. The cellular network divides the country’s area into thousands of geographical units called “cells” (hence, cellular communications), with each cell containing a fixed broadcast facility (broadcast site, antenna). The cells overlap each other slightly and maintain continuous telecommunications coverage in a structure similar to that of a beehive. If the cells do not overlap then a gap is created in coverage, which means no reception in the “hole” and inability to maintain continuity when a subscriber passes between cells.

The cellular technologies used to date in Israel include “Second Generation”, “Third Generation” (UMTS technology[3] and additional types), “Fourth Generation” (LTE Technology[4]) and 5G.

- The 4G Tender takes place between 2014-2015 and the 5G Tender takes place in August 2020. The aforementioned tender licenses were awarded to the following cellular operators: Hot Mobile, Partner, Cellcom, Pelephone, Golan Telecom and Marathon (hereinafter: "**Cellular Operators**" and/or "**MNO**").

After the Cellcom-Golan merger in August 2020 the number of cellular operators dropped to 5 (as detailed above).

[3] Universal Mobile Telecommunications System – an international cellular communications standard, a development of the GSM standard.
[4] Long Term Evolution – a standard for high-speed wireless communications of wireless devices such as a mobile phones.

Market Review

Mobile Telephone Market (Continued)

The following is subscriber data for the companies operating in the field of mobile communications in Israel as of December 31 2016-2021 and as of September 30, 2022 (thousands):

No. of Subscribers (Thousands)	30.9.22	31.12.21	31.12.20	31.12.19	31.12.18	31.12.17	31.12.16
Cellcom (+Golan Telecom)	3,410	3,275	3,204	3,667	3,757	3,710	3,651
Partner	3,042	3,023	2,840	2,660	2,650	2,674	2,686
Pelephone	2,675	2,576	2,442	2,336	2,205	2,525	2,402
HOT Mobile	1,481	1,392	1,373	1,350	1,296	1,564	1,447
MVNOs & We4G	633	586	609	448	350	180	209
Estimated Total Number of Subscribers	**11,241**	**10,852**	**10,468**	**10,461**	**10,258**	**10,653**	**10,395**

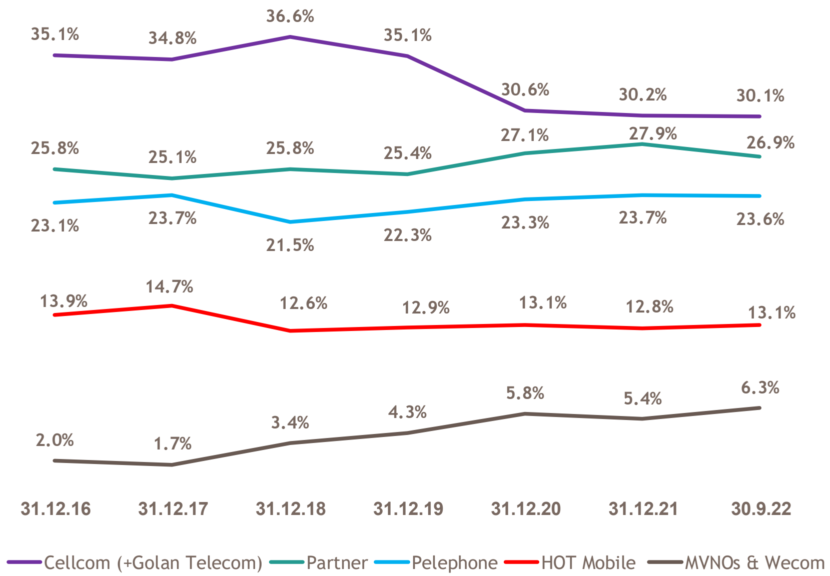
(*) Partner, Cellcom, Pelephone, Golan Telecom and HOT Mobile subscriber data was derived from the financial statements of these companies or the statements of their parent companies. We estimated subscriber data for 5MVNO operators and Marathon (Wecom) based on publications in the economic press and other public information, and these exclude subscribers of 019.

(**) Over the course of 2018 588,000 subscribers were written off by Pelephone and HOT, and in 2019 153,000 subscribers were written off by Cellcom.

(***) During the fourth quarter of 2020, Cellcom deleted approximately 427 data subscribers.

(****) For the sake of comparison – Cellcom and Golan data was consolidated for the duration of the measurement period.

The following is a description of the development of the market shares of the primary companies active in the industry based on the number of subscribers presented in th above table in 2016-2021 and September 30, 2022:



[5]Mobile Virtual Network Operator – a virtual cellular operator, who uses existing cellular operator infrastructure with no need for their own infrastructure.

Market Review

Mobile Telephone Market (Continued)

The competition in the mobile field has led to an ongoing drop in prices, increased customer mobility, a drop in telephone minute consumption as well as customer abandonment. However, churn rates have begun to improve in recent years, and the number of transfers between cellular companies has decreased.

Cooperation Agreements and Hosting Agreement

The cellular companies operate within the framework of a license issued by the Ministry of Communications. The license given the companies obliges them to provide the service to their subscribers in a proper and organized manner, across the country and at a level of service no lesser than that stated in the service quality indices detailed in their licenses. As a rule, each company is required to have their own independent infrastructure, but collaborations exist between cellular companies at various passive communications sites (meaning sites featuring antennas). These are usually central sites, with a single “mast” serving as the basis for the antennas of various companies as well as collaborations on active infrastructure as detailed below. The Ministry of Communications’ current policy is to encourage various methods of sharing between networks, while making sure to protect competition between companies.

The following are the existing cooperation agreements:

Partner - HOT Mobile: in April 2015 Partner and HOT Mobile announced that the Minister of Communications has approved the network sharing agreement between the companies for the active radio segment for the establishment of a partnership that would hold, develop and operate one advanced cellular network for both companies, each of which would hold one half of the rights to it. Following the approval in question, Partner and HOT Mobile established a joint corporation (the Phi Company), which received a special license to provide cellular radio infrastructure to a mobile telephone operator. The license will be in effect for 10 years. As part of the joint agreement between Partner and HOT Mobile, HOT Mobile will receive hosting services from Partner.

Market Review

Mobile Telephone Market (Continued)

A. <u>Cellcom – Marathon</u>: in July 2016 the Company engaged with Marathon, which had won 4G frequencies in the 2015 frequencies tender, in a 4th Generation network sharing agreement and 2nd and 3rd Generation network hosting services. The agreement will remain in effect for 10 years, unless extended by the parties. A dispute arose between Marathon and Cellcom in 2020, when Marathon informed Cellcom of the termination of the sharing agreement, and filed a motion to sell its cellular operation. A transaction was completed in March 2022 in which Clear Mark Fund invested in Exphone in exchange for the allotment of 66.67% of Marathon's shares. The acquisition was completed concurrently with a debt arrangement with Marathon's creditors, under which a revised network sharing agreement was signed by Cellcom and Marathon.

In addition, there are infrastructure hosting agreements between operators without independent infrastructure and operators with independent infrastructure (hereinafter: "**Hosting Services**"):

a. Rami Levi receives hosting services from Pelephone.

b. 019 Telzar receives hosting services from Pelephone and Partner.

Mobile Telephones – Market Price Trends

The cellular market reform has led to a drop in prices and the low rates have compelled the companies to undergo significant streamlining. Israeli consumers have internalized numbers mobility.

Based on our analysis, as of the end of 2021, ARPU in Israel was NIS 50; this in 2010-2021, ARPU in Israel decreased by over 60%. In 2010-2015, ARPU in Israel decreased annually by an average 14%; as from 2016, the downward trend slowed and between 2016-2021, the average annual decrease was only 4%. In the first nine months of 2022, ARPU in Israel was NIS 53, reflecting an increase by 5% compared to 2021, after more than a decade in which the ARPU decreased as noted above.

Below is ARPU data for major companies in the mobile telephony market in Israel in 2010-2021 and in the nine months ended September 30, 2022, as presented on their financial statements (in NIS per month, rounded):

ARPU	Q1-3 2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cellcom (+Golan Telecom) (*)	50	48	47	51	51	57	63	65	72	79	88	106	144
Change %	*3%*	*2%*	*-7%*	*-1%*	*-10%*	*-9%*	*-3%*	*-10%*	*-9%*	*-10%*	*-17%*	*-26%*	*0%*
Partner	51	48	51	57	58	62	65	69	75	83	97	111	148
Change %	*6%*	*-6%*	*-11%*	*-2%*	*-6%*	*-5%*	*-6%*	*-8%*	*-10%*	*-14%*	*-13%*	*-25%*	*-2%*
Pelephone	58	55	56	63	62	61	63	64	78	86	95	106	135
Change %	*7%*	*-2%*	*-11%*	*2%*	*2%*	*-3%*	*-2%*	*-18%*	*-9%*	*-9%*	*-10%*	*-21%*	*2%*
HOT Mobile(**)	–	–	–	–	55	52	50	54	69	82	99	–	–
Change %	-	-	-	-	*6%*	*4%*	*-7%*	*-22%*	*-16%*	*-17%*	-	-	-
Weighted ARPU(***)	**53**	**50**	**51**	**56**	**56**	**59**	**62**	**64**	**74**	**82**	**94**	**103**	**136**

(*) As from 2020, data includes Golan Telecom.

(**) As from the third quarter of 2018, Hot is not a reporting entity and does not make its data public.

(***) A weighted average in accordance with the market share of each of the leading players in the market in that period.

According to the financial statements of these companies, the ARPU was calculated by dividing the monthly average of the total revenues from the cellular services, including revenues received from cellular operators making use of the network of the relevant company, by the lineup of active subscribers at the end of the period.

Market Review

Mobile Telephone Market (Continued)

According to the table and further to the foregoing, the weighted ARPU for leading companies in the mobile telephony market was gradually eroded in recent years, with a sharp decrease in 2011 due to the reduction in connectivity fees (see below) and the start of intense competition in this market. Total ARPU decline, from 2012 through the third quarter of 2022, amounted to NIS 41 or 44% in the aggregate, with a compound annual decrease rate of 5.56%. The relatively moderate drop in ARPU in 2018 and 2019 largely derives from the subscriber write-offs carried out by Pelephone and HOT, which increased the ARPU they displayed. In addition, between 2020-2021 we see an additional trend of a drop in weighted ARPU, largely deriving from the negative impact of the Covid-19 crisis on revenues from roaming service sand the continued price erosion of cellular services as a result of the ongoing competition in the market. As we can see in the first nine months of 2022, an increase in ARPU was observed, which is attributed, inter alia, to the end of the covid crisis and the recovery of revenues from roaming services, and an increase in prices in the cellular market that began in the first half of 2022, and accelerated sales of 5G cellular packages that generate higher revenues.

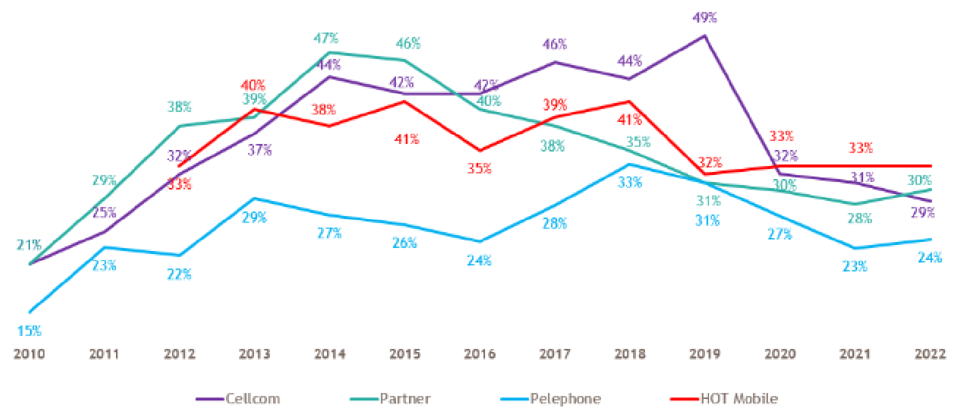
Connectivity Fees in the Communications Market

Connectivity fees in cellular calls dropped starting January 1, 2011, from 0.254 NIS to 0.634 NIS, gradually decreasing to 0.06 NIS by 2014. In text messaging, connectivity fees dropped starting January 1, 2011, from 0.03 NIS to 0.016 NIS, gradually decreasing to 0.013 NIS by 2014. In addition, connectivity fees for landline telephones dropped starting December 1, 2013, from 0.035 NIS to just 0.01 NIS.

As of 2016, the Ministry of Communications began to facilitate the cancellation of connectivity rates that apply to operators in the landline and cellular markets.

In June 2022, after several attempts to facilitate this move, the Minister of Communications signed a plan designed to lower mobile connectivity rates. This is a gradual process that will take three years to complete before connectivity fees are fully abolished, and, at the end of this process, operators will not apply connectivity rates at all. The proposed plan is based on the “charge and keep” model, which cancels the wholesale transfer of payments between telecom companies and their settlement of accounts. It should be noted that, because of the decrease in revenues from connectivity fees, a decrease will also be observed in the ARPU of telecom companies in upcoming years.

Alongside the drop in ARPU, following the increase in competition in recent years, companies in the industry have undergone a significant increase in abandonment rates. The chart below shows the development of churn rates for leading companies in the market in 2010-2022, as presented on their financial statements (*):



Market Review

Mobile Telephone Market (Continued)

(*) Churn rate data for Partner, Cellcom and Pelephone for 2022 is based on the first nine months of 2022, annualized.

(**) As from the third quarter of 2018, Hot is not a reporting entity and does not make its data public. Therefore, data for Hot for 2018 is based on the second quarter of 2018, annualized. Data for Hot for 2019-2021 is based on publications in the economic press.

Note that the average churn rate for cellular networks in Israel is high compared to OECD countries and by global comparison, but as evident from 2019, the churn rate is trending lower. It should be noted that as of 2022, the competition in the market is less aggressive than before, which has a positive effect on churn rates.

The Need for Innovation – Fifth Generation

Technology used to transmit cellular data undergoes constant improvement. Experience from the past 30 years shows that on average, every 7 years a new generation is developed, which upgrades the information data transfer capacity over the cellular medium. The new technology's development process will take a number of years. As of the start of 2020, China and South Korea were the first countries in the world with a 5th Generation network covering the entire country. This technology is already in operation in some cities in the USA and in Japan.

Fifth Generation technology is expected to increase bandwidth by a factor or 10 or more relative to Fourth Generation networks. But beyond that, 5G is expected to lead to a significant increase in response time (a decrease in latency – the amount of time that passes between performing a certain action and receiving a response).

The improved reaction time contributes to the user experience in online services in general but is particularly critical in M2M applications – high-speed communications between machines. 5G provides potential for a revolution in apps and services.

In the USA[6] and in many other countries, 5G is used not only as a cellular technology, but also as a fixed broadband technology for homes and businesses (factories, transportation, smart cities and sports). In many cases, operators use this technology rather than deploying optical fibers to homes, or as a temporary measure until fibers reach places lacking in infrastructure. In Israel, the demand for bandwidth was partially met by the fourth generation, which obviates the need to invest billions of NIS in 5G technology.

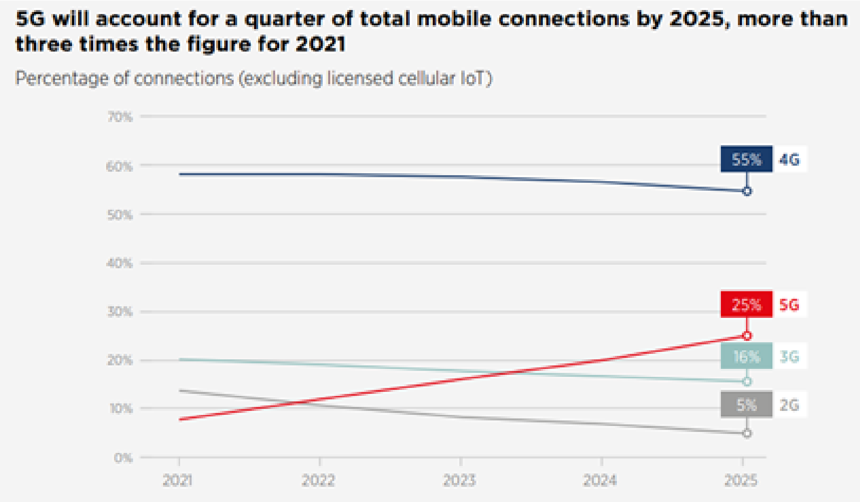
The Annual Mobility Report (Ericsson) shows that, as of the first quarter of 2022, the number of global 5G subscribers who own a 5G-compatible device amounts to 620 million, and is expected to reach about one billion subscribers by the end of 2022. The report also states that, according to projections, by the end of 2027, the number of 5G subscribers will be 4.4 billion, and will be adopted by 90% of the population in the United States and 48% on average in the rest of the world.

[6] https://www.globes.co.il/news/article.aspx?did=1001415833

Market Review

Mobile Telephone Market (Continued)

The chart below shows the forecast global use of different generations (2G-5G) in 2021-2025, as of 2022[7]:



According to this forecast, it appears that the 4G will dominate the global market in terms of deployment and use for at least 10 years. According to the forecast, in 2025 4G and 5G would account for 55% and 25%, respectively of all cellular data technology.

eSIM Technology

eSIM (Embedded SIM) technology has recently begun penetrating central global markets, such that more and more cellular operators support and enable their clients to use eSIM. This technology enables users to replace the physical SIM card with an internal SIM card that is embedded in the phone's operating system.

eSIM enables the loading of multiple profiles and several telecom providers at the same time, in contrast to regular SIM cards that are limited to the a single communication provider. Moreover, this technology does not require a physical SIM card, and the loading process takes place through the app. eSIM activation requires the cellular operator to support this technology.

This technology also enables the use of services such as Airalo and Knowroaming, which enable users to purchase packages in different countries and virtually install them, such that, by the time the user arrives at their destination, the phone will be connected to the local telecom provider.

Apple recently announced that it will market the iPhone 14 in the United States without a SIM slot, and that it will begin to rely exclusively on eSIM cards. This is an important statement by a market leader that shows that this technology is about to form part of cellular markets all over the world, and that cellular companies that have yet to adopt it must prepare themselves accordingly.

[7]The Mobile Economy 2022 Report, GSM Association

Mobile Telephone Market (Continued)

As of the valuation date, Israeli cellular providers do not support eSIM, other than smart watches that include in-built cellular communication capabilities, and other than Wecom, which recently announced that it will begin to support the service.

The Internet Market

Connecting to landline internet takes place in two stages: first through the internet infrastructure provider, and second through the ISP.

There are five infrastructure providers in Israel: Bezeq (copper wire and fiber), Hot (cable and fiber through IBC), Partner (fiber), Cellcom (fiber throuhg IBC) and IBC (fiber). The Israeli internet connectivity market includes dozens of companies with relevant licenses, but the vast majority of them have no significant market share and the market is controlled by Bezeq International (Bezeq), 012 Smile (Partner) and 013 Netvision (Cellcom).

The Reform that cancels the separation of private customers (infrastructure services and ISP services) entered into force in June 2022 (the process of splitting the infrastructure services of Bezeq and HOT). The reform means that Israeli consumers will now have a single address through which they can purchase Internet services and resolve issues. Moreover, the Reform creates mechanisms that will ensure that even small and new players will be able to effectively, equally and competitively operate with respect to infrastructure owners in the framework of the wholesale market

Infrastructure owners signed binding agreements with companies that seek to use their infrastructures, including compensation arrangements in relation to breaches of the agreement.

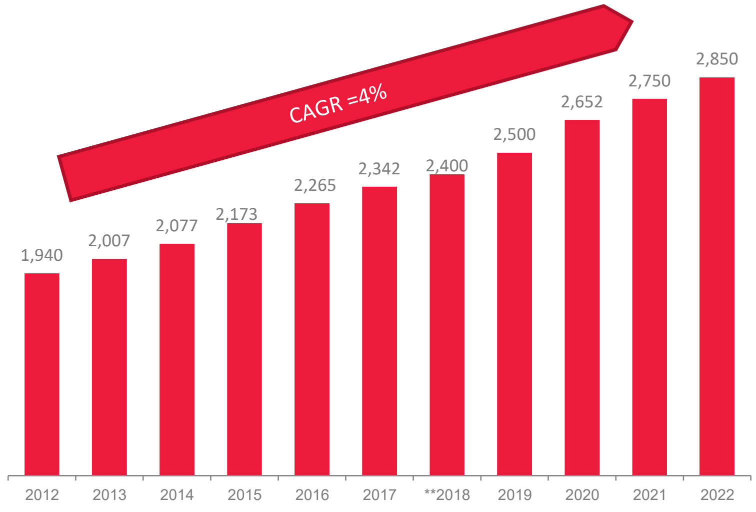
According to Bezeq's annual financial statements for 2021, Bezeq estimates its market share in Internet infrastructure in 2021 at 57%, compared with 61% in 2020 and to 63% at the end of 2019. One may say that Bezeq's market share in Internet infrastructure is declining, due to growing competition from new competitors Cellcom, HOT, Partner and IBC, who provide Internet infrastructure over optical fiber and accumulate more and more subscribers.

The internet infrastructure penetration rate in Israeli households is among the highest in western countries. However, in international terms, Israel is falling behind western countries in terms of bandwidth and the move to optic fiber.

Market Review

The Internet Market (Continued)

Below is the development in number of Internet infrastructure subscribers in Israel in 2012-2021 and as of end of the third quarter of 2022 (in thousands)[8] (*):



(*) Total infrastructure subscribers in Israel includes subscribers of Bezeq (copper wire and fiber), Hot (cable and fiber through IBC), Cellcom (fiber) and Partner (fiber). As is evident, from 2012 through the third quarter of 2022, the CAGR for number of infrastructure subscribers in Israel was 4%.

(**) As from the third quarter of 2018, Hot is not a reporting entity and does not make its data public, therefore the number of Hot subscribers is estimated.

Wholesale Market Reform

In November 2014 the Minister of Communications published a resolution according to which, among other things, the obligation to lease the infrastructure of Bezeq and HOT, in stages, to the access providers, was anchored in defined rates. Among other things, the monthly payment includes a fixed payment to a line for accessibility services, and a variable payment for the scope of use (measured in megabits/second).

On February 20 2020, the Ministry of Communications ruled on an update to Wholesale Market rates. The ruling retroactively set the final rates for 2019 and 2020 and set the rate update mechanism for 2021-2022. The decision also included a mechanism for repaying the surplus payments paid by the ISPs to Bezeq in 2017-2018.

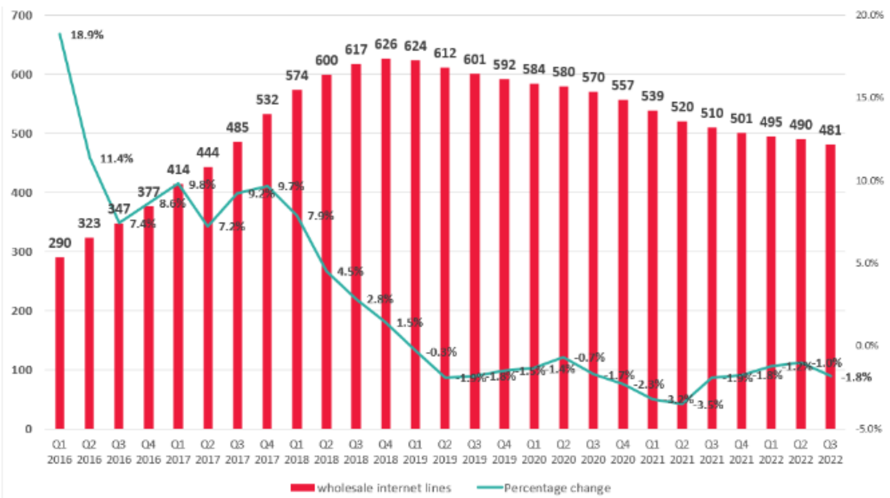
Starting 2021, in accordance with the Ministry of Communication's announcement, the rate for the data transmission service in the Bezeq network core will amount to 6.5 NIS per megabit/second, compared to 10.2 NIS in 2020. Moreover, the average fiber rate will be NIS 72 as of December 2022. The aforementioned rates will be in force for three years and will then be replaced by fixed rates.

[8]Source: Financial statements of infrastructure owners, including Cellcom and Partner for their fiber subscribers.

Market Review

The Internet Market (Continued)

The following graph shows the development of the number of wholesale internet lines in Bezeq infrastructure from the start of the reform (in millions) on a quarterly basis[9]:



It is evident that as of December 31, 2021, the number of wholesale Internet connections was 501 thousand, compared to 481 thousand in September 2022. From the outset of the reform through 2018, the number of wholesale Internet connections increased. As from the first quarter of 2019, the number of subscribers decreased for the first time.

This trend reversal was primarily due to Partner and Cellcom starting to sell optical fiber infrastructure, in lieu of Bezeq infrastructure. From this point onwards, the number of wholesale connections declines as fiber deployment by Partner and IBC grows.

Optic Fiber

Unlike the more common copper wire technology, optic fiber technology allows extremely large bandwidths that allows the transfer of large amounts of data. It also allows internet access at symmetrical speeds, meaning that data will be downloaded at the same rate as it uploads. Additional advantages of the use of fibers are lower weight, immunity to outside disturbances, and resistance to water and dampness. Expanding internet speeds beyond symmetrical access will upgrade users' internet experience, improve the quality of content viewing and will allow the infrastructure to deal with increased future network traffic capacity demands, which are expected to emerge as a result of the increase in uses and applications demanding broadband, such as IOT (internet of things) technology.

[9]Bezeq Financial Statements

Market Review

The Internet Market (Continued)

The first companies to deploy optic fibers in Israel in 2013 were Bezeq and IBC (more below).

In January 2017 the Ministry of Communications announced that Cellcom and Partner would be able to deploy an optic fiber network on Bezeq's infrastructure according to a model and method of their choice. Therefore, and in order to eliminate the need for payments to Bezeq for infrastructure, in 2017 Cellcom and Partner started rapid deployment of optical fibers.

Currently, based on the fiber outline and on the IBC-Hot transaction, there are three fiber infrastructure roll outs in Israel: by Bezeq, IBC and Partner.

In 2021 alone, the three major companies (Bezeq, IBC and Partner) deployed fiberoptic networks to 1.5 million households, of which 550 were deployed for the first time. The access to fiberoptic networks was increased in 2021 to 20% of households, and this pace continues in 2022: in the first half of the year, an additional 10% were deployed to households, and the accessibility rate amounted to 60%. In the Ministry of Communications' assessment, the accessibility rate will be 70% at the end of 2022.[10]

Partner

Until 2022, optical fibers deployed by Partner reach one million households and 268 thousand households. Partner selects its deployment areas in a focused manner at its sole discretion in accordance with economic feasibility and is not committed to deployment percentages, excluding tender-based commitments to high-demand regions.

In December 2022, an agreement was signed under which Partner will acquire the right to use 120,000 Bezeq fiberoptic lines for 15 years (IRU Agreement), in exchange for NIS 574 million, plus annual maintenance fees in the amount of NIS 23 million (including interest and indexation), such that the total amount of the transaction is expected to be approximately NIS 1 billion. The agreement includes an undertaking by Partner to purchase the right of use at 5 annual and equal stages, and the agreement also includes five extension periods of five years each with respect to the use of fiber lines.

Following the agreement between Partner and Bezeq, the Ministry of Communications contacted Bezeq and raised concerns about the agreement having adverse effects on competition in the fiberoptics market. Following discussions between the Ministry of Communications and Bezeq, As a result of the agreement, it was agreed that Bezeq will lower the price of using fiber optics in the wholesale market to NIS 72 instead of NIS 85.2.

In January 2023, the Ministry of Communications approve the transaction, and, in addition to Bezeq lowering the wholesale market prices, Bezeq agreed to make the agreement accessible to everyone, and lower the rate similarly with respect to other companies in the market.

[10]Source: Summary of Communications Market Revenues in 2021 – Ministry of Communications.

Market Review

The Internet Market (Continued)

IBC

In August 2013 the State granted IBC a general license to provide communications infrastructure services (such as data communications, numeric transmission, VPN) based on fiber optics. IBC is rolling out fast Internet infrastructure over optical fibers, which are also deployed over the Israel Electric Company's network, supporting up to 1000 Mbps under the Unlimited brand.

IBC was compelled, by its licensed, to implement gradual universal deployment over a course of 20 years. In November 2018, the Ministry of Communications approved relief in the deployment of IBC's fiber optic network, compelling it to achieve 40% deployment only, unlike the original demand for 100% deployment.

In 2019 Cellcom invested, along with the IIF, a total of 170 million NIS in IBC. After the investment and until the entry of HOT, IBC was held, indirectly, by Cellcom (35%), IIF – Israel Infrastructure Fund (35%) and by the Israel Electric Company (30%). Concurrently, the Company sold to IBC the independent fiber infrastructure of Cellcom in residential areas, for NIS 180 million. Due to the aforementioned transactions, at that time IBC had access to 300 thousand households connected to the fiber network.

Under the agreement signed with Cellcom in July 2019 (as amended upon the completion of HOT's investment in IBC), Cellcom is required to purchase a irrevocable right to use (IRU) from IBC with respect to the infrastructure lines of IBC at a rate of 10% of customer homes and buildings that are connected to IBC's fiberoptics infrastructure ("**Home Pass**"), and all based on the deployment of fiberoptic infrastructures that will be completed by IBC in the next 15 years, up to a certain quantity of customer homes and connected buildings), including optional extensions of the usage period of these lines by additional periods under certain conditions and without additional payment, to the exclusion of annual maintenance fees).

The payment for the IRU changes according to the actual deployment of the Home Pass infrastructures by IBC, and it is expected to increase every quarter according to the annual additional deployment in that quarter.

As a rule, the consideration for the IRU will be paid in 36 quarterly installments (nine years), plus annual predetermined interest and annual maintenance fees. As of December 31, 2021 and 2022, the cumulative amount of home pass subscribers is 735,000 and 1,100,000, respectively.

Market Review

The Internet Market (Continued)

In September 2020, Cellcom and IIF signed an investment agreement with HOT, according to which HOT would become an equal partner in the IBC partnership, holding 70% of IBC's issued stock capital. The transaction was completed in February 2021 after receiving the required regulatory approvals. Bringing HOT in as a partner in IBC will lead to IBC being able to significantly increase its infrastructure deployment and at an accelerated rate. As of the publication of this reort, IBC is deployed at 1.1 million households, and it intends to continue to expand the infrastructure's deployment to 2 million households. After the entry of HOT, IBC is held, indirectly, by Cellcom, IIF – Israel Infrastructure Fund and HOT (23.3% each) and by the Israel Electric Company (30%).

Bezeq

Bezeq began its deployment (households) in 2013, and deployed fiber optics to 60% of households but has halted their actual connection to buildings in light of the economic infeasibility of national deployment. In 2020, a significant development occurred when the Ministry of Communications resolved the issue through the "optical fiber outline" approved in late 2020. As part of the reform, which entered into effect on January 1, 2021, Bezeq's nationwide deployment obligation was removed and it was required to notify where it wishes to deploy within 5 months, and complete the deployment within 6 years.

In addition, it was determined that for areas that it does not choose, a subsidy fund will be established from the revenues of the communications companies, which will operate for a decade.

The areas that Bezeq will ask to avoid deploying in will be defined as "incentivization areas", for which a fund will be established from the revenues of the communications companies (0.5%), the money of which will subsidize the deployment via tenders. Moreover, pursuant to the tender published by the Ministry of Communications on October 30, 2021 (deployment in incentive regions), on October 26, 2022, the Ministry published an additional tender for deployment in the other incentive regions.

According to Bezeq's financial statements for the period ended December September 30, 2022, on October 3, 2022, the Minister of Communications approved the Company's request to deploy an advanced network and supply telecom services through it in additional regions beyond those specified, and amend the Company's license accordingly. It should be noted that this means deployment in 151 additional regions, which include 60,000 households. According to the decision of the Minister of Communications, the number of households in the deployment regions of the Companies is 82.5%, an additional 2.3%, such that the current percentage of households in the company's deployment regions will be 84.7%.

In the framework of examining its fiber optic deployment objectives in Israel, in its financial statements of September 30, 2022, Bezeq changed its fiber-optic deployment projection to approximately 1.5 million household by the end of 2022 (as opposed to 1.4 million in the original forecast of March 2022). Moreover, Bezeq reported that it completed the physical deployment of its fiber network to 1.477 million households (of which 233,000 are connected subscribers), and, in fact, it achieved its annual forecasts for March 2022.

Market Review

International Call Market

General

International call services include, among other things, direct dialing services from Israel abroad and from outside the country to Israel, dialing lines abroad, routing and transferring international calls between foreign telecom providers, call cards and more.

As of today, there are 7 communications companies active in the Israeli market that provide international telephone services – 014 Bezeq International, Cellcom Landline Communications (013), 012 Smile (operating under Partner), HOT Mobile International Communications Ltd. (017), Marathon 018, Telzar 019 and Rami Levi (015). In order to operate in the international calls market, the company/operator needs to receive an International Carrier license in accordance with the Communications Law and make investments in infrastructure (the scope of investments in this market is lower than the scope of investments needed in the domestic operator or cellular markets).

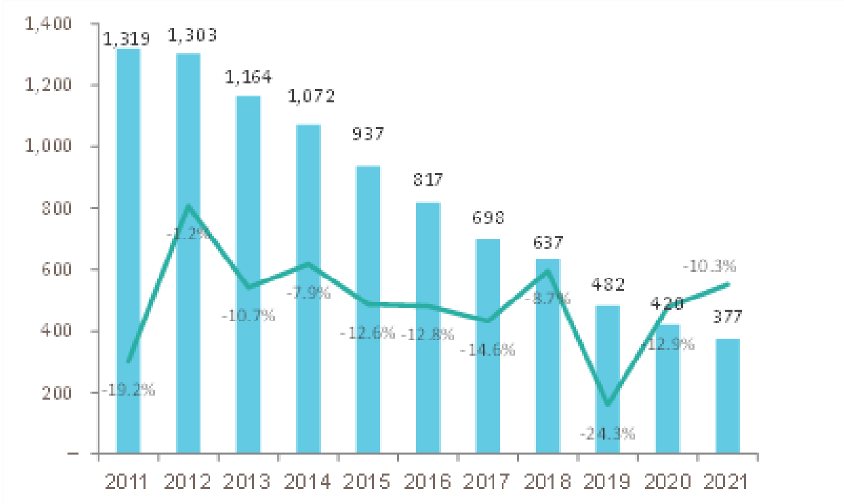
The Israeli international calls market has been characterized in recent years by a drop in call minutes (incoming and outgoing), mainly due to the service packages offered by the cellular companies, which include international call minutes and in addition, the increasing use of free applications that enable global communications free of charge, and primarily the use of applications like WhatsApp.

The market is competitive, sensitive to prices from the consumer's point of view, and is characterized by multiple special offers made by various operators. The price margin that existed in the past between calls abroad using a mobile versus landline phone has decreased due to the drop in cellular air time prices.

International Call Market (Continued)

In addition, the cellular companies also include unlimited overseas call packages in their packages, in these packages the customers do not make their calls through the landline operator but rather use the package of minutes offered them as part of their cellular package.

The graph below presents the total revenues from the international calls activity in the communications market in Israel and the annual change that took place between 2011-2021 (thousands of NIS):



Revenues from international call operations in the communications market have dropped over the past decad, such that, between 2011-2021, revenues decreased by 71% in the aggregate. A decrease by 10% in revenues from the international communications sector was observed in 2021, pursuant to a decrease by 13% and 24% in 2020 and 2019, respectively.

Market Review

The Television Market

After years of stagnation, in which the Israeli television market was under the near-absolute control of HOT and Yes, it has been exposed to competition, through the entry of Cellcom and Partner to this field of activity. Telecom market revenues from TV services decreased from NIS 3.7 billion in 2015 to NIS 2.95 billion in 2021, primarily due to stronger competition in the field of TV broadcast dissemination.

The following are details of the primary competitors in the Israeli television content market:

- **yes** – this is the brand of DBS Satellite Services (1998) Ltd., a Bezeq Group company, which holds a license from the Ministry of Communications for satellite TV broadcasting. Since 2019, Yes has been gradually transitioning to online TV broadcast dissemination.

- **HOT** – is a brand of HOT Communication Systems Ltd. HOT also operates its low-cost service, next TV, which is disseminated online.

- **Cellcom TV** – Cellcom's service is based on Internet Based Streaming Service, or "Over the Top" (OTT) and includes linear channels and VOD content based on the public Internet.

- **Partner TV** – Partner's television services are provided through a converter with the Android TV operating system installed, with the channels and content broadcast over the internet. An open operation system that allows, among other things, the installation of other viewing applications.

- **Idan Plus** – Idan Plus is operated by the Second Authority for Television and Cable, and is used to distribute certain channels to the public free of charge (DTT), with the exception of the one-time cost of the converter.

- **Streaming services/smart televisions/other digital converters and so on** – these are internet-based VOD services. In January 2016 Netflix, which provides web-based VOD services, began operating in Israel.

In mid-2017 Netflix launched full translation of its contents, Hebrew user interface as well as Israeli contents. Furthermore, other major streaming services have been launched globally and in Israel: Amazon Prime, HBO MAX, Disney+, Apple TV, and more.

According to reports in June 2022, the streaming services of Disney+ began to operate in Israel, and HBO Max is expected to enter the Israeli market in 2024, as part of a combined framework with the Discovery Plus Service. The entry of these two companies into Israel may impact TV revenues of current TV providers. Yes announced its collaboration with the Discovery Plus streaming service in September 2022, and the new service will not be available to the public through any other app, but will only be available to Yes and StingTV customers (initially). This collaboration can also indicate future collaborations with HBO Max, in addition to the collaboration with Disney Plus, which included six free months of Disney Plus streaming services only for Yes subscribers.

Market Review

Television Market Risks (Continued)

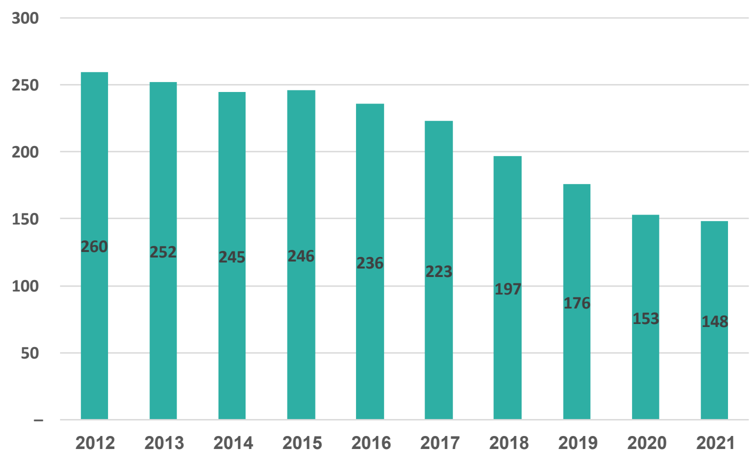
Structure of Competition in the Multi-Channel Television Market and Changes Occurring Therein.

The summary that analyzes telecom market revenues in 2021 indicates that the total revenues in the multi-channel TV sector in 2021 decreased by 1.6%. The data indicate an ongoing decrease in ARPU, primary caused by increased competition as a result of expanded operations on the part of new players that offer small-scale TV services at relatively lower prices compared to the traditional packages of Hot and Yes. The introduction of new players was primarily made possible due to the reform of the wholesale market and developments in IPTV technologies, which enable OTTO transmissions. Increased competition and advanced technological developments have led to the growth of IPTV services with respect to all telecom companies.

Free TV is an application that can be used online at every home, and will serve as an additional and cheap alternative to various TV contents. As stated, the service is expected to commence operations in 2023, and it is not yet possible to know the effect of the new service on the TV market and market competitors.

The Second Authority for Television and Radio approved the Free TV television service in June 2022 (hereinafter: “Free TV”) of the Keshet and RGE telecom groups, which is expected to commence operations in 2023. Free TV will serve as an alternative to online TV services, and will compete with the more established companies, and the estimated price of expected packages will be closer to the prices of streaming services.

The following chart describes the ARPU of multi-channel TV subscribers in 2012-2021 (current prices, including VAT):



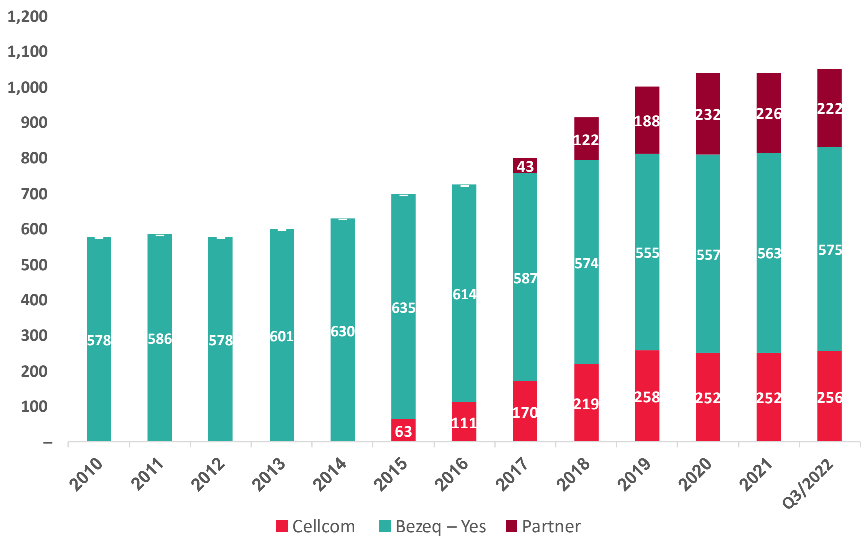
Source: Summary of Communications Market Revenues in 2021 – Ministry of Communications, Economy Department.

The report further indicates that the churn rate of all players is 25% between 2020-2021

Market Review

Television Market Risks (Continued)

Below is the composition of the TV market in Israel (number of subscribers) from 2010 through the third quarter of 2022, based on public information (in thousands) (*):



(*) The data above excludes Hot subscribers, since as from the third quarter of 2018 (when Hot had 750 thousand subscribers), Hot is not a reporting entity and does not make its data public. Furthermore, the above data excludes households not connected to multi-channel TV which are connected to other alternatives to multi-channel TV (such as: Netflix, Apple TV, Idan+ and so forth).

Chapter 3
Results of Business Activity

Results of Business Activity

Balance Sheet

The following are the Company's balance sheets for December 31 2020-2022:

Millions of NIS	Note	31.12.2020	31.12.2021	31.12.2022
Current Assets				
Cash and cash equivalents		719	644	773
Current investments, including derivatives		429	23	143
Customers		985	927	869
Current tax assets		2	12	9
Inventory		73	88	117
Total current assets		**2,299**	**1,800**	**2,012**
Non-Current Assets				
Trade and other receivables	1	498	490	551
Fixed assets, net		1,402	1,383	1,480
Intangible assets and others, net		2,188	2,129	2,154
Investments in investees accounted for using the book value method	2	131	134	131
Right of use assets, net and investment property		639	629	665
Deferred tax asset		–	5	5
Total non-current assets		**4,858**	**4,770**	**4,986**
Total assets		**7,157**	**6,570**	**6,998**

Millions of NIS	Note	31.12.2020	31.12.2021	31.12.2022
Current Liabilities				
Current maturities of debentures and of loans from financial institutions		514	383	587
Current maturities of liabilities due to lease		214	184	185
Suppliers and expenses payable		768	737	791
Current tax liabilities		–	7	4
Payables and credit balances, including derivatives	4	257	290	274
Total current liabilities		**1,929**	**1,710**	**1,924**
Non-Current Liabilities				
Debentures		2,723	2,373	2,317
Long-term loans from financial institutions		50	–	–
Long-term liabilities due to leases		457	478	521
Provisions	3	30	29	24
Long-term payables		41	1	32
Severance pay liability, net		11	13	10
Deferred tax liabilities		36	45	66
Total non-current liabilities		**3,348**	**2,939**	**2,970**
Total liabilities		**5,277**	**4,649**	**4,894**
Equity		**1,880**	**1,921**	**2,104**
Total liabilities and equity		**7,157**	**6,570**	**6,998**

Source: Cellcom's Financial Statements for 2020-2022.

Results of Business Activity

Balance Sheet (Continued)

Note 1 - Trade and Other Long-Term Receivables

The following is the composition of the Long-Term Trade and Other Receivables item for December 31, 2020-2022 (millions of NIS):

Millions of NIS	31.12.2020	31.12.2021	31.12.2022
Trade receivables (*)	176	159	184
Usage rights to lined of communication (**)	315	327	340
Deposits and receivables	1	2	1
Other	3	3	2
Loan to Marathon	–	–	21
Lease asset	3	–	3
Total balance of Trade and Other Long-Term Receivables	**498**	**491**	**551**

(*) Less provision for doubtful debts.

(**) The Company purchases usage rights to communications lines for their own use and to sell to third parties.

Note 2 – Investments in Investees handled Using the Carrying Amount Method

This section is for the Company's investment in IBC, which is treated as an investment in an associated company.

Note 3 - Provisions

The provision items largely consist of:

A. Provisions due to lawsuits;

B. Site disassembly and restoration provisions – specific costs for removing assets and restoring the sites where the assets were located. These disassembly provisions are calculated based on the disassembly value in the current year considering Management's estimates regarding possible price changes, inflation and so on and capitalized by risk-free interest; and -

C. Provisions due to contractual liabilities and other exposures.

Note 4 - Payables and Credit Balances, Including Derivatives

The following is the composition of the Payables and Credit Balances item, including derivatives for December 31, 2020-2022 (millions of NIS):

Millions of NIS	31.12.2020	31.12.2021	31.12.2022
Employees and associated obligations	113	114	119
Government institutions	32	33	43
Interest payable	62	55	58
Expenses payable	1	41	10
Unearned revenues	41	43	44
Derivative financial instruments	8	4	–
Total balance of short-term payables and credit balances	**257**	**290**	**274**

The following is the economic balance sheet as of December 31, 2020-2022 (millions of NIS) in accordance with the analysis we conducted:

Millions of NIS	31.12.2020	31.12.2021	31.12.2022
Working capital	334	253	171
Net Debt	(2,949)	(2,814)	(2,712)
Other operating assets	4,531	4,498	4,686
Deferred taxes	(36)	(17)	(41)
Equity	**1,880**	**1,921**	**2,104**

The following are the working capital items as of December 31, 2020-2022 (millions of NIS) in accordance with the analysis we conducted:

Millions of NIS	31.12.2020	31.12.2021	31.12.2022
Customers	1,118	1,042	1,006
Suppliers	(372)	(384)	(495)
Inventory	73	87	117
Other working capital balances	(484)	(493)	(457)
Total working capital balance	**335**	**253**	**171**

Results of Business Activity

Profit and Loss

The following are the Company's Statements of Operations for 2020-2022 (millions of NIS):

Millions of NIS	2020	2021	2022
Revenues from sales and services	3,676	4,100	4,300
Change %		*11.5%*	*4.9%*
Cost of sales and services	(2,800)	(2,963)	(3,034)
Gross Profit	**876**	**1,137**	**1,266**
gross profits %	*23.8%*	*27.7%*	*29.4%*
Sales and marketing expenses	(580)	(666)	(650)
of total revenues %	*15.8%*	*16.2%*	*15.1%*
Administrative and general expenses	(330)	(301)	(300)
of total revenues %	*9.0%*	*7.3%*	*7.0%*
Credit losses	(27)	(5)	(2)
Other revenues (expenses), net	38	44	44
Operating Profit	**(23)**	**209**	**358**
operating profit %	*-0.6%*	*5.1%*	*8.3%*
Financing expenses, net	(172)	(165)	(155)
Share of losses of associates	(14)	(5)	(1)
Profit (loss) before taxes on income	**(209)**	**39**	**202**
profit before taxes %	*-5.7%*	*1.0%*	*4.7%*
Tax benefit (taxes on income)	39	(12)	(45)
Net profit (loss)	**(170)**	**27**	**157**
Net profit (loss) %	*-4.6%*	*0.7%*	*3.7%*

Source: Cellcom's Financial Statements

Results of Business Activity

Segment Balance Sheet

The following is the Company's concise draft balance sheet for December 31, 2022, presenting the Company's assets and liabilities attributed to the mobile and terrestrial segments (millions of NIS):

Millions of NIS	Total	Terrestrial	Mobile	Net Debt and Surplus Assets
Total current assets	2,012	368	714	931
Total non-current assets	4,986	1,783	3,042	160
Total assets	6,998	2,151	3,756	1,091

Millions of NIS	Total	Terrestrial	Mobile	Net Debt and Surplus Assets
Total current liabilities	1,924	330	677	916
Total non-current liabilities	2,970	3	40	2,927
Equity	(2,752)	1,819	3,038	(2,752)
Total liabilities and equity	1,091	2,151	3,756	1,091

Source: Company Management

Chapter 4
Methodology

Methodology

Background and Definitions

International Accounting Standard 361 (Revised) (hereinafter: "**the Standard**" or "**IAS 36**") seeks to ensure that an entity's assets are not presented at a sum exceeding their recoverable sum. An asset is presented at a sum higher than its recoverable sum when the asset's carrying amount exceeds the sum received from the use or sale of the asset. In this case the asset has an impairment and IAS 36 requires that the entity recognize an impairment loss.

The Standard applies to all assets (besides exceptions denoted in the Standard itself) including goodwill acquired in a business combination. Goodwill acquired in a business combination represents payment made by the buyer based on expectations of future economic benefits from assets that cannot be identified separately and recognized separately.

Definitions

Carrying amount is defined as the sum the asset is recognized at after deducting all accrued depreciation (accrued amortization), and less accrued impairment losses.

A cash-generating unit is the smallest identified group of assets that generates positive cash flows, which are largely independent of positive cash flows from other assets or from other groups of assets.

Fair value is the price that would have been received from the sale of an asset or the sum that would be paid for the transfer of a liability, in an orderly transaction between market participants in the date of measurement.

Costs of disposal are incremental costs, directly attributed to the realization of an asset or cash-generating unit, with the exception of financing costs and tax expenses on income.

Value in use is the present value of the future cash flows expected to be derived from an asset or from a cash-generating unit.

The recoverable amount of an asset or cash-generating unit is its fair value less sales costs or its value in use, whichever is higher.

Identification of Asset the Value of Which May be Impaired

Timing of Impairment Test

On each balance sheet date, an entity shall study whether signs exist indicating the impairment of an asset. If any indications exist, the entity must estimate the asset's recoverable sum. Regardless of whether there are any indications of impairment, the entity must also:

- Test the impairment of an intangible asset with an undefined life span or an intangible asset not yet available for use annually by comparing its value to its recoverable sum.
- Test the impairment of goodwill acquired in business combinations annually.

Signs Indicating Impairment

As noted, the entity shall test the indications of impairment on each balance sheet date. The standard states that as a minimum, the entity must test the following indications:

Outside Sources of Information

- Over the course of a period, a significant decrease occurred in the market value of the asset beyond that projected as a result of the passage of time or regular use.

Methodology

Identification of Asset the Value of Which May be Impaired (Continued)

- Material changes with a negative impact on the entity occurred over the course of the period or will occur in the near future, in the marketing, economic or legal environment in which the entity is active, or in the market for which the entity is intended.
- Over the course of the period, an increase occurred in market interest rates or in other yields on investments in the market, and it is likely that these costs will impact the discount rate used to calculate the value of the asset, and significantly reduce the asset's recoverable sum.
- The carrying amount of the entity's net assets is higher than the entity's market value (market capitalization).

Inside Sources of Information

- There is available evidence of the aging or physical damage to an asset.
- Significant changes with a negative impact on the entity occurred during the period or are forecast to occur in the near future, at a level or in a manner in which the asset is used or is forecast to be used in the future.
- Available evidence exists from the internal reporting system that indicate that the asset's economic performance is, or will be, worse than projected.

The above list is not comprehensive. An entity may identify additional signs indicating a possible drop in the value of an asset.

The existence of signs of impairment will require that the entity determine the recoverable sum of the asset, or, in the case of goodwill, test for impairment.

If the recoverable sum for a single asset cannot be estimated, the entity must calculate the recoverable sum of the cash-generating unit to which the asset belongs. The cash-generating units need to be consistently identified from one period to another with the same assets or types of assets unless some change is justified.

Goodwill

In order to test the impairment of goodwill acquired in a business combination, goodwill recognized on the acquisition date will be allocated to each of the cash-generating units or group of cash-generating units of the buyer, which are expected to benefit from the synergy involved in the combination, irrespective of whether other assets or liabilities of the acquired entity were assigned to those units or groups of units. Each unit or group of such units to which goodwill was assigned as noted above will represent the lowest level in the entity tracking goodwill for internal management purposes and shall be is no larger than an operating segment as defined in IFRS 8, before collecting similar segments.

Measuring a Recoverable Sum

General

The recoverable sum of an asset or cash-generating unit is its fair value less sales costs or its value in use, whichever is higher.

The standard states that it is not always necessary to determine both the fair value less costs of sale and its value in use. If one of these sums is higher than the asset's carrying amount, no impairment takes place in the value of the asset and there is no need to estimate the additional sum.

Methodology

Measuring Recoverable Sum (Continued)

If there is no reason to believe that the value in use of an asset significantly exceeds its fair value less costs of sale, the fair value of the asset less costs of sale may serve as a recoverable sum. Often, this will be the case when the asset is intended for use. This is due to the fact that the value in use of an asset intended for realization will largely be based on net proceeds from realization, as it is reasonable that future cash flows from continued use of the asset up to its sale are negligible.

Fair Value Less Costs of Sale

The best evidence of fair value less the costs of sale of an asset is the price set in a binding sales agreement in a transaction that is not influenced by special relationships between the parties adjusted for incremental costs that can be directly attributed to the realization of the asset.

When there is no binding sales agreement, but the asset is traded on an active market, the fair value less costs of sale shall be the market price of the asset less costs of disposal.

When an asset does not have a binding sales agreement or active market, fair value will be based on the best available information in order to reflect the sum an entity could have received, on the balance sheet date, in return for realization of the asset in a transaction that is not influenced by special relationships between the parties, between a willing buyer and a willing seller, operating in a rational manner. When determining this sum, an entity takes into account the results of transactions carried out recently in similar assets in the same industry. Incremental costs that could have been directly attributed to the realization of the asset must be subtracted from fair value.

Value in Use

The following components will be reflected in the calculation of the asset's values in use:

- Assessing future cash flows, both positive and negative, deriving from the ongoing use of the asset and its ultimate realization.
- Forecasts regarding possible changes in the sum of timing of these future cash flows.
- The time value of money, represented by a current market rate of risk-free interest.
- The price for bearing uncertainty, embedded in the asset.
- Other factors, such as the lack of liquidity, that are reflected in the market will be valid in pricing future cash flows that the entity expects to generate from the asset.

Assessing the value in use of the asset includes the following stages:

- Assessing future cash flows, both positive and negative, deriving from the ongoing use of the asset and its ultimate realization.
- Implementation of an appropriate discount rate for these future cash flows.

When measuring the entity's value in use:

- The cash flow forecast will be based on reasonable and established assumptions, which represent management's best estimates regarding the economic conditions that will exist throughout the balance of the asset's useful life span.

Methodology

Measuring Recoverable Sum (Continued)

- The cash flow forecasts will be based on the most up-to-date budgets/monetary forecasts approved by management. Forecasts based on such budgets/forecasts will cover a maximum period of 5 years unless a longer period can be justified.

- The cash flow forecasts will be estimated for the period beyond the period covered by the most up-to-date budgets/forecasts, by extrapolating these forecasts using a fixed or decreasing growth rate for subsequent years. When the carrying amount of an asset does not yet include all of the negative cash flows that will be created until the asset is ready for use or for sale, estimated negative future cash flows are supposed to include an estimate of additional negative cash flows, which are expected to arise in order to prepare the asset for use or for sale.

Estimated future cash flows will **not** include positive estimated future cash flows expected to derive from:

- Future structural changes the entity is not committed to.
- An improvement or increase in the asset's performance level.
- Positive or negative cash flows from financing activities
- Taxes on income payments or receipts.

Future cash flows are estimated in the currency in which they are produced and are subsequently capitalized while using a discount rate suitable to that currency. Entities translate the current value according to the immediate exchange rate on the date on which the value in use was calculated.

Discount Rate

The discount rate needs to be a pre-tax rate that reflects current market assessments of:

- The time value of money.
- The asset's specific risks, for which the estimates of future cash flows were not adjusted.

Testing Impairment of Goodwill

The impairment of goodwill will be tested by comparing the carrying amount of the unit, including the goodwill, to its recoverable sum. If the unit's recoverable amount exceeds its carrying amount, the value of the unit and goodwill allocated to the unit shall be considered undamaged. If the unit's carrying amount exceeds the unit’s recoverable sum, the entity will recognize an impairment loss.

Methodology

Recognizing Impairment Loss

The impairment loss must be allocated to reducing the carrying amount of the unit's assets in the following order:

a) First, reduce the carrying amount of any goodwill allocated to a cash-generating unit, and subsequently;

b) To the unit's remaining assets on a relative basis on the basis of the carrying amount of each unit asset.

These amortizations of carrying amounts will be treated as impairment losses of individual assets.

In order to allocate the impairment loss in accordance with the above, an entity shall not decrease the carrying amount of an asset below the higher of the following:

- Its fair value less sales costs (if determinable);
- Its value in use (if determinable); or
- Zero.

The sum of the impairment loss that otherwise would have been assigned to the asset, will be assigned on a relative basis to the other assets in the unit.

Methodology

Discount Rate

Based to International Accounting Standard 36 (IAS 36), when measuring the recoverable sum of a cash-generating unit, payment due to income tax must not be included. As a result, the discount rate used to estimate the current value of the cash flows must be calculated as the discount rate before tax.

The discount rate is calculated according to the WACC model, which is the weighted yield rate required by the capital owner, as detailed below:

WACC = Kd * (**%D**) + Ke * (**%E**)
With:

WACC	=	The weighted yield rate required by the capital owner;
Kd	=	Yield on debt, after tax;
%D	=	Rate of debt from total assets;
Ke	=	Yield on equity;
%E	=	Rate of equity from total assets;

The rate of yield on equity is determined according to the CAPM (Capital Asset Pricing Model). According to this model, the yield on equity is derived from risk-free interest as of the date of purchase plus a market risk premium multiplied by the Company's risk level relative to the standard deviation of the market portfolio (β).

With: SCP + SRP + (Rf – Rm) *β + Rf = Ke

Rf – rate of risk-free interest based on the real Israeli risk-free interest rate, for a period of 15 years, from the fair Mervach Hogen data source.

β – the relative risk coefficient. This coefficient reflects the relative risk involved in a certain investment and is based on the level of correlation between the investment's yield and the yield of the capital market as a whole; when this coefficient is greater than 1, the business is highly sensitive to changes in the state of the market.

Meaning that in the event of a recession the industry will be more negatively impacted than other industries, and in the event of prosperity the industry will undergo a more positive impact than other industries. When this coefficient is smaller than 1, the value of the activity is less sensitive than average to changes in the market condition.

In order to calculate the β of the Company's activity, we relied on the average β of public companies active in the Israeli communications industry.

Rm-Rf – Israel's risk premium according to Damodaran.

The Company's leverage rate – it has been assumed that the Company will finance its activity in the future using a financing structure similar to the financing structure of publicly traded companies active in the communications industry.

Kd – represents the price of the Company's long-term debt (15 years) in real terms and calculated based on the current yields of the debenture series issued by the Company, while adjusted the estimated life span.

SCP – size premium in accordance with Duff & Phelps, 2023.

SRP – a specific premium, wich reflects, inter alia, the overregulation in the communications market in Israel.

Methodology

Discount Rate (Continued)

The following are details of the parameters used to calculate the two segments' capitalization rate:

Parameters	Marking	Value	Source
(%) Debt	D/(E+D)	35.1%	According to the leverage rates of the comparison group members
(%) Fair Value	E/(E+D)	64.9%	According to the leverage rates of the comparison group members
Foreign Capital Price	Kd	3.55%	In accordance with Cellcom's debt price
Tax Rate	1-t	77.0%	According to the Israeli tax rate – 23%
Risk-Free Interest	Rf	0.97%	Risk-free interest in Israel, real for 15 years, from the fair margin system as of December 31, 2022
Market Risk Premium	Rm-Rf	6.43%	Rm-Rf – Israel's risk premium according to Damodaran from January 2023
Beta	β	0.88	Average betas of comparison group
Size Premium	SCP	1.21%	Duff & Phelps 2023
Specific Risk Premium	SRP	4.00%	As explained above
Equity Price	Ke	11.85%	Rf+β*(Rm-Rf)+SCP+SRP
Average Weighted Capital Price After Tax	**WACC**	**8.75%**	**(D/V)*(1-T)*Kd + (E/V)*Ke**

As the basis of the discount rate, as detailed above, is after taxes, it must be adjusted to reflect a discount rate before taxes. For this purpose, value in use was calculated given a discount rate after tax of **8.75%.** After that, the discount rate before tax needed to reach the value in use received was calculated. Based on the above, the discount rate before tax found in the mobile segment was **11.07**%, and in the terrestrial segment, **10.92**%.

Chapter 5

Goodwill Impairment Test - Mobile Segment

Goodwill Impairment Test – Mobile Segment

General

Timing of Impairment Test

At the request of Company management, the goodwill impairment test for the mobile segment activity in the Company's books was carried out in accordance with IAS 36 as of December 31, 2022.

Identifying Cash-Generating Units

In accordance with IAS 36, for the purpose of testing impairment, the standard defines a cash-generating unit as the smallest identified group of assets that generates positive cash flows, which are largely independent of positive cash flows from other assets. For more information, see "**Methodology**" chapter.

Company management has established that the activity of the mobile segment, is the smallest cash-generating unit to which goodwill may be assigned.

Recoverable Sum of Cash-Generating Units

In accordance with IAS 36, the recoverable sum of the cash-generating units is their fair value less sales costs or their value in use, whichever is higher. For more information, see "**Methodology**" chapter. The value in use of the group of cash-generating unit was calculated using the revenues approach, the discounted cash flows method.

Carrying Amount of the Cash-Generating Units

In order to determine the carrying amount of the mobile cash-generating unit, we calculated the sum of the carrying amount of the cash generating unit and we added the balance of cost surpluses of the mobile activity we received from Company management, as of December 31, 2022. Details and expansion on this subject will be presented in this chapter below.

General assumptions:

1. **The forecast years** – represent the period from January 1, 2023, to December 31, 2027, as well as the representative year (hereinafter: "**the Forecast Years**").
2. **Construction of projected cash flow in forecast year –** we estimated the projected cash flow for the forecast year on the basis, among other things, of the Company's actual results for previous years, the Company's 2023 budget, discussions and talks with Company management, available market data, newspaper articles, internal studies carried out by BDO on the media industry, practices and experience in the industry and more.
3. **Real forecast –** the cash flow in the Forecast Years is presented in real value. Therefore, the capitalization rate (WACC) is in real value.
4. **Financial data by activity** – a cash flow forecast was carried out for each of the Company's activities, with the data for each activity in past years received by Company Management. We emphasize that the financial data provided by Company management is compatible with the Company's total operating profits in its audited and reviewed Financial Statements, with adjustments to accounting reporting, but is not necessarily compatible with the accounting classifications available to users (such as classifying expenses between cost of sales and operating expense).
5. **Tax rate** – the tax rate taken into account is the Israeli corporate tax rate, 23%.
6. **Capitalization rate –** the real yearly capitalization rate was estimated at 8.75% after tax (11.07% before tax).

Goodwill Impairment Test – Mobile Segment

Operating Cash Flow Forecast

The following is the operating cash flow forecast for the mobile sector (millions of NIS):

Millions of NIS	2022	2023	2024	2025	2026	2027	Representative Year
Cellular service revenues	1,960	1,978	1,857	1,738	1,700	1,740	1,766
Change %		*0.9%*	*-6.1%*	*-6.4%*	*-2.2%*	*2.4%*	*1.5%*
Revenues from end equipment	930	936	955	974	993	1,013	1,023
Change %		*0.7%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*1.0%*
Total Revenues	**2,890**	**2,915**	**2,812**	**2,712**	**2,693**	**2,753**	**2,789**
Change %		*0.8%*	*-3.5%*	*-3.6%*	*-0.7%*	*2.2%*	*1.3%*
Cost of sales	(1,543)	(1,464)	(1,324)	(1,175)	(1,111)	(1,130)	(1,139)
Gross Profit	**1,348**	**1,450**	**1,488**	**1,536**	**1,582**	**1,623**	**1,650**
gross profits %	*46.6%*	*49.8%*	*52.9%*	*56.7%*	*58.7%*	*59.0%*	*59.2%*
Operating expenses	(578)	(617)	(626)	(635)	(645)	(655)	(664)
of total revenues %	*20.0%*	*21.2%*	*22.3%*	*23.4%*	*23.9%*	*23.8%*	*23.8%*
Depreciation and amortization expenses	(503)	(508)	(512)	(517)	(521)	(526)	(587)
of total revenues %	*17.4%*	*17.4%*	*18.2%*	*19.1%*	*19.4%*	*19.1%*	*21.1%*
Operating Profit	**266**	**326**	**350**	**384**	**416**	**443**	**398**
operating profit %	*9.2%*	*11.2%*	*12.4%*	*14.2%*	*15.4%*	*16.1%*	*14.3%*
EBITDA	**769**	**834**	**862**	**901**	**937**	**969**	**985**
EBITDA %		*28.6%*	*30.7%*	*33.2%*	*34.8%*	*35.2%*	*35.3%*
Total capital investments		(597)	(660)	(658)	(580)	(584)	(587)
Depreciation and amortization		508	512	517	521	526	587
Changes in working capital balances		(7)	(5)	(5)	(5)	(5)	(3)
Total Cash Flow Adjustments		**(96)**	**(152)**	**(146)**	**(64)**	**(63)**	**(3)**
Operational Cash Flow		**230**	**198**	**238**	**352**	**380**	**395**

* There are differences between the manner in which certain revenues and costs are classified regarding their classification in the Financial Statements.

Goodwill Impairment Test – Mobile Segment

Revenues and Gross Profits

Revenues in the mobile segment include revenues from cellular services – revenues from subscribers, from inbound and outbound roaming services, as well as from the Marathon network hosting and sharing agreement, and include revenues from the sale of end equipment.

Subscriber revenues – these revenues were estimated in accordance with the average number of subscribers and the monthly ARPU in each of the forecast years, as follows:

Number of subscribers and market share – it was assumed that the total number of cellular subscribers in Israel will increase by 2% each year to 2026 and in the long term would increase by 1.5% per year, in accordance with the growth rate of the population based on long-term Central Bureau of Statistics forecasts11. We estimate the Company's market share, upon the valuation date amounts in our assessment to 30%, reflecting 3,452 thousand subscribers. It w assumed that the Company's market share will moderately decrease over the projection years and will stabilize over the long term.

Monthly ARPU – In 2022, the annual ARPU excluding revenues from hosting and the network sharing agreement amounted to NIS 48.1, relative to NIS 46.1 in 2021. The increase in ARPU in 2022 is primarily attributed to an increase in revenues from roaming services in light of the opened skies and the end of the covid crisis, and the increased prices of private customer packages as of the second half of 2022. The ARPU in 2023 is expected to amount to 47.4, with the decrease in ARPU primarily being attributed to the commencement of the process of canceling connectivity fees (concurrently with a decrease in costs of sale), pursuant to the trend of 2020-2022, which is also expected to continue in 2024 until the full cancellation of connectivity fees at the end of 2025.

ARPU in 2022 without revenues from connectivity fees amounted to NIS 36.5 and is expected to amount to NIS 37.4 in 2023, with the expected increase in ARPU being attributed to an additional increase in revenues from roaming services due to the opened skies and the end of the covid crisis, which gradually began in the second quarter of 2022.

We further assumed that ARPU (no connectivity fees) would increase over the forecast period, to NIS 39 for the typical year, an increase by NIS 1.5 over the forecasted ARPU for 2023. We assume that the increase will occur in light of the following circumstances:

- 5th Generation packages, which are priced higher, are expected to be sold at increasing levels, making their impact more significant in coming years.
- Increase in the number of cellular subscribers with base bundles, with slower growth in prepaid subscribers, and a decrease in revenues from roaming services as a result of the introduction of eSIM technology.

Roaming services revenues – in 2020 there was a sharp decline in business due to restrictions on air travel in Israel and in other countries during the Corona Virus crisis, a trend which continued in 2021. An increase in revenues was observed in 2022, both from incoming and outgoing roaming services, due to the waning of the pandemic and the opening of the skies, and it was assumed that these revenues will continue to gradually increase over the next few years, but will become more moderate given the downward trend of this segment over the past few years, and in the framework of the monthly ARPU forecast.

[11] 2017 Central Bureau of Statistics publication "Israeli Population Forecast until 2065".

Goodwill Impairment Test – Mobile Segment

Revenues and Gross Profits (Continued)

Revenues from network sharing and hosting agreement – These revenues reflect receipts expected by the Company from Marathon with respect to the revised network sharing agreement.

Revenues from the revised Marathon agreement during the forecast years were provided by Company management and include, both during the forecast years and for the typical year, the expected consideration payable to Cellcom with respect to the revised sharing agreement.

Revenues from terminal equipment in the cellular segment – Total revenues from sale of terminal equipment in the cellular segment in 2021 amounted to NIS 915 million and in 2022 to NIS 930 million, reflecting an increase by 1.6% in 2022. In 2023, the Company expects an increase by 0.7% in revenues from end equipment and a moderate increase in this segment was assumed in the other forecast years.

Operating Expenses

The segment's operating expenses largely consists of salary and associated expenses including vehicles and welfare, as well as various advertising and marketing expenses, electricity, maintenance, security, doubtful debts and so on. The expenses presented do not include leases covered by IFRS 16 and do not include depreciation and amortization.

Note that operating expenses for this segment include operating expenses for Golan Telecom.

According to Company management, 60% of operating expenses are attributed to the cellular segment and 40% of operating expenses are attributed to the land line segment. According to Company management, in 2023 a slight increase is expected in the Company's operating expenses, primarily due to higher wages, cost of electricity, new site deployment, the cancellation of the discounts on frequency fees and higher rent expenses.

Goodwill Impairment Test – Mobile Segment

Cash Flow Adjustments

In order to achieve a cash flow that will be used to estimate the value in use of the group of cash-generating units, the operating profit before tax forecasts are required to undergo a number of adjustments, in order to assess the investment needed for those assets generating the revenues forecast. These items include non-cash items that are added to the cash flow (depreciation and amortization), capital investments needed to maintain the existing situation as well as investments in working capital.

Capital investments (CapEx)

The Company's capital investments include, among other things, investment in the deployment and continued construction of the 4 and 5G networks and investments in equipment replacement at sites. In 2022, investments in the cellular segment amounted to NIS 463 million, or an increase by 3.5% compared to investments in the cellular segment in 2021. The increase in investments is attributed to the deployment of 5G networks, compared to the multi-annual investment forecast in 2022. In 2023, the Company budgeted investments (including lease renewals) amounting to NIS 597 million. We note that the investment forecast includes both commissions and incentive payments to marketers, which were capitalized to an asset (by application of IFRS 15), and investments in future leases (IFRS 16). Moreoever, additional investments were assumed in 2024-2025 in replacing frequencies from 850MHZ to 800MHZ.

Depreciation and Amortization Expenses

Depreciation and amortization were examined relative to the scope of investments. In 2023 the depreciation is in accordance with the Company's forecast and in the remaining budget years it was assumed that the depreciation would gradually settle at the total investments in the representative year.

Summary

The depreciation expenses forecast do not include the customer relations that were created in the framework of the Golan Telecom Purchase, which are not recognized for tax purposes.

Investments in Working Capital

As of December 31, 2022, the Company's working capital in the cellular segment amounted to NIS 195 million.

It was assumed that the balance of working capital would change in the forecast year as a function of the change in revenues.

Summary

Based on the assessments detailed above, the following is the operating cash flow forecast of the base scenario of the mobile segment cash-generating unit for the forecast years (millions of NIS):

Millions of NIS	2023	2024	2025	2026	2027	Representative Year
Operating Profit Before Tax	326	350	384	416	443	398
Total Cash Flow Adjustments	(96)	(152)	(146)	(64)	(63)	(3)
Cash Flow for Capitalization	230	198	238	352	380	395
Capitalization Period	0.5	1.5	2.5	3.5	4.5	4.5
Capitalized Cash Flow	218	169	183	244	237	2,576
Value of Activity	3,627					

Accordingly, the value in use of the mobile segment was estimated at 3,627 million NIS.

Goodwill Impairment Test – Mobile Segment

Sensitivity Analyses

The following table shows a sensitivity analysis of the recoverable sum relative to the cap rate after tax and the long-term growth rate (millions of NIS):

Long-Term Growth Rate	Cap Rate After Tax: 9.25%	9.00%	8.75%	8.50%	8.25%
2.00%	3,559	3,694	3,840	3,996	4,166
1.75%	3,465	3,593	3,729	3,876	4,035
1.50%	3,377	3,498	3,627	3,765	3,914
1.25%	3,295	3,409	3,531	3,661	3,801
1.00%	3,218	3,326	3,442	3,565	3,697

The following table shows a sensitivity analysis of the recoverable sum relative to the cap rate after tax and the monthly ARPU (in NIS) assumed in the representative year (millions of NIS):

ARPU in the Representative Year	Cap Rate After Tax: 9.25%	9.00%	8.75%	8.50%	8.25%
41.0	4,048	4,194	4,351	4,519	4,700
40.0	3,713	3,846	3,989	4,142	4,307
39.0	3,378	3,498	3,627	3,765	3,913
38.0	3,043	3,150	3,265	3,388	3,520
37.0	2,707	2,802	2,903	3,011	3,127

Chapter 6
Goodwill Impairment Test – Terrestrial Segment

Goodwill Impairment Test – Terrestrial Segment

General

Timing of Impairment Test

At the request of Company management, the goodwill impairment test for the terrestrial segment activity in the Company's books was carried out in accordance with IAS 36 as of December 31, 2022.

Identifying Cash-Generating Units

In accordance with IAS 36, for the purpose of testing impairment, the standard defines a cash-generating unit as the smallest identified group of assets that generates positive cash flows, which are largely independent of positive cash flows from other assets. For more information, see "Methodology" chapter.

Company management has established that the activity of the terrestrial segment, is the smallest cash-generating unit to which goodwill may be assigned.

Recoverable Sum of Cash-Generating Units

In accordance with IAS 36, the recoverable sum of the cash-generating units is their fair value less sales costs or their value in use, whichever is higher. For more information, see "Methodology" chapter. The value in use of the group of cash-generating unit was calculated using the revenues approach, the discounted cash flows method.

Carrying Amount of the Cash-Generating Units

In order to determine the carrying amount of the terrestrial cash-generating unit, we calculated the sum of the carrying amount of the cash generating unit and we added the balance of cost surpluses of the terrestrial activity we received from Company management, as of December 31, 2022. Details and expansion on this subject will be presented in this chapter below.

General assumptions:

1. The forecast years – represent the period from January 1, 2023, to December 31, 2027, as well as the representative year (hereinafter: "the Forecast Years").

2. Construction of projected cash flow in forecast year – we estimated the projected cash flow for the forecast year on the basis, among other things, of the Company's actual results for previous years, the Company's 2022 budget, discussions and talks with Company management, available market data, newspaper articles, internal studies carried out by BDO on the media industry, practices and experience in the industry and more.

3. Real forecast – the cash flow in the Forecast Years is presented in real value. Therefore, the capitalization rate (WACC) is in real value.

4. Financial data by activity – a cash flow forecast was carried out for each of the Company's activities, with the data for each activity in past years received by Company Management. We emphasize that the financial data provided by Company management is compatible with the Company's total operating profits in its audited and reviewed Financial Statements, with adjustments to accounting reporting, but is not necessarily compatible with the accounting classifications available to users (such as classifying expenses between cost of sales and operating expense).

5. Tax rate – the tax rate taken into account is the Israeli corporate tax rate, 23%.

6. Capitalization rate – the real yearly capitalization rate was estimated at 8.75% after tax (10.92% before tax).

Goodwill Impairment Test – Terrestrial Segment

Operating Cash Flow Forecast

The following is the operating cash flow forecast for the terrestrial sector (millions of NIS):

Millions of NIS	2022	2023	2024	2025	2026	2027	Representative Year
Television and internet revenues	635	701	761	816	851	872	882
International carrier revenues	163	182	176	171	166	161	161
Domestic provider	107	97	88	84	80	76	72
Business sector, transmissions and others	388	403	409	415	418	421	423
Revenues from terrestrial segment services	1,292	1,383	1,434	1,485	1,514	1,529	1,538
Revenues from end equipment	271	296	296	296	296	296	299
Total Revenues	**1,563**	**1,679**	**1,730**	**1,781**	**1,810**	**1,825**	**1,837**
% Change		*7.4%*	*3.1%*	*3.0%*	*1.6%*	*0.8%*	*0.6%*
Cost of sales	(781)	(837)	(809)	(805)	(798)	(792)	(794)
Gross Profit	**782**	**841**	**921**	**976**	**1,012**	**1,034**	**1,043**
% gross profits	*50.0%*	*50.2%*	*53.2%*	*54.8%*	*55.9%*	*56.6%*	*56.8%*
Operating expenses	(385)	(410)	(417)	(423)	(429)	(436)	(442)
% of total revenues	*24.6%*	*24.5%*	*24.1%*	*23.7%*	*23.7%*	*23.9%*	*24.1%*
Depreciation and amortization expenses	(306)	(314)	(321)	(328)	(332)	(334)	(284)
% of total revenues	*19.6%*	*18.7%*	*18.6%*	*18.4%*	*18.3%*	*18.3%*	*15.5%*
Operating Profit	**91**	**117**	**183**	**224**	**251**	**264**	**317**
% operating profit	*5.8%*	*7.0%*	*10.6%*	*12.6%*	*14%*	*14.5%*	*17.2%*
EBITDA	**397**	**431**	**504**	**553**	**583**	**598**	**601**
% EBITDA	*25.4%*	*25.7%*	*29.2%*	*31.0%*	*32.2%*	*32.8%*	*32.7%*
Total capital investments		(327)	(387)	(370)	(364)	(383)	(284)
Depreciation and amortization		314	321	328	332	334	284
Changes in working capital balances		2	–	–	–	–	–
Total Cash Flow Adjustments		**(11)**	**(66)**	**(42)**	**(32)**	**(49)**	**–**
Operational Cash Flow		**106**	**117**	**183**	**219**	**215**	**317**

* There are differences between the manner in which certain revenues and costs are classified regarding their classification in the Financial Statements.

Goodwill Impairment Test – Terrestrial Segment

Revenues and Gross Profits

Internet services – the Company's revenues from internet services consist, among other things, from the Company's revenues from ISP services only, revenues from ISP and infrastructure services (as part of a bundle), as well as additional revenues such as transmission services. I order to build the forecast of revenues from internet services, we estimated the number of subscribers on each of the channels in question so that the revenues forecast was based on the projected average number of subscribers and the average revenue per subscriber for each channel separately.

As of December 31, 2022, the Company has 323,000 internet infrastructure subscribers.

Since the Cellcom-IBC Agreement, Cellcom has been gradually transferring its customers to the IBC infrastructure (in lieu of the Bezeq infrastructure, the Wholesale Market), as made possible by the scope of IBC's deployment. Moving to the IBC infrastructure has distinct advantages for Cellcom, both in the option of moving its customer to higher speeds and more advanced technology, and in terms of costs, which allows it to save Wholesale Market payments and move to payments in accordance with the agreement with IBC, which are significantly cheaper. It should be noted that Cellcom's agreement with IBC reflects a price that is cheaper than that specified in IRU agreements in the market, such as the IRU agreement signed between Partner and Bezeq at the end of 2022.

As noted, in February 2021 the HOT-IBC transaction was completed, according to which HOT would become an equal partner in the IBC partnership. HOT's introduction as a partner led IBC to significantly accelerate the deployment of infrastructures and expand its deployment objectives. As of the valuation date, the Company expects IBC to achieve deployment to 2 million households. The 2023 forecast is based on the Company's budget, both in terms of the number of subscribers and in terms of the scope of revenues

For the remainder of the forecast years, we assumed a gradual increase in Internet and TV subscribers, as noted above. It was assumed that significant changes in the mixture of internet subscribers (fiber and copper) will occur in the remaining forecast years, such that the number of fiber subscribers will significantly increase in upcoming years.

As from June 2021, the Company started offering its fiber Internet services to customers, as part of the wholesale market over Bezeq infrastructure.

Internet costs were estimated in accordance with the projected number of subscribers and the projected average cost per subscriber, for each channel separately. Among other things, payment to Bezeq apply (primarily) for infrastructure subscribers in the Wholesale Market in accordance with the revised Wholesale Market rate, and a charge to IBC will apply in accordance with the scope of subscribers through it and in accordance with the IRU agreement with it. In light of the deployment rate and connection forecast of hundreds of thousands of households in coming years, payment is expected to increase gradually to 2030 and is expected to decrease from this point onward.

Television services – these revenues include the Cellcom TV service, which is provided as a separate service or as Triple packages (for instance, along with internet services – ISP and infrastructure and a home telephone line). In addition, revenues from Cellcom TV also include premium packages (additional content services), converters, Netbox, installation services and more. In order to build a forecast of revenues from television services, we estimated the scope of subscribers in the Triple package and the scope of subscribers for television only. The revenues forecast was based on the projected average number of subscribers and theds average revenue per subscriber for each channel separately. The number of television subscribers as of December 31 2022 amounted to 257,000.

Goodwill Impairment Test – Terrestrial Segment

Revenues and Gross Profits (Continued)

The 2023 forecast is based on the Company's budget, both in terms of the number of subscribers and in terms of the scope of revenues. We assumed the number of subscribers would gradually increase to 286 thousand over the long term. In addition, it was assumed that in the long term, the average revenue per subscriber in Triple activity would remain stable.

The costs of television activity largely consist of content purchasing costs and are divided between fixed and variable costs. Fixed costs were estimated on the basis of current agreements with content providers, while also taking additional content into account over the course of the forecast years. The variable costs were estimated in accordance with the Company's budget and were predicted in accordance with the projected number of users. Television service costs were estimated for all television users, regardless of the alternatives selected by the customers for purchasing television services.

Private and business domestic operator – the domestic operator activity in the communications market has been dropping in recent years, among other reasons due to the penetration rate of smartphones and/or tablets, the decrease in calls from terrestrial telephones and more. Based on a market analysis and talks with Company Management, these revenues are expected to continue dropping in coming years, while business domestic operator revenues are expected to grow at a moderate pace.

International call (ILD) revenues – international calls activity has been dropping in recent years, among other reasons due to the increasing use of internet-based calls from smartphones, which are replacing packages for international calls from terrestrial telephones. In accordance with the analysis we made, we assumed that this activity would continue to decrease in the short term, so that in the representative year the rate of decrease would settle at 0%.

Business sector, transmissions and others – including internet services for business customers, hosting and cloud services, data transmission services both to outside customers and to the mobile segment, as well as other revenues. The Company's activity with business customers as well as the Company's revenues from the sources note above have been growing in recent years.

Revenues from terminal equipment in the land line segment – Total revenues from sale of terminal equipment in the land line segment in 2021 amounted to NIS 246 million and in 2022 to NIS 271 million, reflecting an increase by 10.1%. In its 2023 budget, the Company anticipates 9.4% growth over 2022. In the forecast years, this segment was assumed to be stable. Likewise, we assumed that the Company's gross profitability in the 2023 budget is the representative gross profitability and that it would remain stable for the duration of the forecast years.

Operating Expenses

The segment's operating expenses largely consists of salary and associated expenses including vehicles and welfare, as well as various advertising and marketing expenses, electricity, maintenance, security, doubtful debts and so on. The expenses presented do not include leases covered by IFRS 16 and do not include depreciation and amortization.

According to Company management, 60% of operating expenses are attributed to the cellular segment and 40% of operating expenses are attributed to the land line segment. According to Company management, in 2023 a slight increase is expected in the Company's operating expenses, primarily due to higher cost of electricity and new site deployment, as well as higher marketing and advertising expenses, as well as increase in payroll expenses due to customer service centers which had been outsourced being converted to in-house operations.

Goodwill Impairment Test – Terrestrial Segment

Cash Flow Adjustments

In order to achieve a cash flow that will be used to estimate the value in use of the group of cash-generating units, the operating profit before tax forecasts are required to undergo a number of adjustments, in order to assess the investment needed for those assets generating the revenues forecast. These items include non-cash items that are added to the cash flow (depreciation and amortization), capital investments needed to maintain the existing situation as well as investments in working capital.

Capital investments (CapEx)

The Company's capital investments include, among other things, equipment for customers' homes (including converters and routers) as well as installations at the customers' homes. Note that investments do not include the deployment of optic fiber, which is carried out by IBC. They do include all of the payments to IBC for the IRU purchase. In 2022, investments in the land line segment amounted to NIS 280 million. In 2023, the Company budgeted investments (including lease renewals) amounting to NIS 327 million. We note that the investment forecast includes both commissions and incentive payments to marketers, which were capitalized to an asset (by application of IFRS 15), and investments in future leases (IFRS 16).

Depreciation and Amortization Expenses

Depreciation and amortization were examined relative to the scope of investments. In 2022 the depreciation is in accordance with the Company's budget and in the remaining budget years it was assumed that the depreciation would gradually settle at the total investments in the representative year. Depreciation costs include the amortization of the aforementioned IRU payments.

Investments in Working Capital

As of December 31, 2022, the Company's working capital in the land line segment amounted to NIS -24 million (negative), as described under "Business operating results".

It was assumed that the balance of working capital would change in the forecast year as a function of the change in revenues.

Summary

Based on the assessments detailed above, the following is the operating cash flow forecast of the base scenario of the terrestrial segment cash-generating unit for the forecast years (millions of NIS):

Millions of NIS	2023	2024	2025	2026	2027	Representative Year
Operating Profit Before Tax	117	183	224	251	264	317
Total Cash Flow Adjustments	(11)	(66)	(42)	(32)	(49)	–
Cash Flow for Capitalization	106	117	183	219	215	317
Capitalization Period	0.5	1.5	2.5	3.5	4.5	4.5
Capitalized Cash Flow	100	101	141	153	135	2,003
IRU Surplus Commitment	53					
Value of Activity	2,688					

Accordingly, the value in use of the terrestrial segment was estimated at 2,688 million NIS.

Goodwill Impairment Test – Terrestrial Segment

Summary (Continued)

(*) As noted, the commitment to Cellcom's IRU payments decreases starting 2028, and we therefore applied an adjustment for the total investments assumed in the long-term for the terminal year, and the depreciation derived therefrom. The current value of differences as of December 31, 2022 is 53 million NIS.

Long-Term Growth Rate

It was assumed that the long-term growth rate in the landline segment will be 1%, which is the weighted growth rate of all of the aforementioned segments.

Sensitivity Analyses

The following table shows a sensitivity analysis of the recoverable sum relative to the cap rate after tax and the long-term growth rate (millions of NIS):

		Cap Rate After Tax				
		9.25%	9.00%	8.75%	8.50%	8.25%
Long-Term Growth Rate	1.50%	2,638	2,734	2,837	2,947	3,066
	1.25%	2,572	2,663	2,760	2,864	2,976
	1.00%	2,510	2,597	2,688	2,787	2,892
	0.75%	2,452	2,534	2,621	2,714	2,813
	0.50%	2,397	2,475	2,558	2,646	2,740

Chapter 7

Examination of Need to Measure Impairment

Examination of Need to Measure Impairment

Book Value

After finding the recoverable sum of the activity, we shall compare it to the Company's carrying amount. If and only if we find that the recoverable sum of the asset is lower than its carrying amount, then the Company will have to impair the measured asset and amortize it accordingly.

In order to find the Company's carrying amount, we examined the segment's draft balance sheet for December 31, 2022. The carrying amount was comprised of the Company's operating assets and liabilities, as well as from the balance of the Company's goodwill attributed to the mobile segment (in millions of NIS).

The following is the carrying amount of both cash-generating units, the mobile segment, and the terrestrial segment:

Millions of NIS	Total	Terrestrial	Mobile
Working capital balance	171	(24)	195
Other operating assets	4,686	1,844	2,843
Total Carrying Amount	**4,857**	**1,819**	**3,038**

For more see Results of Business Activity.

Summary

Mobile Segment

Based on our work and the findings detailed in it, we have reached the conclusion that as of December 31, 2022, the value in use of the mobile segment cash-generating unit is higher than its carrying amount, and therefore no recognition of impairment is needed. The following table presents the results of the impairment test (in millions of NIS):

Millions of NIS	31.12.2022
Recoverable Sum	3,627
Carrying Amount	3,038
Need for Impairment	**–**

Terrestrial Segment

Based on our work and the findings detailed in it, we have reached the conclusion that as of December 31, 2022, the value in use of the mobile segment cash-generating unit is higher than its carrying amount, and therefore no recognition of impairment is needed. The following table presents the results of the impairment test (in millions of NIS):

Millions of NIS	31.12.2022
Recoverable Sum	2,688
Carrying Amount	1,819
Need for Impairment	**–**

Chapter 8

Appendix – Required Disclosures Regulation 8b of the Securities Regulations

Appendix – Required Disclosures Regulation 8b of the Securities Regulations

Required Disclosures Regulation 8b of the Securities Regulations

In conformity with Regulation 8b of the Securities Regulations (Periodic and Reports), 1970 (hereinafter: "**Regulation 8b**") with regard to required disclosure for valuations enclosed with financial statements (hereinafter: "**Required Disclosures**"), below are the additional Required Disclosures (beyond those provided in this document):

Value of Cellcom's activity derived from the Company's stock market value:

The following table presents the Company's market value in the six months ending June 31, 2022 (in thousands of NIS):

	NIS thousands
Average market value	3,068,448
Maximum market value	3,559,652
Minimum market value	2,670,975

(*) Market value for this period was set in accordance with the Company's offerings.

The following table shows the value of Cellcom's activity as calculated by us in this opinion compared to the value of activity as derived from its average market value in the six months ending December 31, 2022 (in millions of NIS):

Millions of NIS	Value in Use – Cellcom Activity	Average market Value of Cellcom's Activity for a period of six months from 1.7.2022 to 31.12.2022	Market Value of Cellcom's Activity as of December 31, 2022
Company market value	–	3,068	–
Net debt (1)	–	(2,616)	(2,616)
Value of Activity	**6,315**	**5,684**	**2,616**
Gap (in millions of NIS)		631	3,700
Gap (in %)		-10.0%	-58.6%

(1) Net debt and surplus assets as of December 31, 2022.

As evident, the gap between valuation of operations in this opinion and valuation of operations derived from the market value for the six months ended December 31, 2022 was NIS 627 million, or 10%.

We estimate that most of the fap derives from market expectations in the matter of the impact of regulation in the media industry as well as in light of our expectations regarding the nature of the structure of the industry in the future. As we detailed in Chapter 5, as we see it, the cellular market is not in equilibrium in terms of the number of competitors and the current ARPU, and therefore we predict that the level of prices in the market will increase in the future.

Appendix – Required Disclosures Regulation 8b of the Securities Regulations

Comparison to previous studies

We conducted an impairment test for Cellcom for its mobile segment in accordance with the provisions of IAS 36 as December 31, 2019-2021 and of June 30, 2021, and we conducted an impairment test for Cellcom with respect to its terrestrial segment in accordance with IAS 36 for December 31, 2019-2021. These tests established the following results:

Mobile Segment

Millions of NIS	31.12.2021	30.6.2021	31.12.2020	31.12.2019
Recoverable Sum	4,403	4,027	3,944	2,998
Carrying Amount	2,989	3,015	3,105	2,807
Need for Impairment	–	–	–	–

Terrestrial Segment

Millions of NIS	31.12.2021	31.12.2020	31.12.2019
Recoverable Sum	2,707	2,152	2,589
Carrying Amount	1,761	1,759	1,760
Need for Impairment	–	–	

Major changes with respect to the current study

Mobile Segment

The following is a summary of changes in assumptions that occurred between the study conducted as of December 31, 2021 and the current study conducted as of December 31, 2022 in the mobile Segment:

- Discount rate (WACC) Increased from approximately 7% to approximately 8.75%.
- Lateral changes and updates in the Mobile Segment as a whole, including in the number of subscribers at the starting point and future expectations, the ARPU and the costs in each of the activities, the scope of end equipment sales and projected profitability .

Terrestrial Segment

The following is a summary of changes in assumptions that occurred between the study conducted as of December 31, 2021 and the current study conducted as of December 31, 2022 in the Terrestrial Segment:

- Discount rate (WACC) decreased from approximately 7% to approximately 8.75%.
- The long term growth rare decreased form approximately 1.5% to 1%.

Appendix – Required Disclosures Regulation 8b of the Securities Regulations

Major changes with respect to the current study (Continued)

- In this work, the presentation of the acquisition of rights to use fibers (the IRU agreement with IBC) was changed in relation to the previous work. In this previous work, these payments were presented as an operating expense, whereas in this work these payments were presented as capex (and the depreciation for them was recognized). This change consists only of presentation changes – without affecting the numbers – and it was made in order to achieve alignment with the Company's accounting reports in this context.

- Lateral changes and updates in the Landline Segment as a whole, including in the number of subscribers at the starting point and future expectations, the ARPU and the costs in each of the activities, the scope of end equipment sales and projected profitability.