March 22, 2022

Bezeq – The Israel Telecommunication Corporation Ltd.
Periodic Report for 2021

Chapter A - Description of Company Operations

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

Chapter A
(Description of Company Operations) of the Periodic Report for 2021

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Chapter A - Description of Company Operations

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

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

1. General Development of the Group's Business

1.1. Group activities and business development

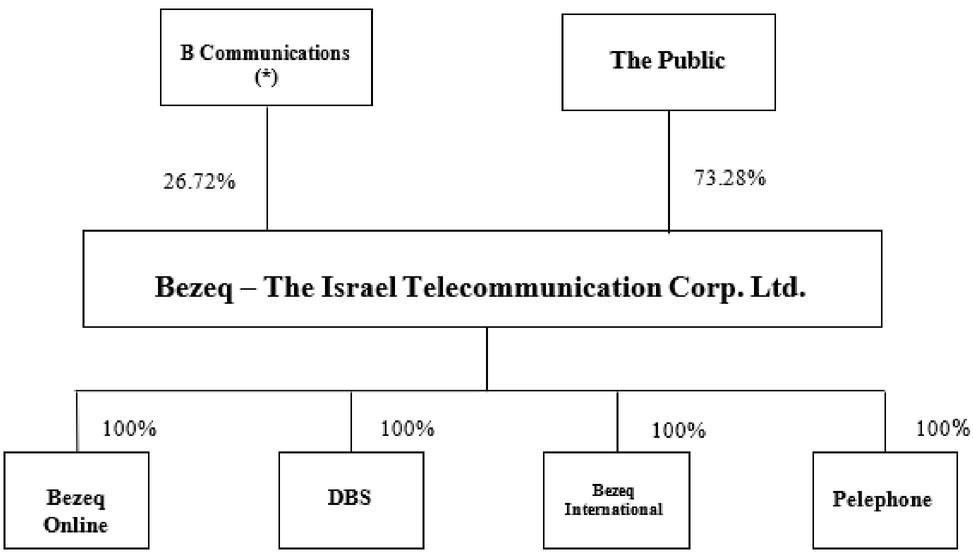
1.1.1. General

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

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

Chart of the Company’s holding structure, and the Company's holdings in the main subsidiaries, at the date of approval of the report (March 22, 2022):

Bezeq’s Holding Structure



(*) Regarding B Communications and control of the Company - see Section 1.1.2., and also Section 8 in Chapter D of this Periodic Report.

1.1.2. Control of the Company

On December 2, 2019, B-Communications Ltd. (BCOM) informed the Company of completion of the transaction with Searchlight II BZQ L.P. and a company controlled by the Fuhrer family (T.N.R. Investments Ltd.), whereby control of BCOM and the Company was transferred to these entities; this follows the liquidation of Eurocom Communications, and the sale of the holdings of its subsidiary, Internet Gold, in BCOM, which holds the Company's shares.[1] On this matter, see also an Immediate Report of the Company dated December 2, 2019 concerning an announcement by B Communications about completion of the aforesaid transaction, as well as immediate reports of the Company dated January 2, 2020 concerning the holdings of interested parties and one who became an interested party in the corporation, which are included herein by way of reference.

For additional information about the permit for control of the Company, see Section 8 in Chapter D of the Periodic Report. On May 14, 2020, the Extraordinary General Meeting of the Company's shareholders resolved not to approve the amendment of the articles of association of the Company as requested by B Communications. It should be noted that the notice of convening of said General Meeting included the position of the Board of Directors, which adopted the recommendation of the ad-hoc committee established by the Board to review the matter, stating, inter alia, that the requested changes to the Company's articles of association were not found to be in the interest of the Company and all its shareholders, and that the amendment to the articles of association of the Subsidiaries which was expected to be submitted in the future, as specified in B Communications' notice, could even discriminate against the Company's other shareholders and therefore could be held unlawful. As against this, the Company published B Communications' comments in connection with the report on the convening of the General Meeting, which, among other things, asserted that intervention by the Board of Directors in the affairs of the General Meeting is not grounded in law or in the Company's articles of association, that the recommendation of the Board Committee per se lacks any legal basis, and that amendment of the Company's articles of association is in the Company's interest, given that it reflects directives issued by the Ministry of Communications under the Communications Order, the provisions of which apply to the Company and must be complied with by the Company,

[1] To the best of the Company's knowledge, as of October 11, 2021, 738,953,713 of the Company's shares are held directly by B Communications, after all of the Company shares held by B Communications (SP2) Ltd. - a company wholly owned and controlled by B Communications (SP1) Ltd. which is wholly owned and controlled by B Communications - were transferred to be directly held by B Communications). B Communications (BCOM) is an Israeli public company whose shares are traded by way of double listing on the TASE. To the best of the Company's knowledge, the controlling shareholders of BCOM are, from December 2, 2019, Searchlight II BZQ L.P., a limited partnership incorporated in the Cayman Islands ("Searchlight") and TNR Investments Ltd. ("TNR"), a private company incorporated in Israel. The final general partner of Searchlight is Searchlight Capital Partners II GP, LLC, a limited liability company incorporated in the State of Delaware, held by several individuals, including Messrs. Erol Uzumeri, Eric Zinterhofer, and Oliver Harmaann, the latter being among the individuals who obtained the permit for control of the Company from the Ministry of Communications. TNR is fully owned and controlled by Mr. David Fuhrer (50%) and Ms. Michal Fuhrer (50%). As the Company was informed by BCOM, in accordance with the meaning of the term "controlling shareholder" in Section 268 of the Companies Law, Searchlight and TNR are considered the controlling shareholders in BCOM by virtue of a control permit dated November 11, 2019 and by virtue of the a voting agreement between them that grants them cumulative ownership, at the date of publication of this report, of 72% of the voting rights in BCOM. Moreover, TNR Real Estate Properties Ltd., which to the best of the Company's knowledge is controlled by Mr. David Fuhrer (50%) and Ms. Michal Fuhrer (50%), holds 2,546,320 of the shares of Bezeq.

in part to ensure that it continues to hold its license. This position was not accepted by the Company. As noted in Section 8 in Chapter D of this report, the Control Permit stipulates, inter alia, that failure to lay down provisions as aforesaid in the articles of association would constitute grounds for revoking the Control Permit.

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

1.1.3. Transfer of the CEO powers to the Board of Directors

In accordance with a resolution of the Company's Board of Directors from September 4, 2007, under Section 50(A) of the Companies Law and Articles 119 and 121.1 of the Company's articles, the powers of the CEO with respect to corporations held directly or indirectly by the Company (including Pelephone, Bezeq International, DBS and Bezeq Online) were transferred to the Board of Directors.

1.1.4. Mergers, acquisitions and structural changes - merging the Company and DBS

Until March 25, 2015, the Company held 49.78% of the shares of DBS and it also owned stock options which entitled it to 8.6% of the shares of DBS and which the Company has not yet exercised. The balance of DBS shares are held by Eurocom D.B.S.[2]

On March 25, 2015, the Company exercised the stock options, for no payment, and on June 24, 2015, the Company completed a transaction in which it acquired all the holdings of Eurocom DBS in DBS, as well as all the shareholders' loans that Eurocom DBS had provided to DBS (NIS 1,538 million as at December 31, 2014) (hereinafter - the "**Purchase Transaction**").

Upon completion of the transaction, the Company transferred to Eurocom DBS the cash payment for the Purchase Transaction of NIS 680 million. Upon completion of the Purchase Transaction, DBS became a wholly owned subsidiary (100%) of the Company.

It should be noted that, under the terms of the Purchase Transaction, in addition to the cash payment of NIS 680 million, the consideration also included two additional contingent payments, as follows:

A. One additional payment of up to NIS 200 million based on the tax synergy in accordance with the conditions defined in the purchase agreement. (hereinafter - the "**First Contingent Payment**"). Most of the First Contingent Payment was paid after the Company entered into a tax assessment agreement and tax ruling with the Tax Authority concerning finance income, shareholders' loans, the losses and merger of DBS (see

[2] A company that was controlled (indirectly) by Messrs. Shaul and Yosef Elovitch, controlling shareholders of the Company at that time.

also Notes 7 and 12.2 to the 2021 Financial Statements).

B. An additional payment of up to NIS 170 million in accordance with the business results of DBS in 2015-2017 (hereinafter - the "**Second Contingent Payment**"). The Company paid advances on account of the Second Contingent Payment in the amount of NIS 119 million.

Based on the financial results of DBS for 2017 and given that the final amount of the Second Contingent Payment was less than the advances that the Company paid to Eurocom DBS for that consideration, Eurocom DBS must return the difference to the Company. In this context, the Company, as a creditor, joined the proceeding to liquidate Eurocom Communications. Additionally, further to the Company's demand that Eurocom DBS pay it the amount of the advance on account of the Second Contingent Payment, plus interest as defined in the Agreement, and this after Eurocom DBS failed to meet the targets entitling it to this payment, on April 22, 2018, at the Company's request, the Tel Aviv District Court issued an order of liquidation for Eurocom DBS and the Company's attorneys were appointed as liquidator for Eurocom DBS.

For information about the conditions set out in the Competition Authority's approval for the merger (according to its meaning in the Economic Competition Law) between the Company and DBS, see Section 2.16.8.3.

On December 25, 2016, the Company and DBS signed a merger agreement (hereinafter - the "**Merger Agreement**") so that subject to the conditions precedent set out therein, which included, inter alia, obtaining various regulatory approvals from the Ministry of Communications, the Minister of Communications and Head of the Civil Administration, on the date of completion of the merger, and effective retroactively from the effective date of the merger (December 31, 2016), all the activity of DBS will be merged with and into the Company, for no payment, in accordance with the provisions of Section 323 of the Companies Law and under the provisions of Sections 103B and 103C of the Income Tax Ordinance,[3] and DBS will cease to exist as a separate legal entity.

The main purpose of the merger, from the business and economic perspective, is to streamline the activity and operation of the Company and DBS and consolidate them under one legal entity so as to save operating costs over time.

At the date of this report, the merger according to the Merger Agreement has not yet been implemented, in view of the fact that the conditions precedent have not been satisfied, and first and foremost cancellation of the structural separation in the Group (see Section 1.7.2.1).

For additional information on the foregoing in this section, see also Section .and Note 12.2 to the 2021 Financial Statements 2.20.5See also immediate reports filed by the Company on December 23, 2016, December 25, 2016, December 26, 2016, December 28, 2016, December 29, 2016, and November 8, 2018, included herein by way of reference.

[3] In the matter of a tax ruling passed on September 15, 2016 by the Tax Authority, as part of a tax assessment agreement that the Company signed with the Tax Authority, which includes the Tax Authority's preliminary approval for tax purposes for the merger of DBS with and into the Company, in accordance with the provisions of Section 103B of the Income Tax Ordinance, see an Immediate Report of the Company dated September 18, 2016.

1.1.5. Structural changes - structural changes in the subsidiaries

Following on previous decisions made by the Company and the subsidiaries Bezeq International and DBS (hereinafter in this section - "**the Subsidiaries**") regarding a structural change plan in which Bezeq International's private activities were to merge with and within DBS and the Bezeq International’s ICT activities were to split into a new company wholly owned by the Company (hereinafter - the "**Merger/Split Plan**") - On March 16, 2022, the Company's Board of Directors decided, following decisions made that day by the subsidiaries' boards of directors, to approve the cancellation of the Merger/Split Plan, and to approve an alternative outline for which a plan for its execution will be presented within 60 days to the subsidiaries’ boards of directors, according to which Bezeq International's ISP activity in the private sector will be reduced following the cancellation of the separation between broadband infrastructure service and Internet access service (ISP), and ISP activity will be established in DBS for selling "Triple" packages to customers (hereinafter - the “**Alternative Outline**"), while striving to achieve, as much as possible, the strategic, business and economic goals underlying the decision to promote the structural change that were, among other things, adapting the activity to the structure of the industry and changing regulation, focusing on increasing revenue and growth, and increasing operational synergy and efficiency.

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

The Company and the subsidiaries are unable to assess, at this stage, whether, and when, all the terms and conditions required for the execution of the Alternative Outline will be met, to the extent they are met, and accordingly, there is also no certainty that the Alternative Outline will be realized in the manner described above, if at all.

1.1.6. Investigation by the Securities Authority and Israel Police

Further to investigations by the Israel Securities Authority (hereinafter - “**ISA**”) from June 2017 and by the Israel Police from February 2018, into suspected offenses under the Securities Law and the Penal Law, 1977 (hereinafter - "**Penal Law**"), with respect to transactions related to the Company's former controlling shareholder and former Chairman of its Board of Directors, Shaul Elovitch (hereinafter - "**Elovitch**"), involving the purchase of shares of DBS and provision of satellite communication services to DBS, the conduct of the Ministry of Communications vis-à-vis the Company (hereinafter - "**DBS case**"), as well as suspicions of the exercise of authority by the former Prime Minister, Benjamin Netanyahu, to promote matters related to the business of Elovitch and to his economic interests and those of the Bezeq Group (hereinafter - "**Case 4000**”) -

1.1.6.1 On January 28, 2020, an indictment was filed with the Jerusalem District Court in Case 4000, inter alia, against Elovitch for various offenses, among others, bribery and causing a misleading particular to be included in an immediate report, in connection with suspicions of the exercise of authority by the former Prime Minister, Benjamin Netanyahu, to promote matters related to the business of Elovitch and to his economic interests and those of the Bezeq Group.

1.1.6.2 On December 23, 2020, the Company received a notice from the Tel Aviv District Attorney's Office (Taxation and Economics Division) that consideration was being given to prosecuting the Company and summoning it to a hearing in Case 4000 (hereinafter - the "**Notice**"),[4] based on the following:

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

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

C) In addition, according to the Notice, the suspicion of criminal liability against the Company for the reporting offense arises from the acts and criminal intent of Shaul Elovitch, who was an organ of the Company in the period relevant to the suspicions, and the acts and criminal intent of Stella Handler (the former CEO of the Company), who was an organ of the Company during the relevant period (see Section 1.1.6.3B). According to the allegations in this regard, the Company reported a letter from the Director General of the Ministry of Communications which allegedly included a misleading representation (of which Shaul Elovitch and Stella Handler were aware), and only after the intervention of senior officials in the Attorney General's Office was the letter amended and the amendment reported by the Company to the general public.

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

It should be noted that Walla (a former subsidiary of the Company) received a similar notice, according to which, following an examination of the evidence presented to him, the Attorney General is considering filing an indictment against Walla as well, on suspicions of bribery (an offense under Section 291 of the Penal Law together with Section 23 of the Penal Law), with the suspicion of criminal liability against Walla for the bribery offense arising from

4 It should be noted that on November 20, 2017, the Company received a "notice to suspect," according to which the Investigation file in which it was being investigated as a suspect had been sent to the Tel Aviv District Attorney's Office for review. Since then, no further notice has been received by the Company in that matter.

the acts and criminal intent of Shaul Elovitch, who was an organ of the company during the period relevant to the suspicions.

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

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

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

B) The Taxation and Economics Division had entered into a conditional stay of proceedings arrangement, upon terms in accordance with the Securities Law, with Stella Handler, in the framework of which Handler admitted that she was involved in the inclusion of a misleading particular in the Company's reports. As stated in the arrangement, the DBS case was closed with respect to Stella Handler.

C) The investigation files against other suspects who were investigated in the aforementioned cases, including against the former VP of Regulation of the Company and against Or Elovitch and Amikam Shorer, had been closed (with respect to the latter two – except as regards the DBS case, as noted at the beginning of this section).

1.1.6.4 The Company does not yet have complete information about the investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter (although in January 2021 the Company received the core of the investigation material in connection with Case 4000, further to the invitation of the Company to a hearing in this matter, as set out in Section 1.1.6.2). Accordingly, the Company is not able to assess the effects of the investigations, their findings and their outcome on the Company and on its financial statements. See in this regard Note 1.3 to the 2021 Financial Statements.

1.1.6.5 It should be noted that following the opening of the aforementioned investigations, several civil legal proceedings were instituted against the Company and DBS, officers of the Company in the relevant period, and companies in the group of the former controlling shareholder of the Company, including motions to certify class action lawsuits and motions for disclosure of documents prior to filing a motion to certify a derivative claim. For further information on these proceedings, see Section 2.18.

1.1.6.6 As regards DBS, which on November 20, 2017 received a "notice to suspect", according to which the Investigation file in which it was being investigated as a suspect had been sent to the Tel Aviv District Attorney's Office for review – according to a notice received by DBS from the Tel Aviv District Attorney's Office, following a review of the ISA file in which it was investigated as a suspect (Investigation No. 03/2017), it was decided on January 11, 2021 to close the case against it, without filing an indictment.

1.2. Operating segments

The Group has four main operating segments which correspond with the corporate division among the Group companies and report as business segments in the Company's consolidated financial statements (see also Note 28 to the 2021 Financial Statements):

1.2.1. The Company – Fixed-line domestic communications

This segment consists primarily of the Company's operation as a Domestic Carrier, including telephony services, Internet infrastructure and access services (and including wholesale BSA service), transmission and data communications services and wholesale service for use of the Company's physical infrastructures. The Company's activities in the domestic fixed-line segment are described in Section 2.2 of this report.

1.2.2. Pelephone – Cellular communications

Cellular communications, marketing of terminal equipment, installation, operation and maintenance of cellular communication equipment and systems. Pelephone's operations are described in .Section 3 of this report

1.2.3. Bezeq International – Internet, international communications, and NEP services and ICT solutions ("**Bezeq International Services**")

Internet access services (ISP), international communication services, NEP services and the provision of ICT solutions. Bezeq International's operations are described in Section 4 of this report.

1.2.4. DBS – Multi-channel television

Multi-channel digital satellite television and over the Internet (OTT) broadcasting services for subscribers (DBS) as well as the provision of value added services for subscribers. DBS's operations are described in Section 5 of this report.

It should be noted that, in addition, the Company's consolidated financial statements include an "Others" segment, which includes mainly customer call centers (through Bezeq Online).

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

On completion of the transaction for the transfer of control in the Company on December 2, 2019, see Section 1.1.2.

On December 10, 2020, B Communications announced the purchase of 10,580,000 ordinary shares of the Company for a total of NIS 40 million, at an average price per share of NIS 3.78. Following said purchase, B Communications holds 26.72% of the issued and paid-up share capital and of the voting rights in the Company.

No investments were made in the Company’s equity in the reporting year and the Company is not aware of any other material transactions performed by interested parties in the Company’s shares outside the stock exchange.

1.4. Dividend distribution

1.4.1. Dividend distribution policy

On March 22, 2022, the Company's Board of Directors decided to approve a new dividend distribution policy for the Company, according to which the Company will distribute to its shareholders, every six months, a cash dividend at a rate of 50% of the Company's half-yearly profit (after tax), according to the Company’s consolidated financial statements, starting with the next distribution (in respect of the second half of 2021). The implementation of the dividend distribution policy is subject to the provisions of any law, including the distribution tests set forth in the Companies Law, all taking into account the expected cash flow, the Company's needs and obligations, the Company's cash balances, its plans and condition as it is from time to time, and subject to the approval of the General Meeting of the Company’s shareholders with regard to each specific distribution, as stated in the Company's Articles of Association.

The approval of the Company's dividend policy as aforesaid does not oblige the Company to distribute a dividend to the Company's shareholders and each specific distribution will be examined in its entirety in accordance with the conditions for implementing the dividend distribution policy as stated above. In addition, the approval of the dividend distribution policy will not prevent the Company’s Board of Directors from examining the dividend distribution policy for the Company’s shareholders from time to time, taking into account, among other things, the provisions of the law, the state of the Company’s business and its capital structure, while maintaining a balance between ensuring the Company’s financial strength and stability, including its debt level and credit rating, and continuing to increase value for the Company’s shareholders by continuing to distribute a dividend.

The Board of Directors considers it important to maintain the balance between ensuring the Company's financial strength and stability, while maintaining a rating in the Company's current rating group [AA] over time, and continuing to add value for its shareholders through a current dividend distribution.

The Company's Board of Directors was presented with, among other things, analysis and results of professional work as performed by Professor Aharon (Roni) Ofer, the Company's and the Group's forecasts, as well as sensitivity analyses for unexpected cases of deterioration in the Company's and Group's business. After examining all of the above, the Company's Board of Directors has determined that this decision reflects the correct balance between the needs as described above.

1.4.2. Dividend Distribution

The Company has not distributed a dividend in the past three years (2019-2021). As of the date of the report, the balance of the Company's distributable profits is NIS 1,979 million.

Regarding the Board of Directors' recommendation to the General Meeting of the Company's shareholders regarding dividend distribution, see Note 20 to the 2021 reports.

See also the Company's immediate report dated March 23, 2022 regarding dividend policy and dividend distribution, which is included herein by way of reference.

1.5. Financial information about the Group's operating segments

All the data in Sections 1.5.1 to 1.5.4 are in NIS millions.

1.5.1. 2021

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

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

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

(3) See Notes 10 and 28 in the 2021 Financial Statements concerning the exclusion of an impairment loss in the multichannel television segment. The impairment loss in this segment is presented under the adjustments.

1.5.2. 2020

	Domestic fixed-line communi-cations	**Cellular communi-cations**	**Bezeq Inter-national Services**	**Multi-channel television (3)**	**Others**	**Adjust-ments for consoli-dated (2)**	**Consoli-dated**
Total revenues:							
From external sources	3,813	2,127	1,217	1,286	280	-	8,723
From other operating segments in the corporation	346	59	54	1	6	(466)	-
Total revenues	4,159	2,186	1,271	1,287	286	(466)	8,723
Total costs attributable to:							
Variable costs attributable to operating segment (1)	850	799	1,021	532	186		
Fixed costs attributable to operating segment (1)	1,604	1,471	491	797	56		
Total costs	2,454	2,270	1,512	1,329	242	(539)	7,268
Costs that do not constitute revenue in another operating segment (3)	2,405	2,162	1,246	1,296	236	(77)	7,268
Costs that constitute revenue in other operating segments	49	108	266	33	6	(462)	-
Total costs	2,454	2,270	1,512	1,329	242	(539)	7,268
Profit (loss) from ordinary operations attributable to owners of the Company	1,705	(84)	(241)	(42)	44	73	1,455
Total assets attributable to operations at December 31, 2020	8,471	4,371	785	1,365	96	(1,847)	13,241
Total liabilities attributable to operating segment at December 31, 2020	11,764	1,742	580	505	42	(1,242)	13,391

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

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

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

(3) See Notes 10 and 28 in the 2021 Financial Statements concerning the exclusion of an impairment loss in the multichannel television segment. The impairment loss in this segment is presented under the adjustments.

1.5.3. 2019

	Domestic fixed-line communi-cations	Cellular communi-cations	Bezeq Inter-national Services	Multi-channel television (3)	Others	Adjust-ments for consoli-dated (2)	Consoli-dated
Total revenues:							
From external sources	3,757	2,316	1,283	1,344	229	-	8,929
From other operating segments in the corporation	316	46	56	1	9	(428)	-
Total revenues	4,073	2,362	1,339	1,345	238	(428)	8,929
Total costs attributable to:							
Variable costs attributable to operating segment (1)	307	1,080	727	630	177		
Fixed costs attributable to operating segment (1)	1,624	1,381	808	850	60		
Total costs	1,931	2,461	1,535	1,480	237	435	8,079
Costs that do not constitute revenue in another operating segment (3)	1,883	2,357	1,292	1,457	232	858	8,079
Costs that constitute revenue in other operating segments	48	104	243	23	5	(423)	-
Total costs	1,931	2,461	1,535	1,480	237	435	8,079
Profit (loss) from ordinary operations attributable to owners of the Company	2,142	(99)	(196)	(135)	1	(863)	850
Total assets attributable to operations at December 31, 2019	8,091	4,088	1,084	1,491	151	(1,914)	12,991
Total liabilities attributable to operating segment at December 31, 2019	12,466	1,434	604	576	79	(1,236)	13,923

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

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

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

(3) See Notes 10 and 28 in the 2021 Financial Statements concerning the exclusion of an impairment loss in the cellular communication (radio, mobile phone) and multichannel television segments. The impairment loss in this segment is presented under the adjustments.

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

1.5.4. Main results and operational data

Condensed data showing the results of each of the Company's main segments of operation in 2020 and 2021.

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

	2021	2020	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenues (NIS million)	4,182	4,159	1,052	1,037	1,039	1,054	1,055	1,042	1,044	1,018
Operating profit (NIS million)	1,748	1,705	358	390	407	593	356	446	464	439
Depreciation and amortization (NIS million)	938	877	245	239	231	223	225	222	218	212
Opearting EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	2,686	2,582	603	629	638	816	581	668	682	651
Net profit (NIS million)	1,063	1,040	206	219	238	400	216	300	229	295
Cash flow from operating activities (NIS million)	2,024	2,106	593	567	354	510	600	561	334	611
Payments for investments in property, plant & equipment, intangible assets and other investments (NIS million)	1,155	910	244	314	285	312	237	272	201	200
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	273	146	87	4	-	182	119	1	19	7
Payments for leases	116	111	32	31	24	29	27	26	26	32
Free cash flow (NIS million) (2)	1,026	1,231	404	226	45	351	455	264	126	386
Number of active subscriber lines at the end of the period (thousand) (3)	1,583	1,639	1,583	1,602	1,615	1,630	1,639	1,653	1,675	1,693
Average monthly revenue per telephony line (NIS) (ARPL) (4)	47	50	46	46	47	49	50	51	51	48
Number of outgoing use minutes (million)	3,385	3,985	811	782	827	965	1,004	1,019	1,079	883
Number of incoming use minutes (million)	4,627	5,107	1,096	1,152	1,095	1,284	1,326	1,368	1,293	1,120
Total number of Internet lines at the end of the period (thousand) (7)	1,524	1,556	1,524	1,524	1,529	1,540	1,556	1,565	1,571	1,566
Number of which provided as wholesale Internet lines at the end of the period (thousand) (7)	501	557	501	510	520	539	557	570	580	584
Number of which provided as retail Internet lines at the end of the period (thousand) (7)	1,023	999	1,023	1,014	1,009	1,001	999	995	991	982
Average monthly revenue per Internet subscriber (NIS) - retail (ARPU) (8)	106	99	109	107	106	103	102	100	98	98
Average bundle speed per Internet subscriber - retail (Mbps) (5)	129.6	74.2	129.6	104.2	87.8	77.7	74.2	71.6	70.4	69.1
Telephony churn rate (6)	10.6%	12.5%	2.8%	2.4%	2.6%	2.8%	3.2%	3.4%	2.7%	3.2%

(1) EBITDA (earnings before interest, taxes, depreciation and amortization) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as an additional index for assessing its business results since this index is generally accepted in the Company's area of operations that counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. This index is not a substitute for indices that are based on GAAP and it is not used as a sole index for estimating the results of the Company's activities or cash flows. Additionally, the index presented in this report is unlikely to be calculated in the same way as corresponding indices in other companies. The Company's EBITDA is calculated as operating profit before depreciation, amortization and continuing losses from the impairment of property, plant and equipment and intangible assets. To reasonably present economic activity, the Company presents continuing losses from the impairment of property, plant and equipment and intangible assets in DBS and Bezeq International under the item depreciation and amortization, and ongoing losses from the impairment of broadcasting rights under the item operational and general expenses (in the Income Statement). On this matter see Note 10 to the Financial Statements and Section 7 of the chapter Description of Company Operations in the 2021 Periodic .Report

(2) Free cash flow is a financial index that is not based on GAAP. Free cash flow is defined as cash from operating activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net, and from 2018, with the application of IFRS 16, payments for leases are also deducted. The Company presents free cash flow as an additional index for assessing its business results and cash flows because the Company believes that free cash flow is an important indication of liquidity that reflects cash resulting from operating activities after cash investments in infrastructure and other fixed and intangible assets. On this matter, see Section 7 .of the chapter Description of Company Operations in the 2021 Periodic Report

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

(4) Calculated according to average lines for the period. On this matter, see Section 7 of the chapter Description of Company .Operations in the 2021 Periodic Report

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

(6) The number of telephony subscribers (gross) who left Bezeq Fixed Line during the period divided by the average number of registered telephony subscribers in the period. See also Section of the chapter Description of Company Operations in the 7 .Periodic Report 2021

(7) Number of active Internet lines including retail and wholesale lines. Retail - Internet lines provided directly by the Company. Wholesale - Internet lines provided through a wholesale service to other communications providers.

(8) Revenues from retail Internet services divided by the average number of retail customers in the period. On this matter, see Section 7 .of the chapter Description of Company Operations in the 2021 Periodic Report

1.5.4.2 Pelephone

	2021	2020	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue from services (NIS million)	1,642	1,591	424	417	409	392	396	396	394	405
Revenue from the sale of terminal equipment (NIS million)	647	595	178	124	167	178	137	149	141	168
Total revenue (NIS million)	2,289	2,186	602	541	576	570	533	545	535	573
Operating profit (loss) (NIS million)	42	(84)	8	22	15	(3)	(36)	(27)	(8)	(13)
Depreciation and amortization (NIS million)	577	599	147	144	144	142	151	147	151	150
Operating EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	619	515	155	166	159	139	115	120	143	137
Net profit (loss) (NIS million)	64	(25)	13	23	20	8	(12)	(12)	1	(2)
Cash flow from operating activities (NIS million)	425	697	19	185	149	72	241	143	149	164
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	253	318	54	68	60	71	80	100	73	65
Payments for leases	219	230	54	52	53	60	48	67	48	67
Free cash flow (NIS million) (1)	(47)	149	(89)	65	36	(59)	113	(24)	28	32
Number of postpaid subscribers at the end of the period (thousand) (2)	2,096	2,044	2,096	2,074	2,050	2,030	2,004	1,976	1,948	1,928
Number of prepaid subscribers at the end of the period (thousand) (2)	480	438	480	473	471	462	438	420	417	428
Number of subscribers at the end of the period) (2)	2,576	2,442	2,576	2,547	2,521	2,492	2,442	2,396	2,365	2,356
Average monthly revenue per subscriber (NIS) (ARPU) (3)	54	56	55	55	54	53	55	56	56	58
Churn rate (4)	22.9%	26.9%	5.8%	5.5%	5.8%	5.8%	5.9%	7.0%	6.8%	7.2%

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

(2) Subscriber data includes Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network and excluding IOT subscribers), and does not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call, has not made one call / sent one SMS, or has performed no surfing activity on his phone or has not paid for Pelephone services. Prepaid subscribers are included in the number of active subscribers from the date on which the subscriber loaded his device, and are removed from the list of active subscribers if he makes no outgoing use of his device for six months or more. It should be noted that a customer may have more than one subscriber number ("line"). The subscriber list includes subscribers who use different services (e.g. data for car media systems), from which the average revenue is substantially lower than for other subscribers.

(3) Average monthly revenue per subscriber (postpaid and prepaid). The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period. See also Section 7of the chapter Description of Company Operations in the 2021 Periodic .Report

(4) The churn rate is calculated at the ratio of subscribers who disconnected from the company's services and subscribers who became inactive during the period, to the average number of active subscribers during the period. See also Section 7 of the chapter Description of Company Operations in the 2021 Periodic Report.

1.5.4.3 Bezeq International

	2021	2020	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenues (NIS million)	1,237	1,271	328	287	310	312	325	315	314	317
Operating profit (loss) (NIS million)	22	(241)	1	13	16	(8)	(22)	(275)	27	29
Depreciation and amortization (NIS million)	173	149	40	38	46	49	26	42	38	43
Operating EBITDA earnings (loss) before interest, taxes, depreciation and amortization) (NIS million) (1)	195	(92)	41	51	62	41	4	(233)	65	72
Net profit (loss) (NIS million)	8	(275)	(5)	10	11	(8)	(13)	(305)	21	22
Cash flow from operating activities (NIS million)	131	230	(52)	96	26	61	75	47	48	60
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million) (2)	98	116	14	27	27	30	21	28	33	34
Payments for leases	33	30	7	9	9	8	7	7	8	8
Free cash flow (NIS million) (1)	0	84	(73)	60	(10)	23	47	12	7	18
Churn rate (3)	25.3%	30.2%	5.9%	5.5%	6.0%	7.9%	10.2%	7.2%	6.1%	6.7%

(1) On the definition of operating EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table.
(2) The item also includes long-term investments in assets.
(3) The number of Internet subscribers who left Bezeq International during the period, divided by the average number of registered Internet subscribers in the period. See also Section 7 of the chapter Description of Company Operations in the 2021 Periodic Report.

1.5.4.4 DBS

	2021	2020	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenues (NIS million)	1,270	1,287	322	318	315	315	317	313	319	338
Operating profit (loss) (NIS million)	32	39	(14)	30	22	(6)	(11)	18	23	9
Depreciation, amortization and ongoing impairment (NIS million)	203	203	52	45	45	61	59	50	50	44
EBITDA (earnings before interest, taxes, depreciation and amortization) (NIS million) (1)	235	242	38	75	67	55	48	68	73	53
Net profit (loss) (NIS million)	30	24	(17)	29	18	0	(24)	16	18	14
Cash flow from operating activities (NIS million)	233	163	42	73	56	62	14	69	39	41
Payments for investments in property, plant & equipment, intangible assets and other investments, net (NIS million)	178	141	55	38	42	43	26	38	40	37
Payments for leases	26	26	7	6	7	6	6	6	7	7
Free cash flow (NIS million) (1)	29	(4)	(20)	29	7	13	(18)	25	(8)	(3)
Number of subscribers (at the end of the period, in thousands) (2)	563	557	563	560	560	559	557	556	557	556
Of which IP subscribers (3)	226	120	226	198	173	147	120	94	72	53
Of which STINGTV subscribers	84	64	84	79	74	70	64	56	48	44
Average monthly revenue per subscriber (ARPU) (NIS) (3)	188	190	190	188	186	187	186	187	190	195
Churn rate (4)	15.1%	21.0%	3.4%	3.7%	3.7%	4.3%	4.9%	5.4%	4.8%	5.9%

(1) On the definition of operating EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow, see comments (1) and (2) in the Bezeq Fixed Line table.
(2) Subscriber - a single household or small business customer. In the case of a business customer, that has more than a certain number of decoders (such as a hotel, kibbutz, or gym), the number of subscribers is standardized. The number of business customers that are not small businesses, is calculated by dividing the total payment received from all the business customers that are not small businesses by the average revenue per small business customer, which is determined periodically.
(3) The number of DBS subscribers using yes+ and Sting TV services that are transmitted over the Internet (as stated in Sections 5.2.2.1 and 5.2.2.2 of the chapter on the Description of the Corporation's Business in the 2021 periodic report) as of the date of publication of the report is approx. 250 thousand customers (of which approx. 88 thousand are STINGTV subscribers) which constitute approx. 44% of all DBS subscribers. This rate also includes subscribes that also use satellite services in parallel.
(4) Monthly ARPU is calculated by dividing total DBS revenues (excluding revenues from sales of content to external broadcasting entities and revenue from terminal equipment) by the average number of customers in the period. See also Section 7 of the chapter Description of Company Operations in the 2021 Periodic Report.
(5) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period. See also Section 7 of the chapter Description of Company Operations in the 2021 Periodic Report.

1.6. Forecast and medium-term objectives in relation to the Group

1.6.1. Forecast

The following is the Group's forecast for 2022 based on the information currently known to the Bezeq Group:

Adjusted net profit [5] for shareholders is expected to be NIS 1-1.1 billion

- Adjusted EBITDA[6] is expected to be between NIS 3.6 and 3.7 billion
- CAPEX[7] is expected to be between NIS 1.7 and 1.8 billion

The Company will report, as necessary, any deviations of ±5% or more from the ranges specified in the forecast above.

- Scope of the Company's fiber network layout - reaching approx. 1.4 million households
- Financial stability - maintaining a high credit rating, in the AA group

1.6.2. Medium-term objectives

- Adjusted EBITDA - stability while maintaining an adjusted EBITDA rate out of revenues in the range of 41%-43%
- CAPEX - until 2024 - stability in CAPEX and in the ratio of CAPEX to revenue; gradual decline thereafter
- Free cash flow[8] - average growth for the year (in CAGR terms) at a moderate single-digit rate
- Scope of the Company's fiber network layout - reaching approx. 2.1 million households
- Financial stability - maintaining a high credit rating, in the AA group

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

1.6.3. Forward-looking information

The Company's forecasts and ambitions detailed in this section are forward-looking information, as defined in the Securities Law. The forecasts and objectives are based on the Company's estimates, assumptions and expectations, inter alia, on the Group's estimates regarding the structure of competition in the telecommunications market and regulation in this sector, on the current economic situation and, accordingly, the Group's ability to implement its plans for 2022 and for the medium term, as applicable, also taking note of changes that may occur in the foregoing, business conditions and the effects of regulatory decisions, technology changes, developments in the structure of the telecommunications market, etc., or insofar as one or

5 Adjusted net profit and adjusted EBITDA - excluding other operating expenses/income, net, and non-recurring losses/gains from impairment/appreciation and the expenses for equity compensation plan. It should be noted that adjusted EBITDA and adjusted net profit for 2021 were NIS 3.709 billion and NIS 1.154 billion, respectively.

6 See footnote 5. 5

7 CAPEX - payment (gross) for investments in property, plant and equipment and intangible assets. It should be noted that CAPEX for 2021 was NIS 1.69 billion.

8 For a definition of free cash flow, see Section 0.

more of the risk factors listed in the 2021 Periodic Report materialize. Additionally, there is no certainty that the forecast or the objectives will be realized, in whole or in part, inter alia, in view of the COVID-19 pandemic and the uncertainty it has caused.

Also, with respect to the Company's, taking into consideration that this is a reference to the medium term and the difficulty of predicting the Company's actual results and market performance in the medium term, there is no certainty that the Company's objectives will be fully or partially met, and the deviation of the Company’s actual results and performance from the objectives may be significant and material. Moreover, objectives by nature do not purport to be forecasts and they should be read as such.

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

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

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

In cellular telephony segment, the large number of operators has strengthened competition and led to lower prices, increased customer portability. In the fixed-line telephony segment, competition, including from cellular companies, has brought about a decline in use of fixed-line telephony minutes and higher customer churn (including many customers without a fixed line at home), which in turn has affected the Group’s results.

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

In the Internet and Internet access infrastructure services segment, there is fierce competition with companies that own infrastructure, including fiber infrastructure to households, and through the wholesale market (see Sections 1.7.3 and 2.16.4) and the implementation of additional wholesale services is deepening.

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

Considering the diversity of the Group's communication operations, regulatory and other developments could, in certain cases, have different (and even opposite) effects, on different areas of operation and on risk factors in the Group (see Sections 2.20, 3.19, 4.14 and 5.19), meaning that changes in regulation and other factors that adversely affect one area, could potentially have a positive effect on another area. In certain cases, opposing effects on the areas of operation might be offset one against the other at the Group level.

1.7.1. Communications groups in the Israeli market

The market is characterized in recent years by competition among communications groups (the Bezek Group, Hot Group, Cellcom Group and Partner Group) operating in parallel in several segments in the communications market (fixed-line and cellular telephony, fixed-line and cellular Internet services, multi-channel television and international calls).[9]

Structural changes and mergers between competing communications groups and companies may have material implications on the structure of and competition in the communications market and on the Group's activity. The Company is unable at the present time to assess these effects.

On August 26, 2020, Cellcom announced the completion of an agreement to purchase full ownership and control of Golan Telecom, after regulatory approvals were received for the purchase. Furthermore, Cellcom, HOT and the Israel Infrastructure Fund (IIF) hold in equal parts a partnership with a 70% stake in IBC. Regarding this matter and the approvals received by HOT, see Section 2.6.3.5.

It is noted that competitors that do not belong to the above communications group (such as Xfone, MVNO cellular operators, international operators and ISPs, including service providers in the wholesale market) also operate in the market.

The competition between the communications groups is reflected by increased use of "service bundles" or bundles of several services that include combinations of several different communication services. The communications groups market bundles of various communication services of the companies in each group to enable them to offer its customers a comprehensive solution that does away with the need to subscribe to several different providers, and to offer more attractive tariffs than purchasing each service separately (in some cases with "cross-subsidization" among the bundle components). These trends were reinforced with implementation of a wholesale BSA service (see Section 2.16.4.2), allowing operators that do not own infrastructure and those that are not part of a communications group to offer a full end-to-end service bundle (including infrastructure) to their customers. Following on the Minister of Communications' decision of June 20, 2021 regarding the cancellation of the obligation to separate infrastructure service and Internet access service, starting April 3, 2022, infrastructure owners - the Company and Hot, will be able to provide private customers with Internet access service, together with their infrastructure service.

Providing customers with comprehensive services that meet their different needs is becoming easier due to technological convergence (see Section 2.1.4), regulatory changes and regulation through a single general license granted to different communications operators, enabling communications services that required separate licenses in the past to be provided under the same license.

At the Reporting Date, stricter restrictions apply to Bezeq Group in marketing service bundles than to the other Groups, as set out below.

1.7.2. Activity of Bezeq Group as a communications group and the structural separation restrictions

At the Reporting Date, the Group is subject to several regulatory restrictions in terms of joint ventures between the Group companies, including the obligation to maintain structural separation between the Company and its subsidiaries and the restriction on marketing joint service bundles that

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

include the services of the Company and its subsidiaries.

Against the background of the challenges facing the Group and the future needs forming in the communications market environment, in parallel with the Company's actions to cancel the structural separation, the Board of Directors and the Company are taking measures to implement a comprehensive strategic plan for the Group as a communications group within the complex regulatory restrictions imposed on it (see Section 1.8).

Following are additional details about the main restrictions applicable to the Group in its activity as a communications group:

1.7.2.1 Structural separation obligation

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

The Company's domestic carrier license stipulates that it must maintain structural separation between itself and its subsidiaries.[10] This requires, inter alia, the management of the Company and that of the subsidiaries to be fully segregated, including in terms of the business, finance and marketing systems, and the Company is prohibited from disclosing commercial information to a subsidiary (subject to exceptions).

The structural separation restrictions place the Group in an inferior competitive position, which is worsening over time compared with other communications groups that are not subject to such far-reaching limitations, and compared with the option for the operators to provide end-to-end services to subscribers using wholesale services. These structural separation restrictions also give rise to high overheads.

1.7.2.2 Cancelation of the structural separation

On February 24, 2021, a petition to the High Court of Justice submitted by the Company against the Ministry of Communications for the immediate cancellation of the structural separation in the Bezeq Group was struck out. The petition was filed after the Ministry failed to accept to the Company's requests on the subject even though, in the Company's opinion, all the conditions requiring the cancellation of the structural separation under in the policy document dated May 2, 2012 concerning expansion of competition in the fixed-line communication wholesale market (hereinafter - the "**Policy Document**"). In the procedure, the State submitted a report of the interdepartmental team set up to consider adjustments to the obligation of structural separation in the Bezeq and HOT Groups (hereinafter - the "**Report**"), which recommended to the Minister not to cancel the obligation of structural separation in the Bezeq and HOT Groups at the present time. The team found that it is possible to make certain changes to the overall regulation that have the potential to improve the service to the public and that will affect the structural separation, including examining a change in the

[10] Pelephone, Bezeq International, DBS and Bezeq Online.

separation used in Israel between the infrastructure service and the ISP service (regarding the cancellation of the separation, see Section 1.7.2.4).

1.7.2.3 Marketing joint service bundles with a subsidiary and between subsidiaries

The Company is permitted to offer subscribers joint service bundles with its subsidiaries, subject to approvals by the Ministry of Communications and several terms laid down in the domestic carrier license, including:

- The bundles must be “unbundleable”, meaning that a service included in them will be offered separately and on the same terms.
- At the time of submitting a request for approval of a bundle, there is a group of services in similar format being marketed to a subscriber as a package by a license holder who is not a subsidiary of the Company, or there is a group that includes license holders who provide a private subscriber with all the services included in the joint service bundle.
- Joint service bundles marketed by the subsidiaries including the services of the Company, are also subject, according to their licenses, to similar limitations, including an "unbundling" requirement (except for a bundle marketed by a subsidiary that contains only the Company's Internet infrastructure service).
- From April 3, 2022, (see Section 1.7.2.4) the Company will be able to offer private customers access services in addition to the Internet infrastructure service, and will not be able to market a bundle that includes an Internet infrastructure service with an access service of the subsidiary or another licensee.

These limitations, and in particular the "unbundling" obligation, which severely limits the Group’s ability to offer discounts on the components of the bundles, puts the Group in a competitively inferior position compared to the competing communications groups, which are not subject to similar limitations in marketing bundles (other than limitations on the marketing of a joint bundle of HOT-Net and other companies in the HOT Group). The Ministry of Communications has recently been reducing these restrictions). The Company’s limitation is even more significantly manifested with the implementation of the wholesale BSA service and the option for ISPs to provide full end-to-end service (infrastructure + service provider) to customers at reduced prices.

On May 23, 2021, the Ministry of Communications notified the Company of the rejection of its request from April 4, 2021 to market a joint service bundle that would enable it, inter alia, to provide internet infrastructure services of the Company and content services of DBS through broadband fixed-line access. In the Ministry's opinion, in view of the comprehensive economic-competitive analysis recently carried out, as reflected in the recommendations of the interdepartmental team set up to consider adjustments to the structural separation obligations in the Bezeq and HOT Groups, the time is not ripe for approving a joint service bundle as requested by the Company. Prior to that, on February 15, 2018, the Ministry addressed the Company's announcement of its intention to send interested customers a link to the DBS site, expressing its position that marketing DBS Internet-based television ("Sting") by the Company is not in line with the structural separation provisions of the Company's license and accordingly, the Company does not market Sting service of DBS.

1.7.2.4 Marketing joint service bundles of Internet infrastructure together with ISP

In 2017, further to the Ministry's demand, changes were made to the bundle sales format, mainly splitting of the bundle (ISP and infrastructure) after a year. On June 18, 2020, the Company received the decision of the Director General of the Ministry of Communications, stating that the changes in the reverse bundle marketing format that had been implemented on a temporary basis (on March 25, 2020)[11], mainly cancellation of the requirement to split the bundle after a year and the Company being able to contact customers and renew the bundle at any time, would become permanent.

Cancelation of the separation of broadband infrastructure services from Internet access (ISP) services:

Following on a hearing on the subject, on June 20, 2021, the Minister of Communications' decision was given in the hearing, whereby the separation of broadband infrastructure service from internet access (ISP) service will be canceled for private customers, according to the following outline:

- Approval of an agreement that will constitute a shelf offering and will regulate the key performance indicators (KPIs) and the agreed compensation arrangements with the infrastructure owners (the Company and HOT) with an applicant for access who is an ISP license holder with at least 10,000 active customers in the wholesale market. On September 19, 2021, the Director General of the Ministry of Communications decided that the agreement regulating key performance indicators (KPI) that the Company sent, will constitute a "shelf offering" in accordance with the Minister's decision and will apply to any request for access, without discrimination.
- A 3 months "calibration period" will apply during which infrastructure companies and access applicants will submit to the Ministry each month the main KPIs. On January 3, 2022, the Director General of the Ministry of Communications announced that the calibration period had ended and the preparation period for the Company has begun.
- At the end of the preparation period, the prohibition on infrastructure providers offering ISP services to private customers will be canceled (hereinafter - the "**Effective Date**"). In accordance with the announcement of the Director General of

11 Please see Section 4.2.1. 4.2.1

the Ministry of Communications, April 3, 2022 will be the effective date applicable to the Company, so that from that date the Company will be able to offer a unified end-to-end Internet service that includes Internet infrastructure and ISP (on that date, the ban on the sale of infrastructure and ISP products separately to new private customers who use the Company's broadband infrastructure will enter into effect and only customers who receive service on the effective date in a split/semi-split configuration who wish to continue consuming the Internet services will be allowed to continue to do so).

Following on the above, on March 22, 2022, a revision was received to the Company's license that implements the decision in relation to subscribers in the private service.

The Company continues to prepare for the provision of a consolidated infrastructure and ISP service it from the effective date.

The Company estimates that the realization of the process in which the Company will offer a single end-to-end internet service will have a positive effect on its business. As regards Bezeq International, the process is likely to have an adverse effect on its results. However, the total impact on the Group in the coming years is expected to be positive.

1.7.2.5 Amendment of the terms of the merger of the Company and DBS

For the Competition Commissioner's decision dated April 12, 2021 regarding the amendment of the terms of the merger between the Company and DBS to allow the Company's subsidiaries to sell communications bundles that include internet infrastructure, ISP and television services without any obligation to sell the television services at a separate price that will be uniform both for bundle buyers and for those who do not buy a bundle - see Section 2.16.8.3.

1.7.2.6 Further limitations on joint ventures and preferences between the Group companies

There are more limitations on joint ventures between the Company and the Group companies, both under competition laws and conditions laid down by the Competition Commissioner in approvals of mergers between the Company and the Group Companies, prohibiting discrimination in favor of Group companies when providing certain services (see Section 2.16.8)and by virtue of the provisions of the Company's license, which oblige it to provide its .services equally to all For further limitations, see also Section 5.15.3.

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

1.7.3. Regulatory oversight and changes in the regulatory environment - wholesale market

Starting in 2015, a "wholesale market" model was implemented in Israel, in which the owners of the country-wide fixed-line access infrastructure in Israel (the Company and Hot) were required to allow other communications operators to use their infrastructure at the prices set in the regulations.

As part of this, the Ministry of Communications established service portfolios setting out the format for provisions of the services by the infrastructure companies:

1.7.3.1 Wholesale BSA service

This service allows service providers that do not own infrastructure to offer their customers full Internet services, including Internet connectivity services (of the ISP) and Internet infrastructure services (based on the Company’s network). Since launching the service, hundreds of thousands of customers have switched to receiving services through these service providers). There is also a wholesale BSA service on the Company's fiber infrastructure.

1.7.3.2 Wholesale service use of physical infrastructures

This service allows service suppliers without infrastructure to use the Company’s physical available-for-transfer communication cables infrastructure and dark fibers.

The service was expanded since the amendment to the Communications Law required the Company to allow other licensed domestic carriers, which are not necessarily suppliers without infrastructure, to use its passive infrastructure to perform any telecommunications activity and provide any telecommunications services under their licenses. The same amendment also grants the Company the right to use physical infrastructure of other companies.

1.7.3.3 Wholesale telephony service

This service allows service providers that do not own infrastructure to offer their customers telephony service at wholesale tariffs using the Company’s network. Until August 2018, the temporary arrangement allowing the Company to provide the service in a resale format, meaning a format in which the service provider purchases a line and call minutes from the Company and receives a range of services (including technical services) from the Company, whereas according to the Ministry of Communications’ notice, as from August 2018, the Company is required to provide the service in a wholesale format, meaning a service format in which the service is provided through the Company’s switch, but the call also goes through the service provider’s switch, both as an isolated service and as a supplementary service to the BSA service. Since August 2018, the Company is prepared to provide resale services at wholesale prices (without technical services), although with this service the call does not pass through the service provider’s switch, and since the beginning of 2019, the Company is prepared to provide a wholesale telephony service that passes through the service provider’s switch, and based on Bezeq’s subscriber switch and another component outside the switch (for further information, also see Sections 2.1.8, 2.7.2 and 2.16.4). Following discussions that were held, inter alia, within the Ministry of Communications, it has become apparent that the ISP providers are not set up to operate according to the service portfolio format.

Regarding the new switch that conforms to the Ministry of Communications' requirements for the service format, see Section 2.7.2.

The maximum tariffs which the Company may charge for providing the services are laid down in regulations.

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

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

1.7.4.1 Interconnect tariffs

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

On September 13, 2021, the Ministry of Communications published a hearing concerning the matter of changes in the tariff for interconnect fees (**IUC**) between the communications networks, the plan is that the segment for completing calls that are terminated on the networks will be transferred to a system, in which each party will bear its own costs and IUC will no longer be transferred between the operators for calls and that no changes will apply for the IUC tariffs for SMS messages. In order to prevent shocks in the affected markets, as is customary worldwide and in Israel when significant changes are made in the IUC tariffs, and to give companies that will be affected sufficient preparation time, the Ministry is considering making the tariff change following gradual reduction over three years. With regard to the international call market - the outgoing international calls segment will be linked to the foregoing reduction plan based on the network from which the call was made (domestic carrier or cellular carrier licensee) and with regard to incoming international calls, supervision of the completing segment in Israel will be removed once the relevant regulatory amendment comes into effect. On November 7, 2021, the Company submitted its response to the hearing, stating that in order to enable fair competition in the market, the IUC rates to the cellular licensee for forwarding short messages, which is currently NIS 0.0014, must be canceled immediately. The change in the IUC tariff arrangement, as specified in the hearing, is not expected to have a material effect on the Group.

1.7.4.2 Restriction of the exit penalty a license holder can collect from a subscriber

Under the provisions of the Communications Law, holders of domestic carrier, ITS and broadcasting licenses (including the Company, Bezeq International, DBS) are not allowed to charge disconnection fees from subscribers who cancel agreements if their average monthly bill is less than NIS 5,000, or deny them a benefit that they would have received had they not ended the agreement.[12] Cellular operators (including Pelephone) are not allowed to collect disconnect fees from customers who hold up to 100 phone lines or condition a contract for cellular services on an agreement to purchase, rent or lease terminal equipment (“unlocking”). As a rule, these restrictions make customer retention difficult for the communications operators that are subject to them.

1.7.4.3 Non-discrimination in the offering of benefits and special tariffs

Due to the different positions expressed by the Ministry of Communications in the past, inter alia, in motions to certify class actions filed against Pelephone, Bezeq International and DBS, alleging discrimination of customers, communications companies may be restricted under certain circumstances be able to offer benefits and special tariffs to their new customers or to prevent a subscriber from switching to plans marketed to new customers. The Ministry of Communications announced its intention to hold a hearing regarding revision the provisions of the licenses regarding price discrimination between subscribers with the trend of standardizing the licenses in a manner that is also consistent with the changes and developments in the market and had not yet done so. On December 9, 2019, a judgment was handed down in the Tel Aviv-Yafo District Court rejecting requests for approval of class actions against certain media companies, when due to the Ministry of Communications' changing position over time and the lack of clarity, it was determined that a class action is not the effective way to resolve the issues. The judgment also determined that the in the Ministry of Communications’ decision making (as described above), there are several major flaws (lack of a factual foundation, lack of consultation with the Competition Authority, lack of reasoning, lack of coherence and failure to hold a hearing). An appeal of the ruling was filed. For further information, see Sections 3.16.1(B) and (D), and 5.17.2(A).

1.7.4.4 Amendments of licenses and related legislation

A) Call center response times

The amendment to the licenses of the Company, Pelephone and Bezeq International prescribes, among other things, provisions concerning the obligation to route calls on certain

12 With regard to the operators’ claims in the hearing conducted by the Ministry of Communications in respect of this provision, that the discounts or benefits, which are prescribed in the conditions that the subscribers are required to comply with, do not violate the provisions, the Ministry decided that in any case it will examine whether the conditions are real and relevant also when the subscriber remains as the operators’ subscriber.

matters to a professional human response, call waiting times as well as provisions concerning call center work hours, the recording and documenting of calls and reporting obligations. The amendment came into force on date of entry into effect of the amendment to the Consumer Protection Law (July 25, 2019) dealing, inter alia, with waiting time for a human response. The DBS broadcasting license was amended in the same way. The amendments led to an increase in costs for operating the call centers of the Group's companies. In January 2021, Bezeq International received a notice from the Ministry of Communications stating that it had been found to deviate from the human response times it is required to meet, and therefore the Ministry intends to impose on it a financial sanction of NIS 285,000. Following on the response of Bezeq International contesting the financial sanction and the method of measuring the deviations, the amount of the monetary sanction was reduced to NIS 166,000 and was paid.

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

B) Amendment on the subject of IPv6 protocol (Internet addresses)

On July 3, 2019, the Ministry of Communications published a decision on the hearing and a license amendment whereby the transition to Ipv6 protocol will take place in accordance with the defined milestones. For the Company (as the holder of a domestic carrier license) and for the owners of Internet access licenses, it was determined, among other things, that the network and its component will be adapted to provide access for subscribers to the IPv6 Internet protocol service from all terminal equipment that supports IPv6 protocol; license holders are to voluntarily transfer existing and new subscribers with terminal equipment that supports IPv6 to addresses on IPv6 protocol. The subscribers will be transferred according to milestones so that up to 24 months from the date of the amendment, 50% of the subscribers will be transferred, up to 36 months - 75% and up to 48 months - 100% (excluding subscribers in possession of private terminal equipment that does not support the IPv6 protocol and have decided not to replace it, provided that the license holder signs them on a waiver). The Company is in the process of transitioning to the IPv6 protocol according to the milestones set and it does not anticipate a material expense for it. With respect to the holders of cellular licenses (such as Pelephone), it was determined that the voluntary transfer will reach 100% within 24 months. Pelephone has completed the process of transferring subscribers in its systems to support in the new protocol (except for business subscribers who have organizational network service, for whom a dedicated solution will be implemented).

1.7.4.5 Consumer legislation and privacy protection laws

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

On November 24, 2020, an amendment to the Consumer Protection Law was published, providing for the Consumer Protection Authority to set up and manage a database to restrict dealers from contacting consumers by way of marketing calls (including by way of electronic communications) for the purpose of entering into a transaction. Under the amendment, the database will include telephone numbers of consumers wishing to restrict such marketing calls to them, and dealers will be prohibited to make such a marketing call to a consumer whose telephone number is included in the database (subject to the exceptions specified in the Law). The effective date of the amendment in this regard is 18 months from the date of its publication. The Authority has published draft regulations for the implementation of the amendment to the law, according to which, among other things, dealers will apply twice a month with a list of customer numbers they are interested in contacting and in return they will receive the numbers from the list included in the database. On January 13, 2022, the Company submitted its comments on the draft, including regarding the frequency of application to the database. The Company and the Group are unable at this stage to assess the effect of the amendment on their marketing and sales capabilities. The Consumer Protection and Fair Trade Authority issued a legal memo in which it requested that the implementation be postponed until October 31, 2022.

Likewise, the activity of the Group's companies is affected by the Privacy Protection Law and its regulations with respect to management and maintenance of databases and the information security that they contain. In May 2018, the Privacy Protection Regulations (Information Security), 2017 entered into force imposing various obligations on database owners, including obligations to establish procedures and conduct risk assessments in terms of information security and use of advanced security measures to protect information.

1.7.4.6 Enforcement and financial sanctions

In recent years, the Communications Law, the Economic Competition Law, the Securities Law, the Consumer Protection Law, the Law for Increased Enforcement of Labor Laws and the Telegraph Ordinance were amended, giving the regulators powers of enforcement, supervision and imposition of substantial graded fines for violation of these laws or regulations and directives pursuant thereto. This legislation affects the way in which the Group's companies manage their affairs, in part with respect to concern for imposition of sanctions, their ability to protect themselves, etc.

In recent years, the Ministry of Communications has made extensive use of the oversight powers and has issued notice of its intention to impose fines on the Company for ongoing regulatory matters (among other things regarding the application of the wholesale market BSA service). Regarding the monetary sanction imposed by the Competition Authority regarding passive infrastructure, see Section 2.16.8.5.

The Consumer Protection and Fair Trade Authority also exercises enforcement powers provided for in the Consumer Protection Law and from time to time issues demands for information, conducts investigations against the Group’s companies for suspected violations of this law and imposes fines. In this context, in February 2021, the Company received from the Consumer Protection Authority a notice of intent to impose on the Company a financial sanction of NIS 6.75 million for an apparent violation of Section 2(a)(1) of the Consumer Protection Law, on the grounds that the Company had not provided thousands of consumers who purchased a TOP 100 Internet package this browsing speed. The Company submitted its comments on this notice with a request to cancel it, since the findings does not give rise to any likelihood of consumer deception.

1.7.4.7 The Market Concentration Law

The Market Concentration Law was published in December 2013. The following is a summary of the main provisions of the law relevant to the Company:

A) Restrictions on providing credit to business groups

Powers were granted to the Minister of Finance and the Governor of the Bank of Israel to promulgate regulations and provisions limiting the cumulative credit that financial institutions in Israel may give to a corporation or business group (a group of companies under joint control and their controlling shareholder).

B) Aggregate concentration considerations in the allocation of rights - restrictions on the allocation of rights in critical infrastructures to a “highly concentrated entity”

The law prescribes a special, restrictive procedure that the regulator must apply prior to allocation of rights (such as a license, franchise, contractual agreement with the state to operate a critical infrastructure and in certain circumstances also to extend existing licenses) in sectors defined as a "critical infrastructure" to entities that are classified as a "highly concentrated entity". In this regard, a list of sectors was defined that will be deemed "critical infrastructure sectors", including operations for which certain communications licenses are required (domestic carriers, excluding a specialist domestic carrier (such as VoB operators and cellular operators), broadcasting licenses, and other sectors. The Company and the companies that it controls are included in the list published by the Competition Authority and are considered highly concentrated entities. The procedure prescribed in the law in relation to the allocation of a right to a highly concentrated entity will also apply to approval given for transferring the means of control in state-owned companies or companies that were previously government companies (the Company included) at the rates defined in the law, to a highly concentrated entity.

The law may adversely affect the Group's ability to enter new areas of activity as well as its current operations.

C) Separation between significant non-financial companies and significant financial entities

The law determines restrictions on holding financial entities by significant non-financial companies, on specific types of cross-holdings in significant non-financial companies and significant financial entities and on holding cross-company positions in such entities. The Company and the companies that it controls are defined as significant non-financial corporations under the Market Concentration Law.

1.7.4.8 Millimeter waves

Millimeter wave technology enables substantially larger wireless broadband transmission than technologies that were available in the past. The technology can be used from point to point and from point to multiple points.

On April 6, 2020, an amendment was published to the Wireless Telegraph Order (Non-Application of the Ordinance) (no. 2), 1982; the amendment stipulates that under certain conditions, the Wireless Telegraph Ordinance will not be applied with respect to the use of V-Band on GHz-57-66 frequencies (It should be noted that on September 15, 2020, an amendment was published that expands the exemptions for the above range of frequencies under certain conditions, both those intended to be used as outdoor point-to-point fixed wireless stations and those intended to operate indoors only). Additionally, on August 2, 2020, a further amendment was published to the same Order, stipulating that under certain conditions, the Wireless Telegraph Ordinance will not be applied with respect to other uses. On December 15, 2020, the Wireless Telegraph Regulations (Licenses, Certificates and Fees) (Temporary Order) (Amendment no. 2), 2020 were published, dealing with reduced fees for simple licensing in the frequency ranges: 74 to 76 GHZ and 84 to 86 GHZ. In January 2022, the Ministry wrote to the Company that the approval for providing service not through a wired layout is given only in certain localities, that the approval given by the Spectrum Division is for frequency use and not approval for providing service by wireless means, and that as long as the Company intends to provide service through non-wired infrastructure to additional localities, application to the Advisory Committee is required. The Company responded that its license allows the provision of service using wireless infrastructure, such as millimeter waves.

1.7.4.9 Information asymmetry with respect to infrastructure

Further to a hearing held on the subject, on November 2, 2020, the Ministry of Communications published a decision on information asymmetry in respect of infrastructure and an amendment to the BSA + telephony wholesale service portfolio, which, among other things, imposes on the infrastructure owners, including the Company, obligations with respect to periodic publications on the API interface and on its website regarding the deployment of an advanced network. In addition, the Company is required to publish detailed statistical information on an internal interface between the operators, regarding a wide range of parameters. The February 10, 2022 amendment to the service portfolio further stipulates that the Company must provide the ISPs with a specification for the API that is suited to them and must complete its development and announce the deployment of the network within the times specified in the amendment to the service portfolio. Further to the above, an amendment was made to the Company's license regarding the submission of an engineering plan and implementation of upgrades/developments on the network. On June 20, 2021, the Ministry added a detailed periodic information requirement regarding accessibility and connection to optical fibers applicable to all license holders laying fibers (general and special) according to uniform parameters and regarding the number of subscribers to the service on optical fibers with a division by statistical area. In its decision, the Ministry stated that it intends to create an updating database that will make it possible to monitor developments and changes in the fiber infrastructure layout in Israel.

1.7.4.10 Change in the regulatory format for the provision of telecommunications services

On January 10, 2022, the Communications (Telecommunications and Broadcasting) Bill (Amendment No. 76) (Change in the Regulatory Framework for the Provision of Telecommunications Services), 2021 was approved by the Knesset's Economics Committee for a second and third reading. In the bill it is proposed to change the regulatory framework existing in the law (under which the main regulatory tool is a license for the provision of telecommunications and broadcasting services), abolishing the obligation to obtain in advance a specific license (per person and per operation) as a condition for implementing a telecommunications operation, and also eliminating the distinction between the types of licenses (general, general special, and restricted) listed in the law. Instead, it is proposed that the default for regulating the provision of communications services in Israel will be by registration in a register to be maintained by the Director General of the Ministry of Communications, following an examination only of minimum threshold conditions. The Minister may prescribe conditions, restrictions and obligations in the general permit regulations that will apply to those who are registered, all or in part of them according to the types of services and their characteristics. In this way, the amendment of the law allows any party interested in providing Bezeq services to know in advance the conditions by which it may operate and to begin operating without applying for or receiving a license. Furthermore, the Minister may issue an administrative order to a person registered in the Registry in matters under his authority to determine in the General Permit Regulations if he finds that there are special reasons that justify giving an individual instruction to the person registered in the Registry, provided he has been given an opportunity to make his claims. Additionally, the definition of a regulated "telecommunications service" will be modified, so as to reduce the number of services subject to regulation. "Bezeq service" is defined as a service provided to the general public or part of it through the Bezeq network, which is one of the following: a data transmission service; Internet access service; telephony service; another service listed in the first addendum (no detail in the bill).

It is further proposed in the bill that the obligation to obtain a license will nevertheless apply in the case of (a) a Bezeq service provided through a radio mobile phone system for the provision of which the service provider is allocated, in accordance with the Ordinance, a radio frequency listed in the range of frequencies in the second addendum; (b) a Bezeq service provided through the Bezeq network in which the number of users or subscribers or the number of termination points of the network or its end points exceeds a number determined by the Minister, except for a Bezeq service provided through a Bezeq network by another authorized provider; in this section "use" as defined in Section 5(a) of the Law; (c) a Bezeq service provided through the Bezeq network, in which one of the following takes place: (1) it includes a fixed or mobile ground station in Israel for satellite communication; (2) it includes a satellite located at or using the orbit, registered in the name of the State of Israel in the International Telecommunication Union (ITU). (d) performance of a Bezeq operation at a ground Bezeq facility connecting a point in Israel and a point outside Israel (except Judea and Samaria). In addition, a local authority (including a municipal company or a municipal subsidiary) will not provide a Bezeq service whether it requires registration in the registry or whether it requires a license, unless it holds a license and in accordance with the terms of the license; the Minister has the authority to determine, with the approval of the Knesset Economics Committee, additional Bezeq services that will require a license, as well as additional service providers who will be subject to licensing (for certain services or for all services they provide), if he sees that under the circumstances, regulatory registration in the registry is not sufficient for meeting one or more of the following considerations: (a) maintaining State security or public safety; (b) efficient utilization of a scarce resource; (c) promotion of competition. In addition, the Minister may, due to one or more of the above considerations, instruct a Bezeq service provider registered in the registry that the provision of a Bezeq service by him is subject to obtaining a license for any Bezeq service he provides or for a Bezeq service of the type he decides.

1.7.4.11 Hearing on requirement to provide information about the use of communications services

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

1.7.4.12 Decision in the hearing on licensing of new operators for the provision of Internet access infrastructure services

In this matter, see also Section 2.6.3.6.

1.7.4.13 Inactive subscribers

On September 10, 2020, the Ministry of Communications issued a letter to the telecommunications operators (including also the Company, Pelephone and Bezeq International) expressing the concern that some of the subscribers for the operators' services do not use these services and are not even aware of their existence. The Ministry recommended in its letter to the operators that they act to inform the subscribers that do not use these services and stop charging them, and requested to receive periodic reports on the matter during the next 6 months. The letter also states that the Ministry will consider in the future whether to issue binding directives in this regard, if independently initiated actions do not substantially minimize the problem. Regarding the implications of the Ministry of Communications' letter for Bezeq International and its handling of the matter, see Section 4.4 and Note 10.6 to the 2021 Statements. On January 14, 2021, DBS as well received from the Cable and Satellite Broadcasting Council a preliminary communication regarding a "demand for information about 'dormant' subscribers and about services which subscribers pay for but do not use". In March 2021, DBS replied that it gives its subscribers proper notification and that it is unable to provide the requested information, inter alia because it is not in possession of well-founded information, because the Council lacks authority with respect to at least some of its requests, and because of other difficulties involved in the Council's communication.

1.7.4.14 Hearing - Preparations for cyber defense management

On August 11, 2021, the Ministry of Communications published a hearing concerning the amendment of telecommunications companies' licenses (including licenses of the Group companies) and provisions regarding preparations for managing cyber security. The main highlights of the proposed amendment deal, among other things, with the protection of telecommunications networks; ensuring that the systems remain relevant and up-to-date; management of cyber incidents by licensees; and situations in which the licensees are required to report and share information. The Company, Pelephone and Bezeq International submitted their position as part of the hearing proceedings.

1.7.5. Restrictions on creating charges on the assets of Group companies

For convenience, below are referrals to sections in the 2021 Periodic Report that relate to the restrictions applicable to Group Companies in placing charges on their assets, and the main restrictions:

1.7.5.1 Regulatory restrictions

The Communications Law, Communications Order (which applies to the Company) and some of the communications licenses of the Group Companies contain a restriction on granting of rights to a third party on assets used to provide the critical service or on the assets of the license[13] as the case may be, including the need to obtain regulatory approval to create charges on these assets. In some cases, such as Pelephone's cellular operator's license, and Bezeq International's unified license, there are exceptions permitting the creation of charges in favor of banks without the need for the regulator's advanced approval, provided that the charge agreement includes instructions to ensure that the services rendered under the license will not be affected if the bank exercises the charge. In addition, under the provisions of the law and the

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

communications licenses, the license and the resulting rights are not transferable and they cannot be pledged or confiscated (with certain exceptions). See also Sections 2.16.3.7, 3.14.2 and 5.15.1.7.

1.7.5.2 Contractual restrictions

The Company has made undertakings to certain financing entities not to pledge its assets without simultaneously creating a charge of the same class, rank and amount (negative charge), subject to specific exceptions. See also Note 13.3 to the 2021 Financial Statements.

1.7.6. Pandemic – covid-19 outbreak

The global outbreak of the coronavirus (COVID-19) at the beginning of 2020 (hereinafter - the "**Event**") has had numerous implications, including in the macroeconomic sphere. In light of the pandemic, many countries, Israel among them, have taken and are continuing to take significant measures in an attempt to prevent the spread of the virus, such as restrictions on movement in public spaces and on public gatherings, restrictions on the transport of passengers and goods, the closing of borders between countries, etc. As an outcome, the virus as well as the measures taken have had significant repercussions on many economies and on the global capital market, including a general decline in the levels of business activity in the national economy (see Section 2.20.10), leading to payment problems in certain sectors.

The effects of the pandemic on the global and local economy and specifically on the Group companies, which also involve great uncertainty, may lead to a material adverse effect on the Group's results, mainly as a function of the duration and scope of the restrictions.

The effects of the Covid-19 pandemic on the Group's operations in 2021 are mainly reflected in a decrease in revenue from Pelephone's roaming services due to the impact of the pandemic on the aviation and international tourism sectors, with no material adverse effects in other operating segments. Although the distribution of the vaccine and the reduction of restrictions on travel abroad supported a certain recovery in Pelephone's revenues from roaming services during the year, these have not yet returned to the level of activity that characterized them before the Corona. In addition, the global microchip shortage and supply chain disruptions are causing, among other things, shortages and difficulties in the supply and sometimes even a rise in prices of equipment from the Group's key suppliers. The Group's companies have adopted various measures, in light of the foregoing, to reduce damage to their operations.

The Group companies are taking various measures to deal with the risks and exposures arising from the pandemic, including remote work, training employees who are required to be in contact with the public, procuring the required accessories, activity to increase the inventories of equipment and expanding the sources of supply of core products, as well as cutting costs and adjusting activities to the situation.

The Company's foregoing assessments constitute forward-looking information that may change in line with developments relating to the COVID-19 pandemic and its effects, particularly the duration and scope of the pandemic, the nature and extent of the economic and other restrictions associated with it, and the intensity and duration of the economic slowdown developing as a result of the pandemic.

On this matter, see also Section 1.5 of the Board of Directors Report and Note 1.4 to the 2021 Financial Statements.

On this matter, see also the description of the risk factors in all the areas of activity in Sections 2.20.13, 3.19.1.2, 4.14.5 and 5.19.1.4.

1.7.7. Other regulatory developments in the reporting period and the main restrictions applicable to the Group's areas of activity

For a description of these issues, see Sections 2.16, 3.14, 4.11 and 5.15.

1.8. Bezeq Group's business strategy

1.8.1. The Group's vision

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

1.8.2. The Group's strategy

1.8.2.1 Strategic focus - to focus on developing infrastructures and growth engines

A) Accelerating the deployment of fiber optics and switching to a standard internet package will constitute a growth engine for Bezeq Fixed Line

B) Bezeq International's private sector internet service operations will be scaled down, and an ISP activity will be created in DBS, which will be responsible for selling the "triple" service bundle that combines fiber optics and television

C) Pelephone will leverage the transition to G5 to increase revenue and ARPU

D) Bezeq International will become an ICT, growth-focused company

1.8.2.2 Strategic focus on growth by sector

A) Household telecommunication, information and content services - investing and focusing efforts on growth and reinforcing the competitive status in the market by offering as broad a bundle of services as possible and deepening the penetration into households

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

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

D) ICT services for businesses - investing in building capacities that will enable significant growth

1.8.2.3 Additional strategic measures

The Group will work to locate investments in areas that are synergic and complementary to the Group's operations and its competitive capacities. The proactive investment and acquisition operations will enable shareholders to increase their returns by engaging in higher growth areas of activity than the Group's traditional core operations. Portfolio diversification will allow risk diversification, and reduced dependence on regulatory risks.

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

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

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

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

1.8.3. Streamlining measures and promoting implementation of synergies between the subsidiaries

The subsidiaries Pelephone, Bezeq International and DBS (“**Subsidiaries**”) took and are taking significant steps to promote and implement the synergies between them, including signing collective agreements that include streamlining and synergy processes; transition to similarly composed managements, for more efficient decision making and to save costs; implementation of measures to increase efficiency and save operating expenses; sales of services of the companies through the distribution channels of the other companies; integration of a shared CRM system on an advanced cloud platform; implementation of further synergy measures, such as cross sales, expanding joint purchasing and using shared resources. On this matter, see also Section 1.1.4.

For information regarding further strategic goals regarding each of the Group companies, see Sections 2.19, 3.17, 4.13 and 5.18.

For the decisions of the Boards of Directors of the Company and DBS on the outline for gradual transition from satellite broadcasts to over the top (OTT), see Section 5.18.1.

The estimates set out in this Section are forward-looking information that may be affected by various factors, including future changes in the Israeli market in general and in the communications market in particular, strategic and other measures that the Company and its subsidiaries might introduce, regulatory changes, changes in the Company's competitive status, etc. Furthermore, the foregoing could be affected by the materialization of any of the risk factors listed in Sections 2.20, 3.19, 4.14 and 5.19.

1.9. Event outside the ordinary course of the Company's business

During the preparation of the quarterly report and as part of the controls performed over the process of preparing and closing the financial statements for the period ended September 30, 2020, Bezeq International found discrepancies between the assets and liabilities recorded on its books and the actual assets and liabilities, stemming, inter alia, from failure to charge to the Statement of Income previous years' costs for advance payments to suppliers and from inadequate recognition of prepaid expenses. Following discovery of the discrepancies, Bezeq International's management began an immediate examination of the matter, and carried out actions, checks and compensating procedures, investing substantial efforts and resources, to prepare the financial statements in accordance with the law.

The Company's Board of Directors appointed an independent external investigator[14] to conduct an in-depth investigation of the events and circumstances. On February 4, 2021, the External Investigator presented the findings of its investigation report (hereinafter - the "**Investigation Report**") to the Company's Board of Directors. The findings related mainly to the following: Debit supplier balances that were not recorded in the Bezeq International's statement of income for the years 2001-2003 (in the investigation, documentation was found showing that some of the finance managers at Bezeq International were aware throughout the years of the unexplained debit balances); failure to recognize expenses versus revenues under service agreements with customers in the years 2018-2019; failures in the control systems that enabled the occurrence and continuation of the events; incorrect presentation of data to the independent auditor. The executive summary of the Investigation Report was attached to the Company's immediate report of February 7, 2021, which is included herein by way of reference. Following a discussion of the Investigation Report's findings and conclusions, both the Company's Board of Directors and Bezeq International's board of directors decided to adopt the External Investigator's recommendations in the Investigation Report and to complete their implementation, as part of the deficiencies correction plan which Bezeq International's management began carrying out immediately upon learning of the discrepancies. Bezeq International's board of directors also decided to act within the law to terminate the employment of several employees in its finance department (who are not company officers) who were involved in the events under investigation.

[14] Investigating team from the firm of Fahn Kanne & Co., headed by Mickey Blumenthal, CPA.

It should be noted that the Investigation Report states that the investigation findings and the test audits conducted by the External Investigator do not indicate any suspicion of embezzlement during the investigation period. In addition, the Company's Board of Directors decided to authorize its Audit Committee to continue deliberating on the Investigation Report's findings and recommendations, as well as to monitor implementation of the recommendations, consider the implications for the topics of audit and control, and examine the need to draw further conclusions and take additional steps.

Accordingly, at the request of the Audit Committee of the Company's Board of Directors, the external examiner presented to the Audit Committee the findings of supplementary work performed, further to which the Company's Board of Directors' received the recommendations of the Audit Committee, mainly regarding the implementation of periodic controls and analysis that Bezeq International must perform as part of the process of closing the financial statements (in addition to its existing controls); adoption of a professional standard for officials engaged in controls, and their occupations, in the Company and in each of its significant subsidiaries, as well as conferring supervisory and control powers on the employees of the Company's Accounting Division over the work of the finance and accounting employees in each of the subsidiaries in all matters related to the financial statements of each subsidiary; adoption of certain tests for increasing the effectiveness of entity level controls in the Company as well as in each of its significant subsidiaries; as well as recommendations regarding the examination and improvement of the engagement between the Company and Bezeq International with external service providers.

For further information on this matter, including details of the effect of the correction of the discrepancies on the Group's equity and on the recognition of an additional impairment loss due to adjustment of the enterprise value and book value of Bezeq International, as well as the adjustment of the Group's financial statements by way of a restatement that was made in light of the findings of the examinations discussed above, see also the Company's immediate reports dated November 9, 2020, November 18, 2020, November 19, 2020, November 30, 2020 and December 3, 2020, included herein by way of reference. in addition, for legal proceedings related to this matter, see Section 2.18.1.

Until the date of the current report, Bezeq International's management, Bezeq International's Board of Directors and the Company's Board of Directors have performed various operations, examinations and compensatory procedures, while investing great efforts and resources to strengthen the Company's internal control. The deficiency rectification plan that was adopted by the Company's Board of Directors and Bezeq International's Board of Directors also includes the recommendations of the external examiner. For some of the operations, the Companies were assisted by the services of various professional consultants. The process of strengthening internal control at Bezeq International is still ongoing.

For this section, see also Chapter E of the 2021 Reports.

1.10. Corporate responsibility (ESG)

On February 24, 2022, the Company’s Board of Directors approved the expansion of the Company’s corporate responsibility activity (ESG), and this is in addition to the Company’s existing activity in this area. In this setting, the Board of Directors approved a sustainability vision for Bezeq - "Bezeq connects Israel to a sustainable future", as well as setting ESG goals, including long-term goals that include reducing net greenhouse gas emissions to zero by 2050 (Net zero 2050); increasing the rate of representation of women in the management of the Company's employees to 50% by 2030 (on the Company's Board of Directors, at least 40%); increasing the rate of diverse populations to 20% by 2030. The Board of Directors also approved the establishing of corporate responsibility policy papers on various issues that will be brought individually for discussion and approval by the Board of Directors.

The Company sees great importance in further promoting and expanding its activities in the area of ESG, and it will continue to operate in this area from a corporate-social-environmental perspective that promotes the use of the Company's areas of activity and capabilities for a sustainable future.

2. Bezeq - Domestic Fixed-Line Communications

2.1. General information about the area of operations

2.1.1. Operating segment and changes occurring therein

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

2.1.2. Legislative restrictions, standards and special constraints

2.1.2.1 Communications laws and the Company's Domestic Carrier License

The Company's operations are subject to government regulations and extensive oversight due to its position as a general license holder under the Communications Law, which is subject to the provisions of that Communications Law, its regulations, orders and rules, and the provisions of the Domestic Carrier License and other laws. In this respect and for the restrictions on the Company's activity, inter alia, in respect of price setting, structural separation, permits for new services and service bundles as well as the wholesale market, see Sections 1.7.2 and 2.16.

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

2.1.2.2 Economic competition laws

The Company was declared a monopoly in its main areas of operation, and is also subject to oversight and restrictions under the Economic Competition Law (see Section 2.16.8).

2.1.2.3 Environmental laws and planning and construction laws

Some of the Company activities involve the use of wireless frequencies and facilities that emit electromagnetic radiation, which are subject to the Telegraph Ordinance (see Section 2.16.9), the Non-Ionizing Radiation Law (see Section 2.15.2), and to UBP 36 and UBP 56 (see Section 2.16.10), respectively.

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

For key data about the scope of operation and profitability in domestic fixed-line communications in 2020 and 2021, see Section 1.5.4.1. The following is a description of the main changes in the scope of operation in the segment in the reporting period[15]:

15 For detailed data and definitions of subscriber and average income, see the notes to the table in Section שגיאה! לא צוין שם לסימניה..

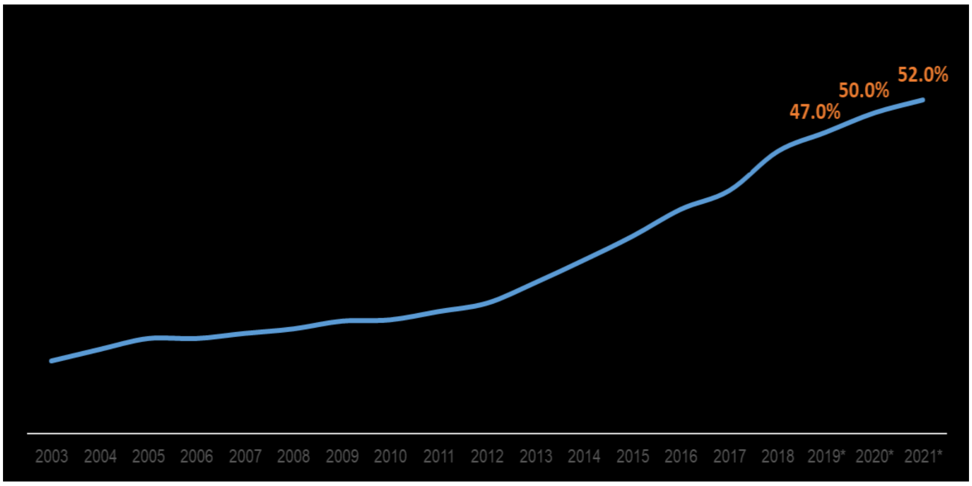
2.1.3.1 Wholesale market

A the beginning of 2015, the Company started providing a wholesale BSA service to service providers, whereas as at the end of 2021, the number of wholesale Internet lines on the Company's network was 501,000, which constitutes 33% of all Company Internet subscribers. In this regard, it is noted that these lines also include lines that were not on the Company's network in the beginning (new or from a competitor's network). There is no demand for wholesale telephony services (zero subscribers as of the report publication date). There is no demand for wholesale telephony services (zero subscribers as of the report publication date). On this matter, see Section 2.16.4.

2.1.3.2 Fixed-line telephony

In recent years this segment has been characterized by a decline in demand, which is reflected in the decrease in the rate of ownership of fixed telephone lines and in a gradual erosion of the number of calls originating in fixed-line networks. The Company believes that this trend is due mainly to the rise in the scope of use of cellular phones in view of the comprehensive call-minute deals the cellular companies market extensively in recent years and the decrease in prices in the segment (the Company estimates that 86% of all calls originate in the cellular network), and from an increase in VoIP calls (see Section 2.1.4). In 2021, the number of Company lines declined by 3%, compared to 2020.

Chart - Rate of households without a fixed-line home telephone line[16]



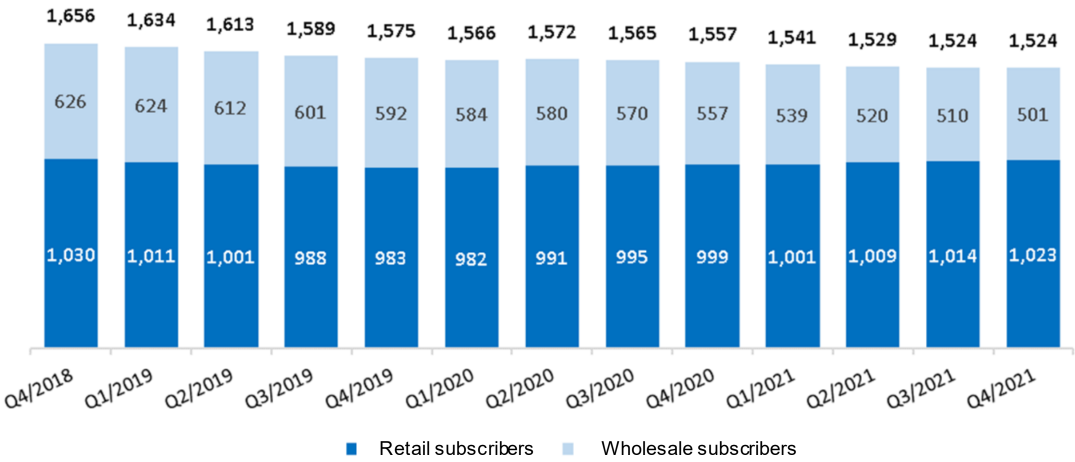
2.1.3.3 Internet access segment

In the Internet segment, a growth has been recorded in recent years in terms of number of subscribers. Moreover, the Internet segment is characterized by a rise in broadband speeds and the adoption of advanced services and value-added applications. The Company estimates that in 2021, there was a 2% increase in the number of fixed-line Internet subscribers in Israel compared to 2020. In 2021, the number of Internet subscribers (retail and wholesale) of the

16 The data were taken from the Central Bureau of Statistics publications (press releases, initial findings of a 2018 survey of household expenses) dated November 26, 2019 and October 29, 2020. With regard to 2019-2021 data, the Company's estimate is based on Central Bureau of Statistics' surveys from previous years.

Company decreased by 2% compared to 2020. In 2021, there was an increase in the number of fixed-line Internet subscribers using the fiber optic infrastructure of competing companies and the Company. In November 2020, the Company began marketing to potential customers a speed of 200 Mbps using the VDSL35B technology. In addition, in March 2021, the Company began to market fiber service at rates of up to 600 Mbs, 1Gb, 2.5Gb in statistical areas (see Section 2.7.2.2).

Chart - Breakdown of Internet lines on Bezeq infrastructure (quarterly, in thousands):



2.1.3.4 Transmission and data-communication services

The transmission and data communications segments for business customers and communications providers is characterized by a rapid increase in customer broadband consumption, but in general at lower prices per given volume of traffic; this stems both from development of the technology allowing greater bandwidth at lower prices than in the past, and from competition in this area (see Section 2.6.4). There is also a migration to the use of independent infrastructures of the communications providers, including as part of the wholesale market. In this matter, see also Section 2.16.4.3.

2.1.3.5 Use of physical infrastructure

With regard to this wholesale service and granting competing infrastructure owners the option of using the Company's passive infrastructure, see Section 2.16.4.

2.1.3.6 Service bundles

On the increase in consumption of service bundles and packages, see Section 1.7.1 and regarding the Company's joint service bundles, see Section 1.7.2.

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

A trend has been established in the communications market with the migration to technologies based on IP protocol, which promotes technology convergence between the different communication systems (for example, telephony and data). Moreover, the penetration of integrated products that enable various communication solutions in a single device (for example, cellular and Wi-Fi services) has increased. These two, together with the growth in availability of IP-based technologies and the continuing increase in bandwidth consumption provide customers, including business customers, a broader range of applications and services on IP-based infrastructures, such as telephony services, including private exchange services, video transfer services, television, private networks, network services with enterprise applications on the Internet infrastructure (ERP, CRM, etc.), and cloud services. These developments are leading to increased demand for bandwidth by the Company's Internet infrastructure, transmission and data communication service customers. For the deployment of fiber optic cables and ultra-high-speed browsing, see Section 2.7.2. Technological developments and falling prices of the equipment could enable other operators to provide services similar to those provided by the Company at much lower costs.

Technological changes could lead to cannibalization of services. An example is the decrease in consumption of the Group's traditional fixed-line telephony services (for competition in the telephony segment by provision of services on the Company's Voice over Broadband (VoB) infrastructure, see Section 2.6.2). This increase in the cellular service speeds allows cellular operators to compete with the Company's telephony and Internet services, and market larger bandwidths to their customers at lower prices. As at the Reporting Date, the Company estimates the increase in the number of customers browsing the cellular Internet has not materially affected the volume of its Internet activity. Nevertheless, the potential growth in the use of cellular networks at the expense of use of the Company's network is real and may increase as the 5G technology becomes established (see Section 3.1.5), since it will also be able to provide ultra-fast Internet in the customer's home.

The coronavirus crisis has underscored the need for larger bandwidths for home browsing. The competitors with fiber optic infrastructure and cable infrastructure of up to 500 Mb have taken advantage of this to recruit subscribers for their infrastructure and the Company started marketing broadband services on fiber after them in March 2021.

The Company also deals in the development and provision of wireless technology-based services for IOT (Internet of things) solutions, inter alia for businesses and smart facilities. Please see Section 2.2.5.

2.1.5. Critical success factors in the operating segment and changes occurring in it

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

2.1.5.2 Regulatory decisions and the ability to cope with them.

2.1.5.3 The ability to maintain innovation and technological leadership and translate them into advanced and reliable applications of value for the customer at short response times, and marketing primacy.

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

2.1.5.5 Effectiveness of the sales and services groups.

2.1.5.6 Managing an informed price policy, subject to regulatory restrictions.

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

Operating in the domestic fixed-line communications segment requires receipt of the appropriate licenses. Regarding the memorandum on the bill concerning a change in the regulatory framework and a transition to the provision of communications services through registration in the registry only, see Section 1.7.4.10.

Traditionally, the main entry barrier to this segment stemmed from the need for heavy investment in technological infrastructure and in surrounding systems until obtaining economies of scale, and from high costs involving the establishment of marketing, sales, collection and customer support systems and the building of a brand. Over the years, these traditional barriers to the Company's operating segment have lessened considerably as a result of the following factors: technological improvements, lower infrastructure and equipment prices, a change in the regulatory rules (see Sections 2.7.2 and 2.16.12), easing of regulation granted to new competitors, the mandatory obligation to allow the use of the Company's (and HOT's) infrastructures and services, including in the wholesale market, and the use of VoB-based technology, which enables telephony services to be provided on a broadband infrastructure of another operator without the need for an independent fixed-line telephony infrastructure.

The main exit barriers stem from the commitment of the Company laid down in its license to provide its services universally (to the entire public in Israel), except for fiber optics as set out in Section 2.16.12); its subordination to the provisions of the Communications Order, the regulations accompanying the Communications Law, and the provisions under Section 13A of the Communications Law relating to emergency operation, its commitment to those of its employees who are employed under collective agreements, the large investments requiring time before seeing a return, and the commitment to the repayment of debentures and long-term loans taken to finance the investments. Some of these exit barriers are unique to the Company and not relevant to other operators in the segment.

2.1.7. Alternatives for products in the segment and changes therein

Cellular communications services are a substitute product for the Company's services, in both the telephony segment, including through applications and IP technology such as VoB (see Section 2.6.2) and Internet (see Sections 2.6.2 and 2.6.3), transmission and data communications .segment Technological developments (e.g., 4G and 5G in cellular, infrastructure based on fiber optics and millimeter waves and advanced cable Internet protocols) enable the provision of new services at high speeds and competitive prices.

2.1.8. Structure of competition in the sector and changes therein

Domestic fixed-line telephony is regulated and overseen by the Ministry of Communications, inter alia by granting licenses to entities operating in the segment.

In the communications market, two holders of licenses to provide domestic fixed-line communication services are obligated to provide them to anyone requesting them nationwide (universal service) (except for fibers): the Company and HOT Telecom. IBC is also obligated to deploy its services such that after 5 years will have elapsed from March 7, 2021, 1.7 million households in Israel will have access to the network.[17] The three companies

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

The three companies compete with each other (regarding Cellcom and HOT joining IBC, see Section 2.6.3.5). However, they are allowed to make mutual use of each other's physical infrastructures (except for the infrastructure owned by IEC, which is required for the provision of critical services) and the infrastructures of another domestic carrier license, so that there can in fact be competition through the physical infrastructures of another license holder, and in practice, mainly on the Company's infrastructures (in this regard, see Section 2.16.4.4).

Cellcom and Partner, which are holders of special domestic carrier licenses (that do not require universal deployment), are deploying an independent fiber network, including on the Company's physical infrastructure (regarding Cellcom and HOT joining IBC, see Section 2.6.3.5).

The Internet segment is characterized by high rates of penetration, which are attributed to the deployment of a national access infrastructure. The Company's main competitor in this segment is HOT. Upon implementation of a wholesale market, ISPs compete with the Company in providing service packages, including broadband Internet access infrastructure using the Company's infrastructures, in which they use wholesale services. The Company is also exposed to competition from the cellular networks (see Section 2.1.4).

There is competition in the fixed-line telephony segment, and those competing with the Company, some as part of communications groups (see Section 1.7.1), are the cellular companies (see Section 2.6.2.2), HOT Telecom and VoB service providers which have been operating for several years under licenses with no obligation to provide universal services, and without their own independent access infrastructure. For information about wholesale telephony services, see Section 2.16.4.

For the decision regarding the cancellation of the separation between Internet infrastructure service and access service (ISP) – see Section 1.7.2.3).

In the wholesale services segment, HOT competes with the Company as the owner of infrastructure compelled to provide wholesale services. In practice, wholesale BSA services on the HOT network were launched in the second half of 2018 (see also Section 2.16.4).

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

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

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

2.2. Products and services

2.2.1. General

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

2.2.2. Telephony

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

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

The Company operates a unified telephone directory[18] on a code (1344) determined by the Ministry of Communications for fixed-line and cellular telephony operators, as well as a unified website which is free of charge, in addition to the Company's 144 service.

On provision of service in a resale format and on wholesale telephony services, see Section 2.16.4.4.

2.2.3. Internet access infrastructure services

The Company provides broadband Internet access infrastructure services using xDSL technology on VBAND as well as on the fiber network in statistical areas subject to milestones in its license.

For information about changes in the number of Company Internet subscribers and average monthly revenue per Internet subscriber, see Section 1.5.4. For information about the Company's market share in the segment, see Section 2.6.3.

Internet service is one of the Company's main occupations and a central channel for its investments in technology, marketing, advertising and customer acquisition and upgrades. The average speed of the Company's Internet subscribers[19] at the end of 2021 was 129.6 Mbps compared with an average of 74.2 Mbps at the end of 2020. The minimum bundle provided in the service for new customers is usually at a maximum speed of 15 Mbps. In December 2021, the speed of the minimum bundle for sale was updated to 100 Mbps.

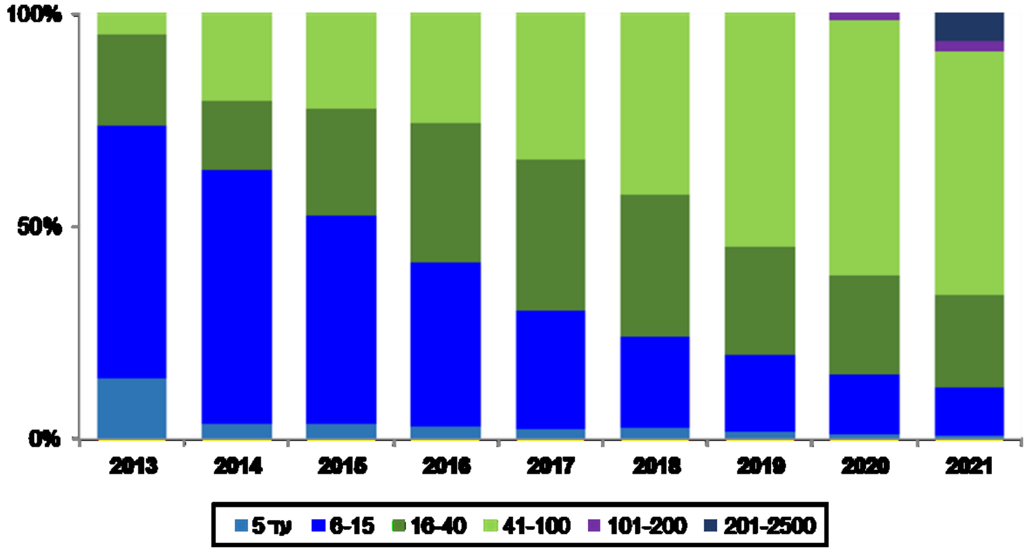
xDSL service is also provided on subscriber lines free of charge for the access line. It should be noted that according to the decision of the Ministry of Communications, the Company may not apply differential xDSL pricing between subscribers who use the service together with telephony service and subscribers who only use the xDSL service.

18 A "unified" directory service is an information service containing data on the subscribers of all the operators. Fixed-line and cellular telephony operators are obliged, under the terms of their licenses, to provide unified information services. The activity is exempt from the need for approval of a cartel, which is valid until November 5, 2023.

19 Including revenue from the service providers in the wholesale service.

The Company is obligated to provide broadband Internet access services in a wholesale BSA format to service providers that provide end-to-end Internet services in this way to their customers, including infrastructure. On this service, see also Section 2.16.4.

Chart – Changes in bundle speeds of the Company's Internet subscribers in 2013-2020 (in Mbps at the end of each year)*:



* For bundles with a range of speeds, the maximum speed per package is taken into account

2.2.4. Transmission and data-communication services

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

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

2.2.5. Cloud and digital services

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

2.2.6. Other services

2.2.6.1 Additional services to communications operators

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

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

For wholesale services to communications operators and the option of using the Company's physical infrastructure by infrastructure owners as well, see Section 1.7.3. In this regard, it should be noted that beginning in 2019, there has been a certain deterioration in the payments of communications operators, deferment of payments and an increase in the volume of disputed claims. This situation is in parallel to erosion of the financial strength of various operators, which increases the risk of having to recognize doubtful an bad debts. Nevertheless, at this time this deterioration does not materially affect the Company. On April 27, 2020, the Company informed the Ministry of Communications, through its attorneys, that it did not intend to allow the continued provision of wholesale services to service providers that do not pay for these services.

Following the examination by the Ministry of Communications and a hearing it published on the subject, on March 25, 2021, the Ministry decided to establish a procedure for handling the issue, which established, inter alia, that the team dealing with complaints in the Ministry will be able to recommend to the competent official in the Ministry to issue a decision that the Ministry will not prevent the injured licensees from taking steps, such as discontinuing the provision of service, not connecting new subscribers, etc., all depending on the circumstances and severity of the case. Nevertheless, there are still operator obligations in legal proceedings.

2.2.6.2 Broadcasting services

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

2.2.6.3 Contract works

The Company carries out set-up and operation works of networks or sub-networks for various customers (e.g., the Ministry of Defense, radio and television broadcasting companies, cellular operators, international call operators, local authorities, municipalities, and government bodies).

2.2.6.4 License to supply power

On September 1, 2021, the Company received a license from the Israeli Electricity Authority to supply power without means of generation. The Company intends to review, in the first phase - as part of a pilot - supplying and selling electricity to various consumers in accordance with the terms and conditions of this license.

2.2.7. Sale of terminal equipment and devices

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

2.3. Breakdown of product and service revenues

The following table depicts the distribution of the Company's revenues by main products and services in its operating segment, 2019-2021 (in NIS millions):

	2021	2020	2019
Revenue from Internet infrastructure services	1,624	1,622	1,578
Percentage of total fixed-line revenues	38.83%	39.0%	38.74%
Revenue from fixed-line telephony	913	1,008	1,039
Percentage of total fixed-line revenues	21.83%	24.24%	25.50%
Revenue from transmission and data communication services	1,087	1,011	948
Percentage of total fixed-line revenues	26.0%	24.31%	23.27%
Revenue from cloud and digital services	318	288	274
Percentage of total fixed-line revenues	7.6%	6.92%	6.73%
Revenue from other services and terminal equipment sales	240	230	234
Percentage of total fixed-line revenues	5.74%	5.53%	5.74%
Total revenues from the domestic fixed line communications	**4,182**	**4,159**	**4,073**

2.4. Customers

The Company is not dependent on a single customer, and there is no customer that accounts for 10% or more of the Company's total revenue. The Company's revenues are divided into two main customer types: Private (50%) and Business (50%).[20] The distribution is by revenue, as depicts in the following table (in NIS millions):

	2021	2020	2019
Revenue from private customers	2,071	2,033	2,029
Revenue from business customers	2,111	2,126	2,044
Total revenues	**4,182**	**4,159**	**4,073**

2.5. Marketing, distribution and service

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

The Company markets its services mainly through mass media advertising, telesales centers, customer managers and an array of independent dealers which include sales centers operated by outsourcing. The Company also has independent service and sales channels on its website, a dedicated application ("My Bezeq"), and Interactive Voice Response (IVR).

In addition, the Company's infrastructure is included in the bundles marketed by the Internet providers (ISP) which, upon establishment of the wholesale market, mainly market end-to-end service packages based on the Company's wholesale BSA services, and from April 3, 2022 they will not be able to market Internet infrastructure to private customers outside the wholesale market.

20 Including revenue from the service providers in the wholesale service.

2.6. Competition

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

2.6.1. Wholesale market (see also Section 2.16.4)

The wholesale market enables communications providers to compete with the Company while using its physical infrastructure and services at controlled prices that are not set by the Company. It also allows them to offer their subscribers, inter alia, broadband services and end-to-end service bundles.

In June 2017, tariffs were published for some of the wholesale market services on HOT's network. To the best of the Company's knowledge, the number of wholesale subscribers on the HOT network is small (in this regard, see Section 2.16.4).

2.6.2. Telephony

The private fixed-line telephony segment is characterized by a decrease in the rate of ownership of fixed telephone lines and a gradual decline in the number of calls originating from fixed-line networks (see Section 2.1.3.2). The Company estimates that in 2021, the telephony market continued to contract at the same rate as in 2020 and at a higher rate than in earlier years. See also in this regard Section 2.3. The Company estimates that at the end of 2021, its market share in the fixed-line telephony market was approx. 54% of the private sector and approx. 70% of the business sector, unchanged compared to 2020 in the private market and unchanged compared to 2020 in the business market[21].

2.6.2.1 Competition from other Domestic Carrier license-holders

The Company and the HOT Group both have nationally-deployed fixed-line telephony infrastructures, and they are in competition with each other, which is manifested, inter alia, by the HOT Group marketing the "triple" (combining Internet infrastructure, telephony and cable television), and possibly cellular services as well, mainly to households (for the marketing of business service bundles of the HOT Group and marketing of the service bundles of the Bezeq Group, see Section 1.7.2.3). The HOT Group also markets telephony services to business customers.

The Company also has competition from license holders for domestic fixed-line communication services, including VoB (see Section 2.1.8), which provide the service (including through the "triple"), inter alia, on the Company's broadband access service, including the wholesale BSA service.

Since July 2017, the Company allows telephony services on its network in a resale format to unified license holders that are permitted to provide domestic carrier services. Since August 2018, the Company offers an available wholesale telephony service in a similar format to that of the service portfolio, at the tariffs of the Use Regulations, and since January 2019, also a service that passes through a switch of the service provider. At the date of this report,

21 These market shares are in terms of lines and based on the Company's assessment. Notably, HOT is not a reporting entity and its data are not public. Accordingly, it is difficult to provide accurate data regarding the market shares and these are estimates only.

there is no demand for the service. Regarding wholesale telephony services, see Section 2.16.4.

2.6.2.2 Competition in telephony from the cellular companies

In the Company's opinion, this high penetration rate combined with low airtime rates on an international scale and bundles that include call minutes with no effective limit at fixed monthly prices have made the cellular telephone a substitute product for the fixed-line telephone. The Company believes that increasing replacement of fixed lines with cellular lines is one of the reasons for the reduction in the average traffic per line, and the growing removal rate of telephone lines (see Section 2.1.3).

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

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

2.6.3. Internet infrastructure segment

The Company estimates that at the end of 2021 its market share in the Internet infrastructure market (retail and wholesale customers) was 57% (compared with 61% at the end of 2020). The Company also estimates that its market share in terms of retail customers at the end of 2021 was 38%.[22]

The competition in this segment is intense:

2.6.3.1 Competition from HOT Group

HOT's Internet infrastructure is deployed nationwide, through which a range of communication services and interactive applications can be provided.

The HOT network is currently the main alternative to competition with the Company's infrastructure in the private sector. HOT was compelled to provide wholesale services, including BSA services, and to the best of the Company's knowledge, it started marketing wholesale BSA services on its network since mid-2018. In this matter, see also Section 2.6.1.

According to media reports, during March-April 2021, HOT announced the launch of its new fiber network. HOT and Cellcom have holdings in IBC (see Section 2.6.3.5). To the best of the Company's knowledge, after several delays and relaxations granted to HOT over the years for implementation of the universal service obligation imposed on it, on July 28, 2019, the Minister of Communications adopted the recommendations of the advisory committee and approved the provision of services by HOT in areas without infrastructure based on a technology neutral format, i.e.

22 The Company's assessment of its market share in the Internet infrastructure services at the end of 2021 is based on the number of customers that use services on the Company's infrastructure (retail and wholesale) and on publications regarding the number of Partner and Cellcom subscribers. Notably, HOT and smaller companies operating in the market are not reporting entities and their data are not public. Accordingly, it is difficult to provide accurate data regarding the market shares and these are estimates only.

without being under obligation to deploy physical infrastructure, but it will be permitted to make immediate use of any cellular network to provide its services at download speeds of up to 12/30 Mbps. The adopted recommendations also prescribed milestones for upgrading the network for the alternative cellular network, minimum service quality and reporting obligations.

2.6.3.2 Competition from ISPs and communications groups based on the BSA wholesale service

Operating the wholesale market enables ISPs and related companies (holders of a single license) to offer customers service bundles that also include Internet infrastructure based on the Company's infrastructures and services (in exchange for controlled tariffs to be paid by the communications providers to the Company). If and insofar as the mechanism for preventing a 'margin squeeze' is implemented, similar to the one described in the Ministry of Communications hearing (see Section 2.16.4.2), the Company's ability to market promotional offers of its retail services will also suffer, in terms of both time to market (TTM) and prices at which the services are offered. In addition, on the Company’s bundles, see Section 1.7.2.3.

2.6.3.3 Competition from the Partner and Cellcom communications groups based on an independent fiber network that enables providing an ultra-high speed Internet service

In addition to the information in Section 2.6.3.2, Partner and Cellcom provide an increasing volume of Internet services at ultra-wide bandwidth speeds on an independent fiber network, while also using the Company’s passive infrastructure in the wholesale market. In addition, the service providers may also provide BSA service on the Company's fiber infrastructure.

2.6.3.4 Competition from cellular operators

The cellular companies have deepened their Internet activities on the cellular range both in the private sector and in the business sector. Unlike the fixed-line communications segment (where the provision of access infrastructure services is separate from provision of Internet access services), the cellular Internet service is provided as a single unit. Browsing services are provided both from the cellular handset and through a cellular modem that connects to laptop and desktop computers.

2.6.3.5 Competition from IBC

IBC is setting up fiber infrastructure to provide Internet over the grid and has started operating commercially.

According to the Ministry of Communications’ decision dated August 8, 2018, IBC’s deployment obligation was reduced to gradually reach at least 40% of households in Israel within 10 years, and only after the Cherry Picking period (of three and a half years) will the new license holder be required to provide accessibility for at least one household in the periphery for every household provided with access in the center of the country (See also in this regard Section 2.1.8).

IBC's license allows the provision of services to licensees.

IBC is held by the Israel Electric Corporation (30%) and by HOT, Cellcom and the Israel Infrastructure Fund (IIF), 23.3% each. To the best of the Company's knowledge, this is after the acquisition of control of IBC by Cellcom and another investor (the IIF) was completed on July 31, 2019, in which Cellcom sold the fiber optic infrastructure to IBC, and subsequently in September 2020 an investment agreement was signed, under which HOT is to become a partner in IBC's fiber optic project, and an IRU agreement between HOT and IBC under which HOT is to acquire a right of use of the infrastructures IBC will establish; at the beginning of 2021 approvals were received from the Competition Commissioner and the Ministry of Communications. Additionally, the Ministry of Communications made an amendment to the HOT license that, inter alia, permits, subject to conditions, marketing of a joint service bundle on the IBC network, as well as an amendment to the IBC license that obligates it to submit to the Ministry for approval a shelf offering for the purchase of its services (in an IRU format) at a reduced rate.

2.6.3.6 Licensing for new operators to provide Internet access infrastructure services

On October 13, 2020, the Minister of Communications issued his decision in a hearing (published in March 2020), significantly reducing the threshold requirements for receiving a license to provide broadband infrastructure services; this reduction, which is to be temporary, will be implemented by offering the possibility of receiving a special license (for thirty-six months from the date of the decision) instead of a single license. The special license will be granted subject to the conditions set out in the decision, among them that the service under the special license may be provided to no more than 8,000 private subscribers and no more than 800 network endpoints of business subscribers. On the face of it, it appears to the Company that under certain circumstances the Minister's decision may adversely affect its business to an extent that the Company is unable to estimate at the present time. See in this regard also Section 1.7.4.10., and regarding the possibility of allowing these licensees to use the Company’s passive infrastructure in incentive areas, see Section 2.16.12.4.

According to the proposed Amendment 76 to the Communications Law, the provision of communications services will be possible through registration in the registry in accordance with the General Permit Regulations or the administrative directives of the Ministry, and this will be the basic regulation format, in which broadband infrastructure services can also be provided. Nevertheless, certain services will require a license, including a Bezeq service provided through the Bezeq network in which the number of users or subscribers or the number of termination points of the network or its end points exceeds a number determined by the Minister, except for a Bezeq service provided through a Bezeq network by another authorized provider (see Section 1.7.4.10).

Regarding the decision of the Minister of Communications on the cancellation of the separation of broadband infrastructure services from Internet access (ISP) services, see Section 1.7.2.4.

2.6.4. Transmission and data communications

In addition to the Company, other companies operating in this segment are mainly Cellcom, Partner and ISP companies.

To the best of the Company's knowledge, Cellcom has deployed and set up a transmission network that it uses for its own needs and to compete with the Company's services in the transmission and data communications market. Partner also operates in the transmission and data-communication service segment combined with telephony and Internet to business customers.

Cellcom and Partner use the Company's physical infrastructures as part of the wholesale service (see Section 2.16.4.3) [23],inter alia, to compete with the Company in this segment and/or for self-consumption.

Also operating in the segment are the infrastructure owners, IBC and HOT (nationwide, but not full deployment). These infrastructure owners are permitted to use the Company's physical infrastructure. In this regard, see Sections 2.16.4.3 and 2.6.5.

Under the IBC license, IBC will enter into an agreement with IEC to obtain the right to use its fiber optic network and will become the network's operator. Furthermore, IBC has a special license (which does not impose a universal obligation) to provide domestic fixed data-communication services, according to which it is entitled to provide IPVPN services and broadband data-communication lines.

2.6.5. Other competing infrastructures[24]

There are also currently a number of infrastructures in Israel with the potential to serve as communications infrastructures, which are based on optical fibers and mostly owned by government companies and entities, such as Israel Railways, Mekorot Israel National Water Co., Petroleum & Energy Infrastructures Ltd., and the Cross Israel Highway Ltd. Some local authorities are also trying to create an alternative to installation of pipes or fibers by deploying their own infrastructures. It should be noted that an amendment to the Communications Law concerning fiber deployment and the Ministry's decision regarding the grant of special licenses allowing limited deployment may accelerate deployment by those entities.

2.6.6. The Company's deployment and ways of coping with the intensifying competition

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

2.6.6.1 The Company launches new communications services, value added applications (such as smart business, smart facilities, integration services, etc.), bundles of products and services, and joint bundles (that correspond to some of those offered by its competitors, although under an unbundling restriction, see Section 1.7.2) to broaden the scope of use of subscriber lines, respond to customer

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23 Unified license holders that are entitled to provide domestic fixed-line services may also receive a wholesale service for use of the Company's physical infrastructures.

24 Migration to HOT and IBC infrastructure.

needs and strengthen its technological innovation image. The Company invests in enhancement and modernization of its infrastructure so as to enable it to provide advanced services and products for its subscribers.

2.6.6.2 The Company is working on introducing a high-speed Internet infrastructure service as well as increasing the number of its customers for the service and creating added value for the customer by means of an expansion of the possible consumption of content, leisure and entertainment applications (see also Sections 2.2.3 and 2.7.2). In March 2021, the Company launched the fiber service on an advanced network deployed in the statistical areas (see Sections 2.7.2.2 and 2.16.12). The Company also has a service on VBAND, and a package with a speed of up to 200 Mbps, using the B35 technology, subject to feasibility conditions.

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

2.6.6.4 The Company offers its telephony customers alternative payment packages (until April 2022) (see Section 2.16.1), bundles, consumption-adapted tracks and special offers.

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

2.6.6.6 In 2018, the Company began marketing its Be router. This is an advanced router with an innovative design and cutting-edge capabilities including, among others, smart Wi-Fi which provides quality, continuous broadband home Internet, and cyber protection. The router and services are managed by a dedicated application. At the end of 2021, the number of Company customers using the Be router was 666,000 (approximately 65% of the Company’s retail Internet customers). The Company markets as well products such as Be spot and Be Mesh to extend the range of home Internet networks, selling 357,000 units of these products as of the end of 2021. With the entrance of Internet services on fiber, a router and an improver reception range that are compatible with the fiber network at ultra-fast speeds have been launched.

2.6.7. Main positive and negative factors that affect the Company’s competitive

2.6.7.1 Positive factors

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

B) Presence in most businesses and households.

C) Strong and well-known brand.

D) Technological innovation.

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

F) Broad service infrastructure and varied customer interfaces.

G) Professional, experienced and skilled human resources.

2.6.7.2 Negative factors

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

A) Wholesale market (see Section 2.16.4)

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

B) Absence of tariff flexibility

The Company is limited in its ability to grant discounts on its main services and to offer differential tariffs. In this matter as well as in the matter of the decision at the hearing regarding the determination of maximum prices for the company's retail telephony services, see also Section 2.16.1.

With regard the hearing on prevention of a margin squeeze in the wholesale market, see Section 2.16.4.2.

C) Structural separation obligation

For information about the structural separation obligation applicable to the Company, see Section 1.7.2.

D) Universal service and fiber deployment obligation

The Company operates under an obligation to provide service to the entire public in Israel at a uniform price (universal service), except in relation to an advanced network (fiber) for private customers. Due to this obligation, the Company is required to provide services also in circumstances that are not financially viable (subject to the possibility of obtaining an exemption in extraordinary circumstances). On the scope of the obligation to provide services on an ultra-wide bandwidth fiber network, see Section 2.16.12. This obligation is not imposed on the special domestic carrier license holders, which can offer their services only to the Company's most profitable customers, which are a material source of the Company’s income. These companies have deployed and are rapidly deploying fiber in economically viable areas. In addition, HOT, which is obligated to provide universal services, received various relief for the full deployment, IBC was granted significant exemptions and relief, and the Company is obligated to allow HOT companies and IBC to use its passive infrastructures (see Section 2.16.4).

E) Restrictions in marketing joint service bundles of the Company and other Group Companies

See Section 1.7.2.3.

F) Characteristics of fixed-line telephony terminal equipment

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

2.7. Property, plant and equipment and facilities

2.7.1. General

The Company's property, plant and equipment consist mainly of domestic communications infrastructure and equipment, real estate assets (land and buildings), computer systems, vehicles, and office equipment.

2.7.2. Infrastructure and domestic fixed-line communications equipment

2.7.2.1 Telephony network

The Company’s telephony network consists of exchanges (meaning call switching and transferring calls from the origin to the destination), a transmission network (through which the connection between the exchanges takes place), data communication networks, an access network (that connects the network end point at the subscriber to the exchange) and terminal equipment installed at the subscriber. The connection from the terminal equipment to the access network is based on copper cables, and this copper network is the Company’s access infrastructure for the telephony services (note that the same copper cables are also part of the Company’s Internet network, as set out below). Subscribers are managed through a class 5 telephony switch. In 2020, the Company completed the replacement of its telephony switch with a new one and the conversion of all telephony customers to the new switch.

2.7.2.2 Internet network

The Company has a Next-Generation Network (NGN) based on a core IP network and deployment of an optical fiber network to street cabinets (a network topology known as Fiber to the Curb, FTTC), and also based on an access network (a system that connects NEPs on the subscriber's premises to the network and engineering systems). The connection from the home to the access network is based on the copper cables (mentioned in the description of the telephony network above) and the connection from the access systems to the backbone is based mainly on optic cables. In addition, some of the peripheral equipment (equipment installed at the subscriber, such as routers) is owned by the Company and leased to the customer. In the N GN network, it is now possible to provide, using VDSL2 technology, bandwidths of up to 100 Mbps in the descending channel, and through the use of B35 technology (an extension of xDSL technology) through which rates of up to 200 Mbps can be provided in part of the Company’s network, depending on the quality of the copper infrastructure, as well as innovative value-added services. Other advantages of the new technology are simplification of the network structure and better management ability.

2.7.2.3 Ultra-wide bandwidth fiber infrastructure

On September 14, 2020 (in light of regulatory developments in the matter and further to the government's approval which preceded the legislative processes, as detailed in Section 2.16.12), the Company's Board of Directors approved the launch and start-up of the Company's plan for deployment of ultra-broadband fixed-line infrastructure (hereinafter - the "**Fiber Project**"). The Fiber Project is a complex and resource-intensive project involving significant investments of billions of shekels by the Company over the years of its execution.

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

For the revision of the Company's license and the Company’s selection of the fiber network deployment areas, see Section 2.16.12.

As of the report publication date, the Company completed the physical deployment of the fiber network to approx. 1.174 million households throughout the country that are available for commercial connection, and as of the report publication date, approx. 120 thousand subscribers have been connected to the Company’s network.

2.7.3. **IT**

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

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

2.7.4. Real Estate

2.7.4.1 General

The Company's has real estate assets from four sources: The assets transferred to the Company by the State in 1984 under the assets transfer agreement (see Section 2.17.2.1), assets in which the rights were acquired or received by the Company subsequent to that date, assets leased from third parties and only communication assets in which the Company has a right of use for a limited period.

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

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

Right	Number of Assets	Plot Area (thousand sq. m.)	Built Area (thousand sq. m)	Notes
Ownership, lease or right of lease	302	834	81	Of this, 300 properties cover an area of 815 thousand sq. m. and 71 thousand sq. m. built up are for communication needs, and the remainder for administration needs.
Possession (authorized/ possession rights by law)	40	1.5	0.8	Assets in Israeli settlements in the Administrated Territories, all for communication needs. There is no written regulation of the contractual rights for these properties, but in the Company's opinion this does not create material exposure.
Lease	332	31	64	314 properties on a 16 thousand sq. m. built area for communication needs, and the remainder for administration needs. Of which, 2 thousand sq. m. built up are sublet.
Miscellaneous rights in “control rooms”	2,510	N/A	27 (based on estimate)	These are rooms for cables and installations for residential communications. For most of the assets, the rights are for use granted to the Company under the Communications Law and its regulations, and there is no written rights arrangement with the property owners. In the Company's estimation and based on past experience, this does not create material exposure.

2.7.4.2 Registration

At the date of publication of this Periodic Report, the Company's rights in a some of its real estate assets are not registered in the Lands Registry, and therefore they correspond to contractual rights. The Company is in the process of registering in its name those properties that can be registered in the Lands Registry.

2.7.4.3 Real estate settlement agreement

On March 10, 2004, a settlement agreement signed on May 15, 2003 between the Company, Israel Land Authority (ILA) and the State (hereinafter - the "**Settlement Agreement**") was validated as a judgment; it concerns most of the real estate assets transferred to the Company under the asset transfer agreement signed for commencement of the Company's business activity. The Settlement Agreement stated that the assets remaining in the Company's possession have the status of capitalized lease, and subject to the execution of individual lease contacts, the Company will be entitled to make any transaction in the properties and to enhance them. The Agreement sets out a mechanism for payment to the ILA for improvements made in the properties (if any), beyond the rights under plans approved by 1993, as set out in the Agreement, at the rate of 51% of the property appreciation following the improvement (less part of amounts paid for a betterment tax or to the ILA for an increase in value, if a betterment tax was paid). The Settlement Agreement also states that 17 properties must be returned to the State, through the ILA, on various dates (up to 2010), and on the terms laid down in the Settlement Agreement.

As at the date of publication of this Periodic Report, the Company returned 15 properties to the ILA. Two additional properties will be returned to the ILA after the Company receives substitute properties, as provided in the Settlement Agreement.

2.7.4.4 Sale of real estate

A) General

According to the approval of the Company's Board of Directors, the Company is continuing to take measures to sell properties that are inactive and/or can be vacated relatively easily without incurring significant expenses, based on a list presented to the Board from time to time.

Over the last few years, the Company has sold real estate assets that were inactive or could be vacated relatively easily and without substantial expenses, and/or that the consideration for them justifies the provision of another worthy alternative, recognizing capital gains for these sales, which in some years were material (during 2021, the Company sold real estate assets for a total of approx. NIS 273 million).

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

It is emphasized that the foregoing also relates to real estate assets for which a concrete decision to sell them has not yet been made, and there can be no certainty regarding the timing of their sale, if at all. Furthermore, the sale of some of the properties may involve difficulties, including a lack of demand or various planning restrictions.

In view of the foregoing, it is emphasized that the Company's foregoing estimates are forward-looking information, as defined in the Securities Law and may not materialize, or may materialize significantly differently than foreseen. These estimates are based, *inter alia*, on the Company's estimates regarding the value of the real estate assets it owns in relation to their carrying amounts, since the Company has no appraisals for some of the assets, or the appraisals in the Company's possession are out of date and the valuations are therefore based on the Company's internal estimates; and regarding the Company's inability to predict the consideration that may actually be paid for any assets sold (if and when they are sold).

B) Property in Sakia

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

On May 21, 2018, the Company received a demand from the ILA for permit fees of NIS 148 million plus VAT for a property improvement plan **("Improvement Plan")** approved prior to signing the agreement **('Demand").** The Company filed an objection to the Demand on legal grounds. On January 20, 2019, the ILA dismissed all of the Company's claims on legal grounds; however, the parties conducted talks in the framework of the dispute resolution mechanism set out in the Settlement Agreement. In parallel, the Company filed an assessment appeal against the Demand. On August 5, 2018, the Company received a demand from the Or Yehuda Local Planning Committee for payment of a betterment tax of NIS 143.5 million for the sale of the property **("Demand for Betterment Tax")**. On September 17, 2018, the Company filed an appeal on the Demand for Betterment Tax, and sent the ILA a demand for payment of the full amount of the betterment tax according to the ILA's undertaking in the compromise settlement. On January 20, 2019, the ILA dismissed the Company's demand to pay the betterment tax. Upon conclusion of the sale transaction as set out above and receipt of the entire consideration, the Company paid half of the betterment tax in the amount of NIS 75 million, and provided a bank guarantee for the other half of the levy, without this derogating from or prejudicing the steps taken or to be taken by the Company to cancel or reduce this levy. It should be noted that the amount of the permit fees to be determined at the end of the proceedings could also affect the amount of the betterment tax that the Company will be required to pay the planning committee. The Company estimates that the permit fees and the betterment tax it will be required to pay will be lower and possibly even substantially lower than the total amount of the demands. Further to the Company's demand, at the beginning of 2020, the Company made attempts with the Accountant General in the Ministry of Finance and the ILA to clarify and resolve the above differences of opinion within the framework of the dispute resolution mechanism established in the Settlement Agreement. In March 2021, the Company received from the Accountant General and the ILA a notice that considering the wide differences in the parties' positions which apparently could not be bridged, they were accepting the Company's request to terminate the dispute resolution process and allow the dispute to be submitted to the courts. Subsequently, On June 27, 2021, the Company filed a claim with the Tel Aviv District Court against the Israel Land Authority for reimbursement of the full amount of NIS 217 million paid by it to the Israel Land Authority as permit fees and betterment tax, and for the award of declaratory relief, whereby the Israel Land Authority must pay the Company any amount that is forfeited, if forfeited, from a bank guarantee of NIS 75 million provided by the Company to the Or Yehuda Local Planning and Building Committee as security for the balance of the betterment tax. In the claim, the Company argues that it is not liable to pay permit fees and betterment tax since, in accordance with the provisions of the settlement agreement it signed with the Israel Land Authority and the State of Israel, it was entitled to receive the lease contract in respect of the Sakia property after it had undergone betterment according to the plan and without payment of permit fees to the Israel Land Authority, and that the liability for payment of betterment tax on the plan, in accordance with the provisions of the settlement agreement, falls on the Israel Land Authority.

On January 17, 2022, the Israel Land Authority filed a statement of defense claiming that the claim should be dismissed for the following reasons: (1) The payment of the permit fee, which the Company demands to reimbursed, was lawfully imposed on the Company, since the improvement plan deviated from the limited rights granted to the Company in the settlement agreement; (2) With regard to the Company's claim to receive from the Authority the improvement levy paid by the Company to the local committee, the Authority's obligation in the settlement agreement to pay the improvement levy, on which the Company bases its claim, was in relation to the above limited rights, and currently it is not possible to set aside the improvement levy and separate it from the charge for the improvement plan.

The Company recorded a capital gain of NIS 403 million in its financial statements for the second quarter of 2019. The said capital gain recorded is based on the Company’s estimate regarding the permit fees and the betterment tax it will be required to pay. If the Company’s above estimates are not realized, the final capital gain will be between NIS 250 million and NIS 450 million. In this regard, see also Note 6.6 to the 2021 Financial Statements.

The information contained in this section relating to the Company’s estimates and the capital gains resulting from the sale of the property is forward-looking information, as defined in the Securities Law, and it is based, *inter alia*, on the foregoing and the Company’s estimates regarding its claims pertaining to payment of the demands. The information may not fully materialize insofar as the Company’s aforementioned estimates materialize differently than expected.

C) Sale of Company property at 8 Harakevet Street in Tel Aviv

On February 25, 2021, the Company entered into an agreement to sell a property at 8 Harakevet Street, Tel Aviv (“**Property**”) to the Azrieli Group Ltd. (“**Buyer**”) for a total of NIS 180 million plus VAT. The Property was under the joint ownership of the Company and the Israel Postal Company, and the sale agreement includes the purchase of the Israel Postal Company’s share by the Company and the sale of this share together with the Company’s share to the Buyer. The full consideration was paid by the Buyer when signing the Agreement. The Company recorded in its financial statements for the first quarter of 2021 a capital gain of NIS 125 million before tax on the sale of the Property (after deduction of the cost of purchasing the Israel Postal Company’s share, purchase tax, expenses and the amortized cost to the Company).

2.8. Intangible assets

2.8.1. The Company's Domestic Carrier license

The Company operates under its domestic carrier license, which forms the basis for its activities in domestic fixed-line communications (for a description of the main points of the license, see Section 2.16.2).

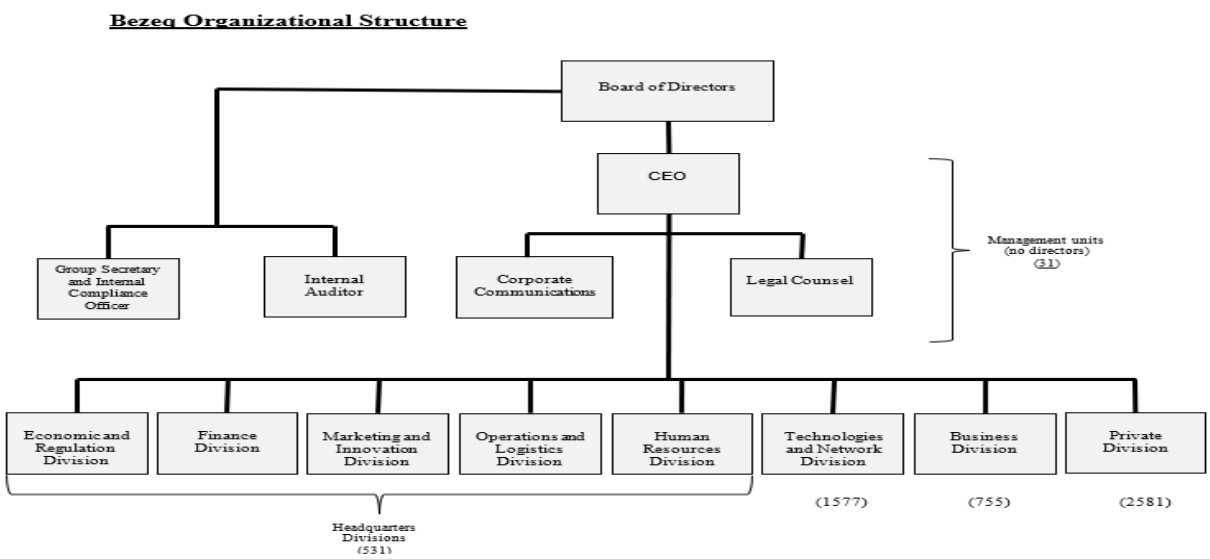
2.8.2. Trademarks

The Company uses trademarks that characterize its services and products. As of the date of publication of the Periodic Report, there are 200 trademarks and two samples registered or in the process of being registered in the Company's name with the Registrar of Trademarks. The main trademarks of the Company are "**Bezeq**" – the name of the Company, and "**B**" – the Company's logo.

2.9. Human resources

2.9.1. Organizational structure and headcount according to the organizational structure

The following chart depicts the general organizational structure of the Company as at December 31, 2021:



2.9.2. Number of Company employees and employment frameworks

The number of Company employees as at December 31, 2021 was 5,475 (compared with 5,408 at the end of 2020). 93% of the Company's employees are employed under a collective agreement (out of which 57% are tenured employees and the remainder are non-tenured employees). The rest of the Company's employees (7%) are employed under personal agreements, not under collective agreements.

For details about the special collective agreement of December 2006 and its amendment, see Section 2.9.4.

2.9.3. Early-retirement plans

In 2021, 125 tenured employees retired from the Company under the Company's early retirement plan. In this framework, the retirement of all the Company's employees who were transferred to the Company from the Ministry of Communications was also completed (except for a few individual employees whose retirement was postponed during 2022 due to the Company's managerial needs).

On November 29, 2021, the Company's Board of Directors approved, as part of the execution of a streamlining plan and in accordance with the Company's collective agreement, the retirement in 2022 of 50 veteran tenured employees, according to the early retirement track, at a total cost of NIS 71 million (the cost includes a reserve that is 5% of the estimated retirement plan cost). In view of the foregoing, the Company recorded in its financial statements for the fourth quarter of 2021 an expense in the amount of NIS 67.5 million.

In this regard, see also Note 16.5 to the 2021 Financial Statements.

2.9.4. Characteristics of employment agreements in the Company

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

In December 2006, a special collective agreement was signed between the Company, the union and the Histadrut, regulating labor relations in the Company following the transfer of control of the Company from the State to Ap.Sb.Ar. Holdings Ltd. (the former controlling shareholder of the Company). Following are the main points of the collective agreement and its amendments signed over the years (hereinafter jointly in this section - "**Agreement**"):

Under the Agreement, all the agreements, arrangements and traditional behavior in the Company prior to execution of the Agreement, including the mechanism for linkage of salaries to the public sector, would continue to apply only to the veteran tenured employees of the Company to which the Agreement would apply, subject to changes inserted specifically in the Agreement. The hiring of existing and future temporary workers would be on the basis of monthly/hourly wage agreements based on a wage model according to occupation, with high managerial flexibility. The Agreement sets out restrictions on certain kinds of future organizational changes, and a mechanism of notification, negotiation and arbitration with the union in the event of organizational changes.

Under the Agreement, during the term of the Agreement, two employee-directors[25] who are proposed by the union will serve on the Company's Board of Directors (subject to their approval by the Board of Directors and their election by the general meeting). The employee-directors are not entitled to payment for their service as directors, and will not participate in Board discussions of the terms of employment of senior employees.

The Agreement also defines the "new tenured employee", whose terms of employment differ from those of a long-time tenured employee of the Company (under the collective agreement): his wage model is according to the Company's wage policy and market wages; at the end of his employment in the Company he is entitled to increased severance pay only (depending on the number of years of employment).

As part of the retirement arrangements, the Company may, at its discretion, terminate the employment of 203 tenured employees (including new tenured employees) each year (relevant for 2017-2021).

On December 16, 2020 an amendment (No. 6) was signed to the Agreement, the main points of which are:

2.9.4.1 Amendment and extension of the collective agreement until December 31, 2025, and the retirement arrangement under the collective agreement until December 31, 2026.

2.9.4.2 As part of the retirement arrangements, the Company may, at its discretion, terminate the employment of up to 80 tenured employees (including new tenured employees) in each year (in addition to a retirement quota of approximately 300 tenured employees remaining from the earlier agreement, whose employment the Company may terminate at the end of the term of the agreement).

2.9.4.3 The cost of the Agreement, excluding the retirement of employees at the Company's discretion (but including the added cost of retirement of Transferred Employees from the Ministry of Communications) is estimated at NIS 65 million throughout the term of the Agreement.

For details of other material agreements concerning labor relations, see Section 2.17.3.

2.9.5. Officers and senior management in the Company

On the date of publication of the periodic report, 9 directors serve in the Company (out of a composition of 9 directors decided by the Board of Directors), of whom three are external directors, one is an independent director (who is not external directors) and 5 are not independent directors (including one director among the employees). In addition, 10 senior management members also serve in the Company.

The members of senior management are employed under personal agreements that include, inter alia, pension coverage, payment of bonuses based on targets and advance notice months before retirement.

For information regarding compensation of officers, see Section 7 in Chapter D of this Periodic Report and Note 29 to the 2021 Financial

25 At the beginning of 2016, the workers union announced that it agrees that so long as up to 15 directors serve on the Board of Directors, one representative among the employees will also serve on the Board and if the number of directors exceeds 15, an additional representative among the employees will serve on the Board.

Statements.

On May 23, 2019, the general meeting affirmed the Company's compensation policy in accordance with Section 267A of the Companies Law, including updating the policy for 3 years, commencing January 1, 2019.

On February 6, 2020, the general meeting of the Company's shareholders approved, among other things, an amendment to the indemnity and exemption undertakings granted to the Company's senior executives and directors serving the Company and/or who may serve the Company from time to time (including those who are part of the controlling shareholder and/or his relatives and/or officers in companies owned by the controlling shareholder) and amendments to the Company's Articles of Association and compensation policy.

On May 14, 2020, the General Meeting of the Company's shareholders approved, among other things, additional amendments to the compensation policy for the Company's officers, as detailed in the Company's immediate reports dated April 2, 2020, and May 14, 2020, regarding the convening and outcome of the meeting, which are included herein by way of reference.

On December 10, 2020, the Company's Board of Directors approved an equity-based compensation plan (hereinafter - the "**Plan**"), allowing the allocation of options exercisable into up to 84,000,000 ordinary shares, equivalent to 2.94% of the Company's fully diluted issued and paid-up share capital post-exercise, regarding which a outline was published on December 12, 2020 (as amended on January 14, 2021) (hereinafter - the "**Outline**"). Within this framework, approval was given for the allocation of up to 58,735,000 options to up to 117 officer, managers and senior employees of the Company and the Subsidiaries, including the Chairman of the Company's Board of Directors and the Company's CEO, by virtue of the Outline and a material private offering. On February 10, 2021, the Company's Board of Directors approved the allocation of up to 2,580,000 additional options by virtue of the outline for 4 officers and/or employees of the Company and the Subsidiaries.

Additionally, on January 18, 2021, the General Meeting of the Company's shareholder approved the following:

A. An increase in the Company's authorized share capital by 24,485,753 ordinary shares of NIS 1 par value each, to enable the future allocation of equity-based compensation up to the maximum possible amount under the Plan.

B. Approval of the terms of service and employment of Gil Sharon as Chairman of the Board of Directors of the Company, to apply retroactively from August 27, 2020, the date of actual commencement of his service (including the allocation of 12,000,000 options in accordance with the Plan).

C. Allocation of 9,000,000 options to Dudu Mizrahi, the Company's CEO, in accordance with the Plan.

D. Amendments and revisions to the Company's compensation policy.

For further information on this matter, see the Company's amended immediate reports dated January 14, 2021, concerning the convening of an Extraordinary General Meeting of the Company's shareholders and concerning an employee option issuance outline, which are included herein by way of reference.

On April 22, 2021, the General Meeting of the Company's shareholders approved an amendment to the Company's compensation policy, setting a cap of USD 250 million on the limit of liability under the officers liability insurance policy (instead of a limit of liability of USD 100-250 million), and including the option to renew the insurance by extending the existing policy or entering into a new policy at any time.

On March 22, 2022, the Company's Board of Directors approved the convening of a General Meeting, which includes, among other things, the approval of an updated compensation policy for a period of three (3) years, effective from January 1, 2022, which includes, among other things, clarifying amendments regarding a clawback on compensation paid based on incorrect financial information, adjustment of the compensation policy in a manner that enables the granting of a performance-dependent variable compensation to the Chairman of the Company's Board of Directors, as well as wording amendments and other technical amendments. The Meeting Convening Report dated March 22, 2022 is included in this report by way of reference.

Regarding the equity compensation plan – See Note 26 to the 2021 Financial Reports.

2.10. Equipment and suppliers

2.10.1. Equipment

The main equipment used by the Company includes exchanges, communication cabinets (MSAG), copper cables, optical cables, transmission equipment, data communication systems and equipment, servers, Internet modems and routers. The Company purchases most of the equipment needed for its communications infrastructure from Israeli companies affiliated with international communications equipment manufacturers. Hardware and software are purchased from a number of main suppliers.

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

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

In 2021, the Company had no main supplier, as defined above.

2.10.3. Dependence on suppliers

Most of the equipment purchased for data communication, switching, transmission and radio systems is unique, and over its years of operation the possibility of obtaining support other than through the manufacturer, is limited.

In the Company's opinion, in view of the importance of having the manufacturer's support for specific equipment used, the Company may be dependent on the following suppliers:

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

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

2.11. Working capital

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

2.12. Investments

For information about the Company’s investments in investees, see Note 12 to the 2021 Financial Statements as well as Sections 3 and 4 in Chapter D of this Periodic Report.

2.13. Financing

2.13.1. Average and effective interest rates on loans

As at December 31, 2021, the Company is not financed by any short-term credit (less than a year). The following table depicts the distribution of long-term loans (including current maturities):

Loan term	Source of finance	Principal amount (NIS millions)	Currency or linkage	Type of interest and change mechanism	Average interest rate	Effective interest rate	Interest range in 2021
Long-term loans	Banks	711	Unlinked NIS	Fixed	3.43%	3.36%	3.20%-4.30%
	Banks	300	Unlinked NIS	Variable, based on Prime interest rate *	2.13%	2.20%	2.13%
	Non-bank sources	36	Unlinked NIS	Variable, based on annual T-bill rate**	1.38%	1.57%	1.38%-1.43%
	Non-bank sources	4,073	Unlinked NIS	Fixed	3.06%	3.15%	2.79%-4.00%
	Non-bank sources	2,916	CPI-linked NIS	Fixed	1.72%	1.76%	0.58%-3.70%

* Prime interest - 1.60% (as of March 2022)

* T-bill return per year (223) – 0.38200% (average of last 5 trading days of February 2022) for the interest period commencing March 1, 2022.

For additional details about the Company’s loans, see Note 13 to the 2021 Financial Statements.

2.13.2. Restrictions on borrowings

2.13.2.1 Restrictions included in the Company's loans

See Note 13 to the 2021 Financial Statements. At the date of the financial statements and the date of publication of this Periodic Report, the Company is in compliance with all the restrictions applicable to it.

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

The Banking Supervision Department's directives include restrictions on the liability of a single borrower and of a group of borrowers towards the banks. The Banking Supervision Department's directives could from time to time affect the ability of banks to grant further credit to the Company. For details about the authorization to determine restrictions on borrowings for a business group in the Market Concentration Law, see Section 1.7.4.7.

2.13.3. Reportable credit

As at December 31, 2021, the Company's reportable credit, in accordance with Legal Position 104-15 of the Securities Authority (Reportable Credit Event) is debentures (Series 9, 10, 11, 11 and 12) of the Company, as set out in Note 13 of the 2021 Financial Statements and Section 4 of the Directors Report.

2.13.4. Credit received during the reporting period

On April 7, 2020, the Company published a listing and unlocking prospectus for Debentures (Series 11 and 12) and a shelf prospectus (bearing the date April 8, 2020) (hereinafter - the **"Prospectus**").

On December 23, 2021, the Company completed an offering of Debentures (Series 13 and 14) under a shelf offering report dated December 21, 2021 published pursuant to the Prospectus. In this offering, 200,000,000 Debentures (Series 13) were issued for a total of NIS 200,000,000, and 200,000,000 Debentures (Series 14) were issued for a total of NIS 200,000,000. For further details regarding these debentures, see the Company's Shelf Offering Report dated December 21, 2021, the Company's Immediate Report dated December 22, 2021 regarding the issuance results included in this report by way of reference. In addition, on December 1, 2021, the Company took a loan in the amount of NIS 300 million from a banking corporation.

On January 23, 2022, the Company initiated an early redemption of part of the Debentures (Series 9) of the Company in the amount of approx. NIS 370 million par value.

On this matter, see also Section 4 of the Board of Directors' Report and Note 13 to the 2021 Statements.

2.13.5. Company debentures

For details about the debentures issued by the Company, see Note 13 to the 2021 Financial Statements, and Section 4 to the Report of the Board of Directors. Also see Section 2.13.4.

2.13.6. Credit rating

The Company's debentures are rated by S&P Maalot Ltd. with an il/AA-/Stable rating and by Midroog Ltd. with an Aa3.il rating with a stable outlook. On May 2, 2021, Midroog removed the Company's debentures from credit watch (which had negative implications) and affirmed the rating of Aa3.il with a stable outlook for the Company's debentures; in addition, on December 1, 2021, Midroog announced the granting of the same rating for the Debentures (Series 13-14) that the Company will issue in the amount of up to NIS 400 million par value. On May 12, 2021, Maalot affirmed the rating of ilAA-/Stable for the Company and its debentures. In addition, on November 30, 2021, Maalot announced the granting of the same rating for the issuance of debentures in the amount of up to NIS 400 million par value, through the issuance of two new series, 13 and 14.

For information regarding the Company's rating history in the last two years, see its immediate reports dated May 4, 2020 and May 26, 2020, May 12, 2021 and November 30, 2021 (S&P Maalot Ltd.), and April 22, 2020, May 26, 2020 and December 22, 2020, May 2, 2021 and December 1, 2021 (Midroog Ltd.), included herein by way of reference.

On this matter, see also Section 4 of the Directors Report.

2.13.7. Company assessment regarding debt raising in 2022 and possible sources

During 2022, the Company expects to repay an amount of approx. NIS 1.55 billion on account of loan principal and interest, including debentures (this amount includes early redemption of debentures (Series 9) carried out as detailed in Section 2.13.4).

The Company raises capital from time to time to finance its cash flow. The financing options at the Company's disposal are raising debt by means of new bank loans and/or by private or marketable debt.

2.13.8. Liens and collateral

For information regarding liens and collateral of the Company, see Note 19 to the 2021 Financial Statements.

2.14. Taxation

For information about taxation, including carryforward losses for tax purposes of DBS, see Note 7 to the 2021 Financial Statements.

On December 26, 2021, the Company received a letter from the Israel Tax Authority, which, at the Company's request, extends the validity of the Tax Ruling by one year, namely until December 31, 2022. The Israel Tax Authority letter states that in view of the fact that no material developments have occurred with regard to cancellation of the structural separation between the Company and DBS from the date of issuing the tax ruling until the date of issue of this extension, and in view of the duration of time that has elapsed from the date of issuing the tax ruling, and after having examined all the Company's claims on this issue, the Israel Tax Authority will consider not extending the validity of the Tax Ruling beyond December 31, 2022, insofar as no material developments occur during 2022 with respect to the cancellation of the structural separation between the Company and D.B.S. The Company's position is that it is entitled to an extension of the Israel Tax Authority's approval in accordance with the terms of the Tax Ruling, according to which, "The Tax Authority will extend the validity of this Tax Ruling by an additional year on an annual basis in writing, subject to the declaration of the companies that no material change has taken place in their business and in the terms of the Tax Ruling, subject to the interpretation given to the law, provided that the said interpretation is published in writing". Furthermore, even if the Tax Ruling is not extended, this does not prevent the Company from applying to the Israel Tax Authority, at any relevant time in the future, for a new Tax Ruling in place of the said Tax Ruling. Moreover, the Company wishes to point out that it continues to work with the various regulatory bodies to cancel the structural separation.

2.15. Environmental risks and means for their management

2.15.1. General

Some of the Company's facilities, such as broadcasting, wireless communications or high-voltage facilities[26] are sources of electromagnetic radiation that are included in the definition of "radiation sources" in the Non-Ionizing Radiation Law.

2.15.2. The Non Ionizing Radiation Law

The law regulates the handling, establishment, operation and supervision of radiation sources. The law provides, inter alia, that the establishment and operation of a Source of Radiation require a permit; sets punitive provisions and severe responsibility of a company, employees and officers that breach the provisions of the law; imposes recording and reporting obligations on a permit-holder, and grants supervisory powers mainly to the Supervisor of Non-ionizing Radiation at the Ministry of Environmental Protection (hereinafter in this section - "**Supervisor**"), including with regard to the terms of the permit, cancellation of the permit and removal of a Source of Radiation.

The Company obtained operating permits from the Supervisor for the communication facilities and broadcasting sites it operates. The Company also took the measures required to obtain radiation permits for high-voltage facilities included in its assets, and as at the Reporting Date, it has permits for 13 high-voltage facilities, all of which have an establishment and operation permit or valid category approval.

It is noted that the Commissioner requires building permits as a condition for the continued validity of the operating permits for communications facilities (including broadcasting facilities) he granted, as well as the fulfillment of additional conditions, inter alia, concerning wireless access installations which have category approval granted to the Company by the Supervisor. See also Section 2.16.10.

The law includes a punitive chapter under which, inter alia, the construction or operation of a source of radiation in contravention of the provisions of the permit and the construction or operation of a source of radiation without a permit, after having been warned in writing by the Commissioner, are strict liability offenses.

2.15.3. Permits

On the permits for broadcasting facilities required under the Planning and Construction Law, see Section 2.16.10.

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

2.15.4. Company policy for radiation risk management

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

2.16. Restrictions and control of the Company's operations

The Company is subject to systems of laws that regulate and limit its business activities. The main body overseeing the Company's activities as a communications company is the Ministry of Communications.

2.16.1. Control of Company tariffs

Arrangements in Sections 5 and 15 to 17 of the Communications Law and the terms of the Company's Domestic Carrier license apply to the Company's tariffs, as set out below in this section.

The control of the Company's tariffs (as set out below) has a number of implications – the Company's tariffs are subject to regulatory intervention (even if they are not set in the regulations), and from time to time, the Company is exposed to significant changes in its tariff structure and tariff levels. Control of the tariffs creates or could make it difficult for the Company to provide an appropriate and competitive response to market changes and to offer competitive prices at short notice. Furthermore, the restrictions on granting discounts on tariffs limit the Company in participation in certain tenders.

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

2.16.1.1 Under the Communications Law, the Minister of Communications is entitled, with the approval of the Minister of Finance, to determine payments (including maximum payments or minimum payments) for services from a license holder. The payment can be determined on the basis of (1) the cost, according to the calculation method instructed by the Minister plus a reasonable profit; or (2) reference points deriving from payment for services provided by the license holder; payment for comparative services; payments in other countries for such services.

2.16.1.2 Tariffs fixed in regulations (FIX) (until April 1, 2022) - the tariffs for the Company's controlled services (telephony and others) which are stipulated in the regulations, were updated in accordance with a linkage formula less an efficiency factor provided in the regulations, so that on average, the Company's controlled tariffs erode in real terms. On December 30, 2021, the Communications Regulations (Bezeq and Broadcasting) (Calculation and Linkage of Payments for Bezeq Services), 2007, in which the update formula was determined, were repealed, as part of the decision at the hearing regarding the setting of maximum tariffs for the Company's retail telephony services. The repeal will enter into effect on April 1, 2022 (see Section 2.16.1.4).

2.16.1.3 The Communications and Finance Ministers are authorized (under Section 5 to the Communications Law) to prescribe interconnect payments or for the use by a license holder of the communication facilities of another license holder, and to provide instructions in this regard (including with regard to related arrangements), inter alia, based on the parameters set out in Section 2.16.1.1. Regarding the hearing on tariffs and reciprocal link accounting, see Section 1.7.4.1.

2.16.1.4 The Company may request a reasonable payment for a service for which a payment is not determined according to Sections 5 or 15 to the Communications Law, or for which a maximum or minimum payment has been determined. The Minister of Communications may the Company to notify him of any payment the Company intends to request as set out above and of any change in the payment prior to the provision of the service or the change. If the Minister of Communications determines that the Company intends to request an unreasonable payment, or a payment that raises suspicion of harming competition, the Minister may instruct (for a period not exceeding one year) the maximum payment it may request for the service or separation of the payment for the service from the payment for the bundle of services. The Minister will assess whether the payment is unreasonable according to the parameters in Section 2.16.1.1(1) above and may assess the payment based on the provisions in Section 2.16.1.1(2) above.

On December 30, 2021, the decision of the Minister of Communications was given at a hearing (a hearing dated December 15, 2020 regarding the setting of maximum tariffs for the Company's retail telephony services), to reduce the Company's telephony tariffs as detailed below (hereinafter - the "**Decision**"). The following are the main points of the decision:

A) Amendment of the relevant regulations so that the maximum payments for a subscription line[27] and for calls from a subscription line will be gradually reduced on two dates: April 1, 2022 (the day the regulations take effect) and July 1, 2023.

B) The following is a breakdown of the tariffs according to the above dates (in NIS):

Two Stages	Service	Maximum Tariff	
		VAT excluded	VAT included
April 1, 2022 to July 1, 2023	Monthly charge for telephone line	29.91	35
	Rate for call minute to fixed-line networks[28]	Off-peak - 0.035 Peak - 0.0857	Off-peak - 0.041 Peak - 0.100
	Rate for call minute to mobile networks[29]	0.1093	0.128
From July 1, 2023	Monthly charge for telephone line	20.82	24.36
	Rate for call minute to fixed-line networks[30]	0.0142	0.017
	Rate for call minute to mobile networks[31]	0.074	0.086

27 "Subscriber line" - up to three lines that connect terminal equipment to the Company's network, provided that the terminal equipment is not connected to an extension in a private hub, unless the terminal equipment is connected to an extension in a private hub that is not connected to the Company’s network.

28 Including interconnect rate for fixed-line destinations.

29 Including interconnect fee for mobile networks.

30 Including interconnect rate for fixed-line destinations.

31 Including interconnect fee for mobile networks.

C) With the transition to a maximum payment mechanism, the existing alternative payment packages that the Company markets in accordance with the provisions of Section 15A of the Communications Law will be canceled. However, the Company will be able to market telephony service bundles that include a telephone line and call minutes, at rates that it sets in accordance with Section 17 of the Communications Law, provided that the payments in these bundles are lower than the payments derived from the maximum tariffs to be determined.

   From April 1, 2022 to July 1, 2023 the maximum payment of subscribers paid just prior to the entry into effect of the amendment for a group of services according to an alternative payment basket will be according to the conditions determined in that alternative payment basket or according to the regulations after the amendment, whichever is lower. The Ministry of Communications believes that such a change in tariffs is expected to reduce the telephony expenses of subscribers in the Company's individual lines segment and reduce the expenses of fixed-line telephony consumers in the Company by approx. NIS 370 million per year from July 1, 2023 onwards (including VAT).

D) The Minister of Communications' decision also states that in view of the expected technological changes, in particular the transition to advanced networks, the decrease in the number of subscribers to the fixed-line telephony service and changes in the competitive situation, to whatever extent, the Minister of Communications intends to recommend that in 2025, professionals in the Ministry of Communications examine the need for continued tariff supervision of the Company's fixed-line telephony service.

The Company believes that the reduction in the tariffs according to the decision are expected to have a material adverse effect on the Company’s financial results. However, the Company estimates that the decrease in its revenues is expected to be lower than that stated in the Ministry of Communications' estimates.

According to the Company's estimates, if the number of telephony lines and call minutes on the Company's network would remain at their level as of this reporting date, the tariff reduction would be expected to lead to a decrease in the Company's revenues in 2022 of approx. NIS 70 million; a decrease in the Company’s revenues in 2023 of approx. NIS 150 million; and from 2024 onwards, a decrease in the Company's revenues in the amount of approx. NIS 200 million per year. However, in view of the continuing downward trend in both the Company's telephony lines and in the number of call minutes, which led to an erosion in the Company's revenues from telephony services,[32] the impact of the decision alone on the Company's revenues is expected to be smaller compared to that stated above in this section.

[32] Except in 2020, which was affected by the consequences of the Corona crisis.

Some of the information included in this section constitutes forward-looking information, as defined in the Securities Law, that is based on assessments, assumptions and expectations, including demand for the Company's services and the behavior of other telecommunications providers. Accordingly, the information may materialize or may be materialize in a different manner than described above, depending on the realization of the above assessments.

2.16.1.5 Upon the entry into effect on April 1, 2022 of the maximum payments (instead of FIX payments) for telephony services as determined by the Ministry as aforesaid, the Company will not market alternative payment packages under Section 15A(a) of the Law, as they are relevant when no maximum or minimum rates have been set. But if maximum or minimum payments are determined according to Sections 5 or 15 the Communications Law, for telecommunication services provided to another license holder, the Company may indiscriminately offer any other license holder an alternative payments package for the bundle of services at maximum or minimum payments, and such services together with services for which payment has not been determined according to Sections 5 or 15 to the Law, provided the Ministers are not opposed or approved the package.

2.16.1.6 Regarding a hearing from August 29, 2017 on a margin squeeze prevention mechanism and the submission of marketing offerings for Ministry of Communications approval, as well as on wholesale service rates and the adjustment of the wholesale rates for 2019-2021, see Section 2.16.4.

2.16.1.7 Regarding wholesale market rates for the BSA service - on February 20, 2020, the Minister of Communications decided to amend the Communications Regulations (Telecommunications and Broadcasts) (Use of a Domestic Carrier's Public Network), 2014 (“**Amendment**” and “**Regulations**”, respectively), as follows:

A) The Amendment includes formulas for updating the maximum payments to which the Company is entitled for use of its network (BSA wholesale service) on January 1 each year, between 2019 and 2022, and stipulates that on November 15 each year, the Minister of Communications will publish the demand forecast index, which is a component of the update formula. The demand indices for 2019 and 2020 were set in the Minister’s notice that was attached to his decision. The Amendment will apply retrospectively as from January 1, 2019.

B) The Amendment further stipulates that upon entry into effect of the Regulations, a reduction of certain payment components will become effective in a manner that leads to offsetting between the Company and another license holder that consumed services in the period between February 2017 (date of the decision to update the maximum payments) through to July 2018 (the date of update of the Regulations), until completion of the offsetting for that period.

On November 29, 2020, the Communications Notice (Telecommunications and Broadcasting) (Use of Public Telecommunications Network of a Domestic Operator), 2020 was published, in which the demand forecast indices for 2021 were updated (the demand forecast indices for wired connection to a traditional network in the Company's network, for data capacity in the network core used by the traditional network, and for the Company's managed broadband access service using a traditional network) from which the usage tariffs for the use of the Company's network are derived, according to the formulas in the regulations, for the Company's wholesale services. The Company's revenues from these services are affected both by the rates and by the actual scope of use of the Company's network, which depends on the behavior of the different communications operators. The updated tariffs have had a material adverse effect on the Company's results for 2021. On December 30, 2021, the Communication Notice (Bezeq and Broadcasts) (Use of Bezeq's Public Network of a Domestic Carrier) (No. 2), 2021 was published in which the wholesale rates for the use of the Company's traditional network were updated following changes in the CPI and in the above demand forecast indices for 2022 and according to the formulas in the Use Regulations in effect from January 1, 2022.

Some of the information contained in the above paragraph is forward-looking information, as defined in the Securities Law, that is based on assessments, assumptions and expectations of the Company, including the scope of use of the Company's network and the behavior of the different communications operators. Accordingly, the information may materialize or may be materialize in a different manner than described above, depending on the realization of the above assessments.

Regarding wholesale market tariffs on the HOT network, see Section 2.16.4.

2.16.1.8 On February 21, 2022, the Ministry of Communications published a hearing for setting a maximum tariff for passive infrastructure access service (pipe access service) and dark fiber service, in accordance with the provisions of Section 14D(i) of the Communications Law, which determines that the Minister may set a reduced tariff for the use of the Company's passive infrastructure in incentive areas[33] and in the use areas[34]. According to the hearing documents, in order to lower barriers and encourage suppliers to submit bids in the incentive tenders and to encourage the provision of service in the incentive areas, the Minister of Communications is considering setting maximum supervised tariffs in the incentive areas and in the use areas for the following services: passive infrastructure access service - NIS 108 per km per month (compared to a tariff of NIS 409); dark fiber service - NIS 195 per

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33 Areas where the Company has chosen not to deploy an advanced network and where deployment will be carried out by other licensees.

34 Other areas that are not the Company's deployment areas, and which are not used by the Company for the deployment of an advanced network and the use of the service therein for the purpose of deployment in the incentive areas.

km per month (compared to a tariff of NIS 501). According to the hearing documents, as part of a new pricing process for all wholesale tariffs planned for 2022, the setting of the above supervised tariffs will also be examined. From an initial examination of the hearing documents, the Company estimates that the direct financial impact resulting from the supervised tariffs is not expected to be material. The Company continues to examine the hearing documents and their implications.

2.16.2. The Company's Domestic Carrier license

The Company operates, inter alia, under the domestic carrier license.[35] The main topics covered in the license are:

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

The Company is required to provide its services to all on equal terms for each type of service, irrespective of location or unique cost. The license is unlimited in time; the Minister may modify or cancel the license or make it contingent; the license and any part of it cannot be transferred, no charge can be imposed on it, nor can it be subject to attachment. With regard to the addition of wholesale services to the Company's license, see Section 1.7.3. Regarding the deployment and universal service obligation in connection with the advanced infrastructure (fiber), see Section 2.7.2.

2.16.2.2 Structural separation principles

For a general description of the structural separation applicable to the Company, see Section 1.7.2.

2.16.2.3 Tariffs

The Company will provide a service or a service bundle for which no tariff has been set (and from April 1, 2022 no maximum tariff is set) under Section 15 or 15A of the Communications Law at a reasonable price, according to Section 17 of the Law, and will offer to interested customers throughout the country and regarding an advanced network in the service area determined in Appendix K-1, without discrimination, and at a uniform rate according to the types of services. See also Section 2.16.1.

From April 1, 2022, the Company will be entitled to determine telephony bundles according to the quota of minutes included in the bundles. If the Company is entitled to provide telephony bundles for which no tariff is set under Section 15 or 15A of the Law, it will demand a reasonable price for them according to Section 17 of the Law and will offer them to interested customers without discrimination on equal terms and at a uniform tariff according to the types of services. The price for such a telephony bundle will not exceed the maximum payment under the Payments Regulations for a telephone line, plus the maximum payment for call minutes according to the Payments Regulations. The telephony bundle will be subject to Section 9.7A of the license, according to which the Company will allow the subscriber to purchase each service or

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35 A copy of the Domestic Carrier license appears on the Ministry of Communications website at www.moc.gov.il.

service bundle separately, included in the shared service package with other licensees under the same conditions as the service or service bundle in the shared service package ("unbundling").

2.16.2.4 Marketing joint service bundles

In respect of the provisions of the domestic carrier license that enable the Company to request to market joint service bundles subject to restrictions, see Section 1.7.2.3.

2.16.2.5 Operations of Company networks and service standards

The Company is required to maintain and operate the network and provide its services at all times, including in emergencies, in an orderly and proper manner according to the technical and service quality requirements, and to work towards improving its services. The license includes a Service Standards for the Subscriber appendix, which is to be amended after the Company provides the Ministry with data. The Company submitted its proposals for amendment of the appendix to the Ministry, adapting it to the current state of affairs and the licenses of other operators, but the amendment report has not yet been executed. For the license amendment in respect of the response of the call centers, see Section 1.7.4.4(A).

2.16.2.6 Interconnect and use

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

2.16.2.7 Security arrangements

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

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

The Company is required to appoint a security officer and to comply fully with the security instructions contained in the appendix to the license.

2.16.2.8 Supervision and reporting

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

Company's general license was amended reducing and consolidating the reporting obligations.

2.16.2.9 Miscellaneous

A) The Domestic Carrier license includes restrictions on the acquisition, maintenance and transfer of means of control pursuant to the Communications Order (see Section 2.16.3) and on cross-ownership, which are mainly a ban on cross-holding by entities with an interest in another material Domestic as noted in the license, and restrictions on a cross- Carrier[36] holding by entities with Domestic Carrier licenses or general .licenses in the same operating segment

B) The Company submitted a bank guarantee in a total amount of NIS 15 million to the Director General of the Ministry of Communications for securing fulfillment of the terms of the license and for indemnifying the State for any loss it incurs due to their violation by the Company.

C) The Director General at the Ministry of Communications is authorized to impose a monetary sanction for violation of any of the terms of the license (on this matter, see also Section .(1.7.4.6

D) During a calendar year, the Company may invest up to 25% of its annual income in activities not intended for providing its services (the incomes of the subsidiaries are not considered Company income for this purpose).

E) On October 26, 2020, the Company received from the Communications and Postal Services Officer in the Judea and Samaria Civil Administration a general license to provide domestic wired telecommunications services within the area of Judea and Samaria. The introductory letter accompanying the license states that the license refers to the general license issued to the Company by the competent entities in the Ministry of Communications, with the necessary adjustments for the area, and that it reflects the existing situation in the field of infrastructures that are owned by the Company and for which it is responsible. Accordingly, no material change is expected in the Company's mode of operation in Judea and Samaria from before the grant of the license (however, it is noted that the license in principle allows the Company to improve the efficiency of the service in the area by using technician of the entire Group, subject to an appropriate procedure to be formulated by the Company and submitted for approval to the Communications and Postal Services Officer).

For details about the wholesale market and wholesale service portfolios, see Section 2.16.4.

Regarding the amendment to the Company's license establishing obligations with respect to the deployment of an advanced network – see Section 2.16.12.

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36 A Domestic Carrier with a market share of 25% or more.

2.16.3. The Communications Order

The Company was declared a vital provider of telecommunication services under the Communications Order. By power of that declaration, the Company is required to provide certain types of services and may not cease them or narrow them; among these services are basic telephone service, infrastructure service, transmission service and data communication service including interconnect, and other services listed in the schedule to the Order.

The main provisions of the Communications Order are these:

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

2.16.3.2 Transfer or acquisition of control in a company requires the approval of the Ministers (hereinafter - the "**Control Permit**"). The Control Permit will lay down the minimum rate of holding in each of the means of control in the Company by the holder of the Control Permit, where a transfer of shares or an issuance of shares by a company, as a result of which the percentage of the holding of the Control Permit holder will fall below the minimum percentage, is prohibited without the prior approval of the Ministers, subject to permitted exceptions (among them – an issuance to the public under a prospectus, or sale or private placement to institutional investors).[37]

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

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

2.16.3.5 At least 75% of the members of the Board of Directors of the Company must be Israeli citizens and residents who have security clearance and security compatibility as determined by the General Security Service. The Chairman of the Board, the external directors, the CEO and other role holders in the Company as listed in the Order, must be Israeli citizens and residents and have security clearance appropriate to their functions.

2.16.3.6 "Israeli" requirements are laid down for the controlling shareholder in the Company: for an individual – he is an Israeli Entity (as defined in the Order); for a company – it is incorporated in Israel, the center of its business is in Israel, and it is an Israeli Entity (as defined in the Order) that holds at least 19% of each of the means of control in it, or holds at least 19% of the voting rights at the

[37] For the minimum rate of holding of control of B Communications Group, see Section 8 in Chapter D to this periodic report.

general meeting and rights to appoint directors who are controlling shareholders and has the right to appoint at least a fifth of the number of directors in the Company and its subsidiaries, and no less than one director in each, appointed by it, provided that the rate of holdings in the Company, directly or indirectly, do not at any time fall below 3% of any type of means of control of the Company.

It should be noted that on March 8, 2020, the Company received hearing documents published by the Ministry of Communications on "change in the minimum holding requirement for means of control of a general license by an Israeli entity". In the hearing, it was recommended to amend the Communications Order and other legislative provisions setting out Israeli requirements regarding additional communication license holders, to grant the option of exchanging the Israeli requirement under the law with a provision according to Section 13 of the Communications Law and the procedure set out in it, whereby alternative provisions to the Israeli requirements will apply to the relevant license holder. The date for comments to the hearing was set for March 29, 2020. On July 8, 2020, an amendment was published in the Official Gazette (the official government gazette) to some of the Communications Regulations establishing the Israeli requirement, adding the possibility to replace the Israeli requirement with a provision according to Section 13 of the Communications Law, which would impose on the relevant license holder alternative provisions to the Israeli requirement. To the best of the Company's knowledge, a corresponding amendment has not yet been made to the Communications Order.

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

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

2.16.4. Wholesale market

Recently, the Company provides services under a wholesale market model, as part of which the obligation to sell wholesale services to other communications operators was imposed on owners of a country-wide fixed-line access infrastructure (the Company and HOT).

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

2.16.4.1 Policy document

The wholesale services were established pursuant to the policy document dated May 2, 2012 in which the Minister of Communications adopted the main recommendations of the committee appointed to review and revise the structure of Bezeq's tariffs and to set wholesale service tariffs in the communications industry (Hayek Committee). The policy document states, inter alia, that owners of country-wide fixed-line access infrastructures who provide retail services, including the Company, will be obligated to sell wholesale services to holders of telecommunication licenses on a non-discriminatory basis and with no discounts for size. The document also stipulates the terms for cancellation of the structural separation (see Section 1.7.2.2) and that within 6 months of publication of the Shelf Offering for the sale of wholesale services by the infrastructure owners, the Minister will take action to change to a method of oversight of the Company's prices by the setting of a maximum price and within 9 months, the Ministry will formulate regulations aimed at increasing the investment in and upgrading fixed-line communications infrastructure in Israel.

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

2.16.4.2 BSA services

The Company started providing the service on February 17, 2015. This service allows service providers that do not own infrastructure to offer their customers full end-to-end Internet services, including Internet connectivity services and infrastructure services of the Company[38]. Since launching of the service, hundreds of thousands of customers have switched to receiving services through these service providers. In this regard, see Sections 1.5.4.1 and 2.1.3.

On August 29, 2017, the Ministry of Communications published a secondary hearing (to the hearing published on November 17, 2014), on determination of the format for reviewing a margin squeeze by fixed-line broadband network owners in marketing offerings. A margin squeeze is an action by which the infrastructure owner lowers its retail prices, thereby narrowing the margin between its retail prices and the wholesale price at which it sells the infrastructure inputs to the service providers, such that the profit of the service providers is narrowed to the point that it is economically unviable for them to continue their activity. According to the secondary hearing, the Ministry is considering allowing the infrastructure owners to conduct their own review to rule out margin

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38 It should be noted that in the first days of the service, the Ministry conducted an inspection procedure at the Company that led to the imposition of sanctions in the amount of approx. NIS 8.5 million, which the Company paid. Subsequently, after receiving a request for disclosure of documents under Section 198A of the Companies Law regarding the financial sanction, and after the Company's Board of Directors rejected an application to file a derivative claim against Company officers and determined that in the circumstances the Company did not have a good cause of action against officers and against other officials who served during the relevant periods, and that conducting legal proceedings in the matter will not advance the good of the Company, the applicant in February 2022 filed a motion for approval of a derivative claim against company officers (all but one, former officers) in the amount of the financial sanction plus interest and linkage differences.

squeeze, by means of inspection tools to be approved by the Ministry (in addition to the limited advance review track). As considered, the effective tariff for the reviewed service or group of reviewed services will not be lower than the minimum price level set for marketing those services examined by the license holder. In the hearing, “license holder” includes the Company, Bezeq International, DBS, HOT Broadcasts, HOT Telecom and HOT Net. The Company submitted its comments on the hearing whereby there is no reason to determine a format for examining margin squeeze, although if such format is determined, the independent inspection mechanism proposed in the hearing should be expanded. The Company believes that if the margin squeeze review format is applied, it could affect the ability of the Company and Group companies to market bundles with respect to the timing of the offers and the prices they will be able to offer.

Regarding BSA service rates on fiber, see Section 2.16.12.

2.16.4.3 Wholesale service use of physical infrastructures

The Use of Physical Infrastructures service portfolio entered into entered into effect on July 31, 2015 and accordingly, the Company allows suppliers without infrastructure to use its physical available-for-transfer communication cable infrastructure and the available dark fibers out of the Company's available optic cables at the maximum tariffs for this purpose in the Use Regulations. Subsequently, the obligation to provide use of the Company's passive infrastructure (with the exception of dark fiber and optical wavelength service) was expanded in relation to infrastructure owners - IBC and HOT. At the same time, Domestic Carrier licensees were required to allow other Domestic Carrier licensees to use their passive infrastructure,[39] and then a service portfolio was established for "mutual use" of passive infrastructure, in which the obligation imposed in the original service portfolio on an operator using the infrastructure owner's infrastructure to establish a passive infrastructure facility adjacent to the Company's passive infrastructure facility was canceled.

The Mutual Service Portfolio does not include provisions for a dark fiber leasing service and an optic wavelength service, which remain in the original service portfolio used only by holders of a unique general domestic operator license.

In the proposal for Amendment 76 to the Communications Law (see Section 1.7.4.8) it is also intended to allow those registered in the registry to use the Company's passive infrastructure, for the purpose of providing any Bezeq service in accordance with the General Permit Regulations or an administrative directive issued thereto.

For the decision regarding the use of holders of special licenses for broadband infrastructure on the Company's infrastructure in the incentive areas, see Section 2.16.12.4.

[39] Excluding passive infrastructure of a licensed domestic carrier owned by IEC and which it requires, for the purpose of its operations as the holder of a critical service

Regarding the Minister's authority to reduce the usage tariffs on the Company's infrastructure mainly in incentive areas, see Section 2.16.12.

For the Competition Authority's announcement regarding infrastructure and the Company's appeal, see Section 2.16.8.5, and for the motion to certify a class action and two demands to exercise rights prior to filing a derivative claim on this matter, see Section 2.18.1(H).

2.16.4.4 Wholesale telephony service

This service allows service providers that do not own infrastructure to offer their customers telephony service at wholesale tariffs using the Company's network. On May 18, 2017, the then Acting Minister of Communications issued a decision according to which the Company will provide telephony services in a resale format for one year from July 31, 2017, at prices set by him (higher than the wholesale tariffs, in view of the service content). This decision is the result of a petition filed by the Company with the Supreme Court, inter alia, against the Minister of Communications' decision of November 14, 2014 regarding provision of wholesale telephony services in the service portfolio format as from May 17, 2015. The petition included claims that the service would be impossible to implement in the service portfolio format and is unjustified.

The temporary arrangement was in effect until August 2018, according to which the Company offered the service in a resale format, meaning a format in which the service provider purchases a line and call minutes from the Company and receives a range of services (including technician services) from the Company. According to the Ministry of Communications' notice, as from August 2018, the Company is required to provide the service in a wholesale format, meaning a service format in which the service is provided through the Company's switch, but the call also goes through the service provider's switch, both as an isolated service and as a supplementary service to the BSA service. Since August 2018, the Company has been prepared to provide resale services at wholesale prices (without technical services), although with this service the call does not pass through the service provider's switch, and since the beginning of 2019, the Company is prepared to provide a wholesale telephony service that passes through the service provider's switch, and based on the Company's subscriber switch and another component outside the switch, and currently on the Company's new subscriber switch (see also Sections 2.1.8 and 2.7.2). Following discussions that were held, inter alia, within the Ministry of Communications, it has become apparent that the ISP providers are not set up to operate according to the service portfolio format. On May 27, 2020 the Company received a letter from the Ministry of Communications regarding the telephony call minutes service, containing a ruling on the dispute between the Company and the service providers Partner and Cellcom concerning the interpretation of the service portfolio with respect to the provision of ancillary services. The Ministry accepted the Company's position on the matter, ruling that the telephony service to be offered by the Company to the service providers is a service that allows the service provider to receive incoming calls and generate outgoing calls and that allows the provision of all ancillary services to the basic telephony services offered by the infrastructure owner to its customers. Furthermore, the ancillary services under the service portfolio will be provided through the service provider's switch and the Company will not be obligated to offer the ancillary services through the switch it operates (except where there is no possibility to provide them using the service provider's switch).[40] In accordance with the Ministry's notice, on completion of the implementation of all the actions required for the provision of the telephony service, the Company is required to update the Ministry regarding the date on which it will be ready to provide the service as required in the service portfolio. As the Company noted in its reports, since the beginning of 2019 the Company has been ready to provide a wholesale telephony service that conforms to the Ministry's ruling in its notice. The Company is also prepared to provide the service on its new switch in the service portfolio format.

The wholesale telephony service in all the formats described above had no actual demand, and had no customers at all (except for individuals and tests).

2.16.5. Authority with respect to real estate

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

The law distinguishes between land owned by the State, the Development Authority, the Jewish National Fund, a local authority or a company lawfully established and owned by one of them, and a road (hereinafter - "**Public Land**"), and other land (hereinafter - "**Private Land**"). With regard to Public Land, the Company and any person authorized by it, can enter it to perform network deployment and maintenance works and to provide telecommunication services, provided that the deployment is executed according to the provisions of the Planning and Construction Law. The amendment to the Communications Law and the Planning and Construction Law cancels the duty to obtain the approval of the local Planning and Construction Committee, so certain actions do not require a building permit if performed by a license holder that was granted powers under Chapter F of the Communications Law, if carried out according to an approved plan.

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

Under the provisions of the Telecommunications (Installation, Operation and Maintenance) Regulations, 1985, if the Company is of the opinion that providing a telecommunications service to an claimant requires the installation of a telecommunications device on the applicant's premises (or shared premises), the Company may request that the applicant, as a

[40] It should be noted that the Ministry's letter stated that the Ministry's ruling does not express an opinion on the Company's compliance with the provisions of the service portfolio with respect to the telephony service, and would not prevent the Ministry from initiating supervision and enforcement proceedings in that regard.

prerequisite for providing the requested service, allocate a suitable place on the premises for installation of the device, for the sole use of the Company, and it may use the device to provide service to other applicants as well.

Under the provisions of the Planning and Construction (Application for a Permit, its Terms and Tees) Regulations, 1970, an applicant for a permit to construct a residential building is required to install infrastructures for telephone, radio, television and Internet services so that the customer can choose whichever provider it prefers. In commercial buildings, if preparations for communications are installed, an underground infrastructure must be laid. At the same time, the Company's license was amended (as were the licenses of HOT Telecom and DBS), so that if the Company uses the internal wiring (part of the access network installed in residences and in apartments intended to be used by those residences only) for provision of its services, it is obliged to provide maintenance services for that wiring installed by the permit applicant, without this granting it any proprietary rights in the internal wiring. Regarding a draft amendment to these regulations for the imposition of an obligation to lay down fiber infrastructure, see Section 2.16.12.

2.16.6. Immunities and exceptions to liability

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

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

2.16.7. Regulations and rules under the Communications Law

At the date of publication of this Periodic Report, regulations in two main additional areas apply to the Company: (1) cessation, delay or restriction of telecommunications activities and services; and (2) installation, operation and maintenance.

2.16.8. Economic competition laws

2.16.8.1 The Competition Commissioner (hereinafter in this section - the "**Commissioner**") declared the Company a monopoly in the following areas:

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

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

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

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

41 Declaration of July 30, 1995.

42 On November 10, 2004, the Commissioner split the declaration of December 11, 2000 on Internet access infrastructure into two separate declarations (Declarations B and C).

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

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

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

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

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

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

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

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

2.16.8.5 On March 7, 2018, the Company received notification from the Competition Authority that, in accordance with her authority under Section 43(A)(5) of the Economic Competition Law, the Competition Commissioner is considering determining that the Company abused its position in contravention of Section 29A(a) and Section 29A(b)(3) of the Law, and imposing financial sanctions on the Company and the former CEO for an alleged breach of the provisions of Section 29 of the Law and the foregoing sections. According to the notice, the evidence in its possession indicates that the Company allegedly made use of its market strength as a result of its control of the passive infrastructure and has placed obstacles in the way of new players who wish to use the Company's passive infrastructure to install communications networks that will be used to compete with the Company in providing communications services to consumers, such that this was likely to deter them and prevent them from setting up an independent fixed-line communications network or at least to delay them and limit the scope of the network. According to the notice, the Company's actions raise concerns of harm to the end consumer. The alleged acts of violation by the Company are blocking access to private areas and demanding the cutting of fibers.

Further to the hearing on the matter in which the Company and its former CEO presented arguments and evidence that there had been no fault in their actions and they had not breached the Competition Law, on September 4, 2019 the Company received the Competition Commissioner's ruling (hereinafter - the "**Ruling**") concerning abuse of the Company's position in contravention of the provisions of Section 29A of the Economic Competition Law as well as a demand for payment under the provisions of Section 50H of the Law for NIS 30 million from the Company and NIS 0.5 million from the Company's former CEO. On May 7, 2020, the Company filed an appeal against the Ruling. The Competition Commissioner filed a response to the appeal that was submitted to the Company on December 23, 2020. The Company's response to the Commissioner's response was filed on February 28, 2022. For information on a motion to certify a class action and two demands to exercise rights prior to filing a derivative claim following this ruling, see Section 2.18.1(H).

2.16.9. The Telegraph Ordinance

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

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

2.16.10. Setting up communications facilities

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

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

2.16.10.1 NOP 36 - Communications installations in the Administered Territories

National Outline Plan (NOP) 36 was divided into two parts according to the classification of the transmission facilities according to the technical variables and physical dimensions of the facilities, which ultimately affect the determination of safety ranges for protection against the effects of radiation and the degree of the facilities' prominence in the landscape. Part A of the NOP, which was approved by the government and is in effect, deals with guidelines for establishment of small and miniature broadcasting installations, while part B, which has not been brought for government approval and is not in effect, deals with guidelines for setting up large broadcasting facilities. As a result, there are currently no special guidelines regarding the Company's large broadcasting facilities, most of which were established by the State before the Company was established.

The Company has obtained building permits for most of the small broadcasting installations in accordance with NOP 36A. From time to time, a need arises to add broadcasting installations which require that building permits be obtained in accordance with NOP 36A. Given the exemption granted under the orders of the Planning and Construction Law and of the Communications Law, the Company believes that it is not obliged to obtain building permits for miniature broadcasting installations, which are "wireless access facilities" under those laws.

2.16.10.2 NOP 56 – Communications facilities in the Administered Territories

NOP 56 regulates the manner of setting up and licensing of communications installations in the Administered Territories. The Plan contains transitional provisions for facilities erected with a permit for small installations.

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

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

2.16.10.3 Radiation permits

With regard to the radiation permits for the communications and broadcasting facilities, see Section 2.15.

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

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

2.16.11. Consumer legislation

For information about consumer legislation applicable to the Company, see Section 1.7.4.5.

2.16.12. Fiber – fixed-line ultra-broadband infrastructures

2.16.12.1 Amendment to the Communications Law for regulation of the deployment of an "advanced network"

Further to a call for public inputs and hearings published by the Ministry of Communications, to the recommendations of the Inter-Ministerial Team to Examine the Policy for Deployment of Fixed-Line Ultra-Broadband Infrastructures in Israel, to the adoption of said recommendations with several changes by the Minister of Communications and to the government decision in this regard – on December 24, 2020, an amendment was published to the Communications Law for regulation of the deployment of an "advanced network". The following are the main points of the amendment to the law:

A) Obligation to deploy and provide service that is not universal throughout the country:

1. The Company may choose the statistical areas in which it will deploy an advanced network (that is not based on its copper network) and provide on it an Internet access service that is not offered universally throughout the country. This will be in a notice that the Company will submit to the Minister of Communications within five months from January 1, 2021.

"Advanced network" – a network based on optic fibers reaching a network termination point in an end user's apartment, or an equivalent network in terms of the level of service that can be provided on it according to criteria prescribed by the Minister and published on the Ministry of Communications website; in this regard, "apartment" – a room or cubicle, or a system of rooms or cubicles, intended to serve as a complete and separate unit for dwelling, for a business or for any other purpose, including a private house;

2. The Company must comply with the deployment obligation in all the areas listed in its notice no later than at the end of six years from the earlier of: (1) the date on which the Company began providing a paid Internet access service on the advanced network; (2) the date of establishment of the obligation in the Company's license.

3. After the obligation has been established in the Company's license with respect to the service area as aforesaid, the holder of a general domestic carrier license that is not the Company (e.g. HOT) may deploy an advanced network (that is not based on its copper access network) and provide on it a telecommunications service that is not offered universally throughout the country nor at least in a service area. The Minister may set conditions for the deployment and for the provision of the service in the licenses.

4. The Minister may permit in the licenses of the Company and general domestic carrier the provision of a service that is not offered universally throughout the country nor at least in a service area, on their copper access network that has been upgraded to an advanced network, if he concludes that this can contribute to competition and to the level of service.

B) Incentives for deployment in the incentive areas

5. Following the establishment of an obligation as aforesaid in the Company's license, an incentive fund will be set up under the management of the Accountant General in the Ministry of Finance, to encourage deployment through participation in the funding thereof in statistical areas that are not among the deployment areas chosen by the Company ("incentive areas").

6. Mandatory annual payments will be deposited in the fund by obligated entities, including the Company, at 0.5% of the annual revenue of the obligated entities. The Minister of Communications with the agreement of the Minister of Finance and approval of the Economic Committee may change this rate.

7. The Minister may set in regulations a reduced rate for use of the Company's passive infrastructure (including dark fiber) in the incentive areas, and in an area that is not an incentive area and not a deployment area of the Company or used by the Company for deployment, if the infrastructure serves for deployment in an incentive area.

C) Tenders for the allocation of amounts from the incentive fund

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

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

10. In the first three years of the incentive fund's activity, the Minister may direct that a minimum percentage of the households in the incentive areas included in the participants' bids – not exceeding 15% of the households to which deployment will be made in incentive areas in a year – will be in geographical areas designated by him, based on considerations of the security situation in the area; poor socio-economic status and the level of services in the area; low population density in that area; the area's geographical location or its distance from population concentrations and the center of the country; the need to narrow gaps.

11. An obligation will be established in the license of the tender winner to deploy an advanced network in a service area that includes the incentive areas won by it, including an obligation to provide a universal Internet access service on the network in the area (even in the case of a holder of a special general license), within the timeframes to be specified in the license. Regarding the establishment of such an obligation in the area of Judea and Samaria, it will be subject to the statutory provisions applying in the area of Judea and Samaria.

D) Prohibitions on the Company and a related corporation with respect to the incentive areas

12. The Company and any related corporation may not participate in a tender for the allocation of amounts from the incentive fund, and they may deploy and provide service in an incentive area on an advanced network deployed by them only at the end of five years from the date of establishment of a deployment obligation in the license of a tender winner.

13. The Company and a related corporation may not deploy an advanced network in the incentive areas and provide a telecommunications service on an advanced network deployed by them, unless the Minister has permitted the Company, at its request, to do so in incentive areas for which no amounts have been allocated yet from the fund, provided the percentage of households in the areas included in their request does not exceed 10% of the households in the areas included among the statistical areas chosen by the Company.

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

E) Internal wiring

15. Ownership of the internal wiring will belong solely to the subscriber whose premises the wiring serves. A license holder may demand a reasonable payment for the installation thereof.

F) Sanctions

16. the Director General of the Ministry of Communications is authorized to impose a financial sanction at up to 10 times the basic amount for a violation of a provision of the license with respect to

the deployment of an advanced network or the provision of a service thereon.

On May 25, 2021, the Company's Board of Directors approved the Company's fiber deployment plan and its submission to the Ministry of Communications in accordance with Section 14B(a) of the Communications Law. Under the plan, the Company is expected to deploy and operate an ultra-fast fiber network covering 76% of Israel's population (estimated by the Company at 80% of households); on May 31, 2021, the Company submitted to the Ministry of Communications a list of the statistical areas in which it has chosen to carry out the deployment.

On June 15, 2021, further to the hearing on April 13, 2021, the Company received an amendment to its license concerning the setting of deployment obligations for an advanced network (hereinafter - the "**Amendment to the License**"). The Amendment to the License includes several changes to the existing provisions of the Company's license in aspects where there is a distinction between its traditional network and its advanced network, as well as the addition of an appendix setting out the Company's deployment obligations with respect to an advanced network, including a list of the statistical areas chosen by the Company for deployment of the fiber network, as well as milestones for the completion of the deployment of the advanced network, as follows:

A. Completion of deployment to buildings in which the cumulative percentage of households stands at 60% of all households in the service area (all the statistical areas chosen by the Company) – no later than the end of two years from the effective date (March 14, 2021);

B. Completion of deployment to buildings in which the cumulative percentage of households stands at 80% of all households in the service area – no later than the end of three years from the effective date;

C. Completion of deployment to buildings in which the cumulative percentage stands at 95% of all households in the service area – no later than at the end of five years from the effective date;

D. Completion of deployment to all buildings in the service area – no later than the end of six years from the effective date.

On October 13, 2021, the Ministry of Communications issued a tender “for extending license to deploy an advanced network and for receiving financial grants to encourage the deployment of advanced fixed line networks in areas lacking economic viability”, i.e. in the incentive areas. Subsequently, on March 7, 2022, a Ministry notice was published on the Ministry of Communications website including the names of the areas in which communications companies that won the tender will deploy an advanced fiber-based network. According to the notice, the winning areas constitute approx. 60% of the incentive areas and the winning companies in the tender will be given a period of a year and three months from the date their license is revised to complete deployment obligations and provide services to all interested customers in these areas.

2.16.12.2 Rates for service on ultra-broadband fiber optic infrastructure

The Use Regulations set the maximum tariffs for an ultra-broadband access service managed on the Company's fiber network, as maximum tariffs for accessibility and data transfer services at a cumulative speed of up to 550 Mbps and over 550 Mbps and up to 1,100 Mbps. The regulations did not set a controlled rate for initial installation of internal wiring to the subscriber's premises, and the Company may demand a reasonable payment for this service. The rates will be adjusted once a year on January 1, starting in 2021, according to changes in the consumer price index. At the recommendation of the Ministry's professional staff, which constituted the basis for the decision regarding the tariffs, the tariffs will remain in effect for three years and will then be replaced by a fixed rate).

Regarding a hearing to determine a standard price for fiber-optic-based Internet services (FTTP) - in the provision of Internet access services using fiber optics to a residential building (Fiber to the Home - FTTH) for private subscribers, license holders may not offer subscribers different terms or a different rate based on the infrastructure offered. The type of infrastructure offered would be a reasonable attribute justifying distinguishing between one group of subscribers and another in relation to Internet access services that are not provided through fiber optics to a residential building.

2.16.12.3 Joint use of fiber-optic infrastructure in existing residential buildings

On July 27, 2020, the Ministry of Communications' decision was published. Pursuant to the decision, an administrative directive was issued regarding the manner of implementing the joint use of fiber optic infrastructure in existing residential buildings, including, inter alia, the principles for implementing joint use (including the obligation of a domestic operator deploying the fiber infrastructure in a residential building with no fiber infrastructure, to turn to every other domestic operator with an offer to make joint use of the fiber infrastructure it will be deploying in the building), a procedure for implementing joint use, principles for determining the payment for joint use (to be based on the proportionate share of the cost of setting up the fiber infrastructure plus a reasonable premium for the joint operator), the need to reach an agreement among the domestic operators regarding the level of service and the maintenance of fibers, and prohibition of discrimination. The decision further states that the establishment of an arrangement for joint use in existing buildings where the fiber optic infrastructure has already been deployed will be examined separately.

On October 31, 2021, the Ministry issued an update to the Director's directive dated July 27, 2020 regarding the sharing of fiber optic infrastructure in existing residential buildings, in which a section will be added to the directive according to which the joint operator and the other domestic carrier will each develop an API for the transfer of information regarding the existence or non-existence of an internal wire that is an optical fiber infrastructure to a user's apartment as well as information regarding the date of its deployment (before January 1, 2021 or after that date). This is in the schedule detailed in the section. The Company forwarded its response to the hearing that it opposes the possibility of an obligation being imposed on it or on any other company to share such sensitive and detailed business information when there is an effective and less offensive alternative proposed in the response.

As to deployment in new residential buildings, on June 8, 2021 an amendment was published to the Planning and Construction Regulations (Application for a Permit, its Conditions and Fees) regarding the installation of telecommunications infrastructure in new buildings.

Under the Economic Plan Law (Legislative Amendments for Implementing Economic Policy for the 2021 and 2022 Budget Year) (2021), which was approved on November 4, 2021 (hereinafter - the "**Economic Arrangements Law**"), the provisions of the Communications Law regarding the conditions for laying an advanced network in an apartment building, even without the consent of the majority of apartment owners, was approved.

2.16.12.4 A hearing was announced for amending the arrangement for joint use of passive infrastructure

On February 6, 2022, the Ministry of Communications decided in a hearing to amend the arrangement for mutual use of passive infrastructures which will also allow holders of special broadband infrastructure licenses (in addition to general licensees) to use the passive infrastructure of a general domestic carrier (including the Company) only in incentive areas (areas in which the Company has chosen not to deploy an advanced network and in which, for the purpose of financing the deployment, funds will be allocated from the incentive fund). We will recall that general license holders may use the Company's passive infrastructure outside of the incentive areas as well. This decision follows the Minister of Communications' decision dated October 13, 2020, under which the preconditions required for obtaining a license enabling the provision of broadband infrastructure services were reduced, following which the Ministry began granting special licenses for broadband infrastructure (for information on this matter, see also Section 2.6.3.6. A service portfolio was attached to the decision regarding the manner in which the passive infrastructure of a domestic carrier was used, and the Minister of Communications was recommended to amend the Communications Regulations (Bezeq and Broadcasting) (A Domestic Carrier's Use of Bezeq's Public Network), 2014.

Granting the option for special license holders of broadband infrastructure to make such use of the Company's passive infrastructure may increase the rate of deployment of broadband infrastructure by special license holders and the customers in the incentive areas to switch to them. On the other hand, the use of the Company's passive infrastructure by the special license holders will involve a fee to the Company (even if reduced, on this matter, see Section 2.16.1.8). Accordingly, the Company is unable to assess at this stage the overall effect of the amendment to this Arrangement.

2.16.12.5 Hearing on the amendment of the BSA and telephony wholesale service portfolio

On February 10, 2022, the Ministry of Communications reached a decision at a hearing regarding the amendment of the BSA and telephony wholesale service portfolio, which included the addition of a chapter in the service portfolio regarding the provision of BSA service on an advanced network and a draft of the license revisions for general unified license holders and special license holders to provide access service to the Internet and broadband infrastructure. In accordance with the decision, the amendment of the service portfolio was approved as stated. The amendment of the service portfolio is not expected to have a material effect on the Company.

2.16.12.6 Service provision obligation and supervised maximum tariffs for the BSA service using fiber

On October 12, 2021, a hearing was published, according to which the Minister of Communications is considering stipulating in the regulations an obligation to provide services and maximum tariff supervision for BSA services using fiber-optics to be provided in the incentive areas by the winner of the tender (which are the same tariffs as those set for BSA services based on the Company's advanced network), and that the gap between the retail prices and the maximum BSA tariff that will be set will have to meet the margin reduction test allowing a retail margin of 20% of its national retail price.

The Use Regulations determined maximum payments for use and ancillary service for the use of a deployer’s network in the incentive area. The maximum payment that a deployer in an incentive area may demand of another licensee for a broadband access service managed at a nationwide connection level is the same as that which Bezeq may demand.

2.16.12.7 A hearing for setting a maximum tariff for passive infrastructure access service (pipe access service) and dark fiber service

In this matter, see Section 2.16.1.8.

2.17. Material agreements

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

2.17.1. Deeds of Trust for Debentures (Series 6, 7, 9, 10, 11, 12, 13, 14) issued by the Company

In this matter, see Note 13 to the 2021 Statements and Section 4 of the Directors’ Report.

2.17.2. Real estate

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

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

2.17.2.2 Settlement agreement dated May 15, 2003 between the Company and the State and Israel Lands Administration, in the matter of rights relating to real estate

In this matter, see Section 2.7.4.3.

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

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

2.17.3. Employment agreements

2.17.3.1 Special collective agreement of December 2006

For details regarding this agreement and its amendments, see Section 2.9.4.

2.17.3.2 Agreements with alternative entities that replaced the Makefet Fund in everything relating to early retirement arrangements of Company employees

As from 2005, the early retirement arrangements of the Company's employees are implemented through alternative entities in place of Makefet Fund.

On April 24, 2014, the Company and Menora Mivtachim Insurance Ltd. (hereinafter - “**Menora**”) signed an agreement regulating pension payments for the early retirement of Company employees and provision for the payment of old-age and survivors’ pensions to employees who retire from the Company under the special collective retirement agreement signed by the Company, the Union and the Histadrut on February 12, 2014. The Commissioner of Insurance approved the policy and it entered into force on March 31, 2016. Accordingly, as at May 1, 2016, Menora issued policies for retiring employees, and payment of the annuities and related payments is made on the basis of these policies. The term of the agreement (after being extended three times) is until the end of 2024.

2.18. Legal proceedings

The Company's reporting policy is based on qualitative and quantitative considerations. The Company decided that the quantitative materiality threshold in relation to events that affect the net profit will have an effect of approx. 5% or more on the average adjusted net profit of the Company (as defined in section 1.6), according to the Company’s consolidated annual statements in the last three years (2019-2021). Accordingly, in the absence of relevant qualitative considerations, this section describes legal proceedings involving NIS 70 million or more[43] before tax, and legal proceedings in which the amount claimed is not stated in the statement of claim, except in the case of a claim which prima facie does not reach the above amount bar (and all unless the Company believes the claim has other aspects and/or implications beyond its monetary amount).[44] In regard to class actions, it is noted that submission of class actions in Israel does not involve payment of a free deriving from the amount of the claim. Accordingly, the amount of a claim in claims of this type may be significantly higher than the scope of true exposure for those claims.

43 In view of the update of the materiality threshold, as of the date of approval of this periodic report, legal proceedings are not described that were described in the periodic report for 2020 that do not reach the current materiality threshold as follows: Section 2.18.1(L) (section number in the 2020 periodic report).

44 For reviewing claim amounts vis-à-vis this bar, the amounts were linked to the CPI. The amounts noted in this Section are the original amounts (without linkage differentials). On the matter of the bar, where similar proceedings take place against a number of companies in the Group, the amount of the claim might be reviewed cumulatively in respect of all the proceedings together. In addition, it is clarified that if certain proceedings relate largely to the same legal or factual issues, or it is known that such issues are reviewed or considered together, then for setting the bar of quantitative materiality as noted in these Sections, the amount involved was examined in all those proceedings together.

2.18.1. Pending proceedings

	Date	Parties	Court	Type of Proceeding	Details	Amount of the Claim (NIS millions)
.A	January 2015	Shareholder v. the Company and former Company officers	Tel Aviv District Court – Economic Department	Motion to certify a class action	Motion to certify a class action claim for compensation of shareholders for losses, which according to the claim, sustained due to "the Company failing to submit reports to the TASE and concealing material information from the investor public", regarding two significant issues: "lowering the interconnect fees" and "reform of the wholesale market". On August 27, 2018, the Economic Department of the Tel Aviv District Court issued a ruling certifying the action as a class action ("**Certification Decision**"). Regarding the cause in the wholesale market reform, the class action group was defined as anyone who purchased Bezeq's shares starting on June 9, 2013 and held all or some of the shares until the filing of the class action lawsuit. In this matter, the Court held that the plaintiff proved the existence of alleged damage, by virtue of the fact that during the period of disclosure, Bezeq's stock price fell by 10%, but the actual damage will be calculated during the hearing of the main case. With respect to the cause of the lowering of the interconnect fees, the class action group was defined as anyone who purchased Bezeq's shares from February 28, 2013 and held them up to May 29, 2014. In this regard, the Court ruled that no impairment was recorded that could be attributed to the discovery of the alleged misleading information, but the plaintiff should be allowed to prove that during the hearing of the main case. October 28, 2018, the Company and the senior officers being sued, filed a motion in the Economics Department in the Tel Aviv District Court for a rehearing on the Certification Decision, requesting the court to cancel it and to dismiss the motion to certify a class action. On December 1, 2019, a ruling was handed down on the rehearing as follows: 1. Regarding the reduction of interconnect charges - the court accepted the motion insofar as it deals with claims related to reports on the reduction of interconnect charges, having reached the conclusion that the claimant had not proved that there had apparently been damage as a result of reduction of interconnect charges, and therefore there was no place to approve the class action on this claim. 2. regarding the wholesale market reform - the court dismissed the motion in respect of the defendant's' arguments on reporting about the wholesale market reform. However, regarding the definition of the class of claimants, the court accepted the defendants' argument that June 9, 2013 is irrelevant in respect of misrepresentation claimed in the report dated January 16, 2014 (the report about the decision on the list of services and the hearing document regarding tariffs), and ruled that the claim related to this report must be distinguished from that related to failure to report receipt of the list of services hearing document dated June 9, 2013. Accordingly, the court has reduced the definition of the class of claimants in respect of the report of January 16, 2014 to all those who purchased the Company's shares (excluding the respondents and/or those acting on their behalf) from January 16, 2014 (instead of June 9, 2013) and held those shares (in whole or in part) in the period between January 15-20, 2014. Following the court's proposal and the agreement of the parties, the case was referred to mediation, but it was unsuccessful. On July 12, 2020, an amended statement of claim was filed, containing amendments which, among other thing, striking of the matter of the reduction in the interconnect fees and narrowing of the definition of the class of plaintiffs with respect to the wholesale market reform, pursuant to the court's judgment in the rehearing. Additionally, the total amount of the claim was amended and is now estimated by the plaintiff at NIS 687 million (instead of a total of NIS 2 billion based on the "out-of-pocket" method, or, alternatively, NIS 1.1 billion based on the "approximate out-of-pocket" method, according to the pre-amendment wording of the statement of claim). It should be noted that no economic opinion has been attached to the amended statement of claim.	687

	Date	Parties	Court	Type of Proceeding	Details	Amount of the Claim (NIS millions)
.B	March 2015	Shareholder v. the Company and former Company officers	Tel Aviv District Court – Economic Depart-ment	Motion to certify a derivative claim together with a statement of derivative claim	Motion filed against the Company, against Shaul Elovitch, the former controlling shareholder and Chairman of the Board of Directors of the Company, and against directors of the Company at the relevant times who voted for the Company's transaction under the motion, as set out below (hereinafter - the "**Respondents**"). According to the allegations in the motion, the Company decided, through the Respondents, to enter into a transaction to purchase all the holdings and shareholders loans of Eurocom DBS (a company indirectly controlled by the Company's controlling shareholder) in DBS in return for NIS 680 million in cash and contingent considerations of up to NIS 370 million. The plaintiff claims that the consideration which was expected to be paid for the transaction is exorbitant and the decisions of the Respondents to enter into the transaction caused the Company great damage after they were in breach of their duty of care and fiduciary duties towards the Company and were negligent in their positions. The plaintiff also alleged that the Company's controlling shareholder violated his duty of fairness and that the Company was in breach of its duty of disclosure and reporting regarding the commitment of the trustee of Eurocom DBS' holdings in DBS to sell the holdings as from the end of March 2015. In view of the foregoing, the plaintiff requests that the court approve filing of a derivative claim on behalf of the Company against the Respondents for the damage allegedly incurred by the Company as a result of the Respondent's decisions with respect to the transaction of NIS 502 million. On March 7, 2017, the court approved submission of a revised motion by the plaintiff that includes further claims relating, inter alia, to the independence of the parties advising the Company, alleged faults in the work of the Audit Committee, Board of Directors and general meeting, and alleged faults stemming from representation of Eurocom by entities serving as directors in the Company. In view of the Israel Securities Authority investigation, inter alia, in connection with the agreement that is the subject of this claim (see Section 1.1.6) and the ISA's position that the proceedings should be stayed, the court decided upon a stay of proceedings in this case. On January 17, 2021, the Attorney General gave notice that he would appear in the proceeding (in the matter of the stay of proceedings, not on the merits of the case). Further to the Attorney General's request, the proceeding is stayed at this stage until July 10, 2022, in view of the ISA investigation and the indictments filed pursuant thereto (see Section 1.1.6). For information on motions to disclose documents prior to the filing of a motion to certify a derivative claim which the court resolved to consolidate in April 2018, see Subsection E.	502

	Date	Parties	Court	Type of Proceeding	Details	Amount of the Claim (NIS millions)
.C	November 2015 and March 2018	Customer v. the Company	Central District Court	Two motions for certification as class actions	Motion dated November 2015 - It was alleged that the Company abused its monopoly position, inter alia, by "preventing and blocking competition in general and effective competition in the Israeli communications market" and acted to delay and thwart the wholesale market report, thereby causing damage to the Israeli public and earning unreasonable profits only as a result of abusing its power as a monopoly. According to the plaintiffs' allegations, the damage caused by the Company to the communication market in Israel is expressed by the Company's excessive and unreasonable profits and they seek to claim damages of NIS 800 million, which they allege is based on 10% of the Company's surplus operating income stemming from abuse of its monopolistic power. Accordingly, the plaintiffs set the amount of the claim at NIS 556 million, after the amount was reduced in another action (which in the meantime ended in withdrawal). In December 2017, the court approved inclusion in the case an immediate report published by the Company on October 22, 2017, in which the Company reported on a final oversight report issued by the Ministry of Communications concerning implementation of the wholesale telephony service and notice of the Ministry's intention to impose a financial sanction in this matter. In December 2018, the Ministry of Communications imposed a fine of NIS 11 million on the Company. On March 3, 2019, the Company informed the court that in the light of the expected changes to the judicial panel if the petition for approval is accepted, it agrees to the court's proposal to approve the motion to treat the claim as a class action without a reasoned decision being handed down in this case by the court, while reserving all its arguments for the actual claim. It should be noted that in that notice, the Company updated the court that on February 25, 2019 it filed an administrative petition against the foregoing decision of the Director General of the Ministry of Communications of December 2018. Subsequently, on March 5, 2019, the court accepted the motion to treat the claim as a class action and clarified that all arguments of the parties are reserved for hearing of the actual claim and that the evidence and investigations that were heard as part of the motion to certify will be part of the evidence in the class action. On November 1, 2021, the Attorney General announced his involvement in this proceeding and ordered a stay of proceedings in this case as well, until July 20, 2022, when the Attorney General will notify regarding the need for further stay of proceedings, in view of the criminal proceedings (hereinafter - "Case 4,000") being conducted that are related to this proceeding. Motion of March 2018 - a similar motion to that of November 2015 that was filed by the same plaintiffs also alleging that the Company abused its monopoly position, inter alia, by preventing competition in the communications market, thereby causing damage to the Israeli public and earning unreasonable profits as a result of abusing its power as a monopoly. While the relief and damage claimed in the November 2015 motion related to the period up to the date of filing that motion, in this motion the relief and damage claimed relate to a period from the date of filing the November 2015 motion through to the end of 2017, in view of the plaintiffs' allegation that the Company did not cease the actions alleged against it in the previous motion and in view of the allegation added to the tort, in addition to exploitation of the strength of the Company, "acts of corruption and unlawful activities for proscribed purposes of the Director General of the Ministry of Communications". According to the plaintiffs, the damage caused by the Company to the telecommunications market in Israel is reflected in the excess and unreasonable profitability of the Company. The claimed damage of NIS 258 million, in this motion is also based on 10% of the Company's surplus operating profit, arising from abuse of its monopolistic strength (in addition to the damages claimed in the previous motion). On May 31, 2018, the Company filed a motion for stay of proceedings in view of ISA's investigation (see Section 1.1.6). In view of the ISA's investigation and indictments subsequently filed, the court approved a motion by the Attorney General to continue the stay of proceedings in the case until July 10, 2022. In September 2019, the Claimants filed a motion to submit a new motion for certification of a class action (a motion that was filed against the Company in September 2019, further to a ruling by the Competition Commissioner from September 4, 2019, regarding abuse of the Company's position - see description below in Subsection H) in the court in which this proceeding is being heard and to strike out that motion on .the grounds that it is a similar, later motion Additionally, on October 23, 2019, the Company was served with a motion by the claimants in the motion for certification to instruct an amendment to the motion for certification by adding respondents (directors and senior executives from the relevant period some of whom are currently serving in the Company) and to include additional evidence in the motion for certification. On October 30, 2019, the court gave notice that in view of its decision on the stay of proceedings in the case it does not see fit at this time to instruct that the motion to amend the motion for certification should be submitted for the Company's response and that when the stay of proceedings in this case comes to an end, the claimants must request appropriate instructions.	Motion 556 dated November 2015 and Motion 258 dated March 2018

	Date	Parties	Court	Type of Proceeding	Details	Amount of the Claim (NIS millions)
.D	June 2017	The Company's share holders against the Company, the Chairman of the Company's Board of Directors, former directors of the Company, and companies in the Eurocom Group (the first motion is also against the former CEO of the Company and the former CEO and CFO of DBS)	Tel Aviv District Court - Economic Depart-ment	Two motions to certify class actions	The subject of the motions is a transaction from 2015 in which the Company acquired from Eurocom DBS (a company that was controlled by the former controlling shareholders of the Company) the balance of DBS shares that it held (hereinafter in this section - the "**Transaction**"): The first motion was filed in the name of anyone who acquired Company shares between February 11, 2015 and June 19, 2017 (excluding the respondents and/or those acting on their behalf and/or connected with them). In the motion it is argued that the report concerning the Transaction was misleading and/or deficient, and on account of which due to the opening of a public investigation into the Transaction by the ISA the public has become aware of details concerning the Transaction and its implementation, which led to a drop in the Company's share price in the days following the disclosure and analysis of the new information. The Petitioner argues that the Respondents acted contrary to the provisions of the Securities Law and contrary to the provisions of additional laws, and caused holders of the Company's securities heavy financial losses, amounting to millions of shekels if not more. The second motion was filed in the name of three sub-classes - anyone who acquired (1) shares of the Company, (2) shares of B Communications Ltd, and (3) shares of Internet Gold - Golden Lines Ltd. on the Tel Aviv Stock Exchange between May 21, 2015 and June 19, 2017. The Petitioner argues that the public that invested in the aforementioned shares was seriously misled, which was uncovered following the opening of a public investigation into the Transaction by the ISA on June 20, 2017, whereby the increase in the cash flow of DBS as reported in the Company's financial statements was artificially inflated, according to their claim, thereby misleading reasonable investors who based themselves on DBS cash flow data to estimate its worth, which led to over-valuation of the above companies. The Petitioner also claims additional damage caused to the groups of shareholders in B Communications and Internet Gold. In accordance with a procedural arrangement approved earlier by the court, the petitioners agreed in the aforementioned motions to administer the motions jointly and they will file a consolidated motion. Pursuant to the request of the Attorney General (who gave notice in 2017 of his appearance in the proceeding in the matter of the stay of proceedings, not on the merits of the case), the proceeding is stayed at this stage until July 20, 2022, in view of the ISA investigation and indictments that were filed pursuant thereto (see Section 1.1.6).	1,240 in the first motion and 568 in the second motion
.E	June-August 2017 and June 2018	Company shareholders against the Company and DBS	Tel Aviv District Court	Various motions to disclose documents prior to filing a motion to certify a derivative claim under Section 198(a) of the Companies Law	Amended and consolidated motion filed pursuant to the court's decision of April 15, 2018 regarding the consolidation of four motions that were filed in the same matter. The court is requested in the motion to instruct the Company (and DBS, as applicable) to submit to the Petitioners certain documents in connection with an interested party transaction between DBS and Spacecom from 2013, as amended early in 2017 (in this section: "**DBS - Spacecom Transaction**")[45]. On January 17, 2021, the Attorney General gave notice that he would appear in the proceeding (in the matter of the stay of proceedings, not on the merits of the case). Further to the Attorney General's request, the proceeding is stayed at this stage until July 20, 2022, in view of the ISA investigation and the indictments filed pursuant thereto (see Section 1.1.6).	

45 It is noted that on July 23, 2017, a motion to certify a class action of NIS 37 million was filed in the Tel Aviv District Court (Economic Division) against Spacecom, its controlling shareholders and officers and against the Company's CEO and secretary on the relevant dates of the claim in connection with the DBS-Spacecom Transaction. The proceedings in that motion as well are stayed, at this stage, until July 20, 2022.

	Date	Parties	Court	Type of Proceeding	Details	Amount of the Claim (NIS millions)
.F	February 2018	Company shareholders against the Company as a formal respondent and against Company directors at the relevant times to the motion and against the controlling shareholders (indirectly) of the Company at the relevant times to the motion, Shaul Elovitch and Yosef Elovitch (“**Respondents**”).	Tel Aviv District Court - Economic Department	Motion to certify a derivative action	According to the allegations in the motion, it concerns the Company’s execution of an assessment agreement with the Tax Authority which was signed on September 15, 2016 (hereinafter - “**Assessment Agreement**”), whereby the Company paid the Tax Authority NIS 462 million in tax for financing revenue from loans to DBS, whereas on the other hand, it was agreed that DBS’ losses in respect of finance expenses for the Company’s shareholder loans to DBS would be fully recognized for the Company after the merger between the Company and DBS. According to the applicants, as a result of the signing of the assessment agreement, the Company paid a total of NIS 660 million. Of that total amount, NIS 462 million was paid to the Tax Authority and NIS 198 was paid to the controlling shareholders as a contingent consideration (“**Contingent Consideration**”), which was set out in an agreement for acquisition of all the holdings and shareholder loans of Eurocom DBS (“**DBS Transaction**”). According to the plaintiffs, the Company’s execution of the Assessment Agreement constituted an extraordinary transaction of a public company in which the controlling shareholder has a personal interest, and it was unlawfully executed, since it was contrary to the Company’s interests and because the approvals required by law to enter into the transaction were not obtained. According to the plaintiffs, the damage incurred by the Company as a result of execution of the Assessment Agreement ranges between a minimum of NIS 65 million (if the Company will be permitted to offset DBS’ losses with respect to finance expenses) and a maximum of NIS 219 million (if the Company will not be permitted to offset all of DBS’ loses for finance expenses). The alleged damage is estimated by comparing the payments which the Company was charged (the tax liability and Contingent Consideration) and the tax asset created for it in the Assessment Agreement, to the payments it would have been liable for and the tax asset that would have been created for it had it entered into a settlement agreement with the tax authorities proposed by the tax authorities on the date of approval of the DBS Transaction. The plaintiffs claim that the respondents who are directors violated, inter alia, their duty of caution and fiduciary obligations (and with respect to the respondents who are controlling shareholders of the Company, also their duty of fairness), and accordingly the plaintiffs request that the court approve filing of a derivative claim in the Company’s name against the respondents, and to require them to compensate the Company for the damage allegedly suffered by it as a result of breach of their obligations towards the Company. At the request of the ISA, the proceeding was stayed in view of the investigation and its derivatives. On January 17, 2021, the Attorney General gave notice that he would appear in the proceeding (in the matter of the stay of proceedings, not on the merits of the case), and on the same date the prosecution filed a motion to continue the stay of proceedings until September 6, 2021. Further to the Attorney General's request, the proceeding is stayed at this stage until July 20, 2022, in view of the ISA investigation and the indictments filed pursuant thereto (see Section 1.1.6).	65 minimum 219 minimum
.G	June 2018	A shareholder against the Company, DBS, Shaul Elovitch and Or Elovitch	Tel Aviv District Court - Economic Department	Motion for discovery and inspection of documents under Section 198A of the Companies Law	.The court is asked to instruct the Company, DBS, the former controlling shareholder in the Company, Shaul Elovitch, and his son Or Elovitch (hereinafter jointly - “**Messrs. Elovitch**”), to submit to the petitioner, as a shareholder in the Company, various documents for the purpose of examining the possibility of filing a motion to certify a derivative claim on behalf of the Company. According to the petitioner, the controlling shareholder of Bezeq, B Com, and Messrs. Elovitch breached their duties of loyalty and fairness towards the Company in that the sale of 115 million Bezeq shares on February 2, 2016 by B Com while B Com and Messrs. Elovitch used inside information about the Company, and at a value significantly higher than the real value of the shares. The petitioner argues that this sale produced unlawful profits for B Com in the amount of NIS 313 million. The alleged inside information is that the financial statements of DBS and the Company supposedly did not reflect the Company’s de facto financial position, but rather a “free cash flow” that was allegedly inflated in order to increase the consideration in the transaction in which the Company acquired the shares of Eurocom Communications Ltd. in DBS (“**Yes Transaction**”). It should be noted that there is another motion pending against the Company to certify a derivative claim in connection with the Yes Transaction (see Section 2.18.1(B)). In this current motion, the petitioner argues that despite the fact that its motion is based in part on the same factual background, it is different from the existing proceedings in this matter. Further to the Israel Securities Authority's request, the proceeding is stayed at this stage until July 20, 2022, in view of the ISA investigation and the indictments filed pursuant thereto (see Section 1.1.6). On January 17, 2021, the Attorney General gave notice that he would appear in the proceeding (in the matter of the stay of proceedings, not on the merits of the case).	

	Date	Parties	Court	Type of Proceeding	Details	Amount of the Claim (NIS millions)
.H	(1) September 2019 (2) March 2020	Customer v. the Company Shareholders v. the Company	Tel Aviv District Court Haifa District Court	Motion to certify a class action Consolidated motion to disclose documents prior to motion to certify a derivative action	A motion filed further to the Competition Commissioner's ruling dated September 4, 2019, regarding abuse of the Company's position ("(**Ruling**") (on this matter, see Section 2.16.8.5) arguing that the Company's actions and failures as described in the ruling (blocking its competitors from passing through the Company's infrastructure to gain access to the building, as well as the refusal to insert cables using the continuous method and instead forcing the competitors to deploy the cables in an inferior, expensive and problematic way without real justification) caused financial loss to consumers. The definition of the group on whose behalf the class action will be filed is anyone who purchased fixed-line communications services in Israel between July 2015 and March 2018, regardless of whether or not they purchased these communication services from the Company. Damage was claimed for loss of the reduced tariff in the communications bundles that the group members could have enjoyed were it not for the Company's alleged actions or failures. Damage was claimed for loss of the reduced tariff in the communications bundles that the group members could have enjoyed were it not for the Company's alleged actions or failures. On a motion to transfer this motion and to strike it out on the grounds that it is a similar later motion that was filed by claimants in another motion for certification of a class action in March 2018, see Subsection (C). On June 25, 2020, the court ruled that the parties will petition for appropriate instructions in the proceeding at the conclusion of the stay of proceedings in the class action certification motion from March 2018. Two applications (that were consolidated) for the disclosure of documents under Section 198A of the Companies Law for the purpose of examining the filing of an application for approval of a derivative claim regarding the exercise of the Company's rights against officers in connection with the ruling. It was claimed that the findings and violations included in the ruling grant the Company cause for claim against Company officers and that the Company is entitled to compensation from the officers for damages that it has incurred and will incur. On September 8, 2020, the Attorney General gave notice that he would appear in the proceeding and concurrently submitted his position, that any decision on the filing of an appeal against the ruling which the petitioners claims establishes the damage that was caused to the Company, could obviate a derivative action as long as such decision is not final. On April 4, 2021, the petitioners accepted the court's suggestion to stay the proceedings until after the claims committee set up by the Company completes its work and the Company's Board of Directors makes a decision further to the committee's recommendations. Further thereto, on October 13, 2021, the Company's Board of Directors decided to adopt the Claims Committee's recommendation of October 7, 2021, according to which, under the circumstances, the Company does not have a good cause for action against officers and other executives is who served during the relevant periods, and that conducting legal proceedings will not be in the best interest of the Company. The Committee came to this conclusion after examining the significance, benefits, damages, costs and profits involved in conducting such legal proceedings, and concluded that conducting them would harm the Company. The Company filed a notice regarding this matter with the courts.	400
.I	November 2020	Shareholder of the Company v. the Company and Bezeq International	Jerusalem District Court	Motion for discovery and inspection of document prior to filing a derivative action	Motion for discovery and inspection of documents prior to the filing of a ,derivative action asking that the Respondents be issued with an order for discovery and inspection of various documents concerning asset balances in Bezeq International's books (see Section 1.9), further to the immediate report issued by the Company on November 9, 2020.	
.J	November 2020	Shareholders of the Company against the Company, B Communi-cations, the Company's CEO and Company directors	Tel Aviv District Court – Economic Department	Motion to certify a class action	Motion to certify a class action for compensation of the petitioner and the members of the represented class in respect of damages which the motion alleges they suffered as a result of the Company's reporting and disclosure omissions in its Tel Aviv Stock Exchange filings and the concealment of material information from the investors, in connection with a public report "concerning moves by the Ministry of Communications to eliminate the problem of duplicate subscriptions in ISP services, and concerning the widespread and significant extent of the problem of duplicate subscriptions in the subsidiary Bezeq International (hereinafter - "**Bezeq International**") and their material adverse effect on the operations of the subsidiary and the Company". The class is defined in the motion as anyone who purchased the Company's shares between August 17, 2020 and October 30, 2020 and held all or some of said shares on October 30, 2020, with the exception of the respondents and/or parties on their behalf and/or bodies affiliated with them.	55-65

	Date	Parties	Court	Type of Proceeding	Details	Amount of the Claim (NIS millions)
.K	January 2021	Shareholders of the Company v. the Company and others	Tel Aviv District Court – Economic Department	Motion to certify a class action	Consolidated motion (filed instead of two similar motions in the same matter, which were struck out) against the Company, B-Communications and 90 other respondents, including past and present officers of the Company, BCOM and Bezeq International, as well as the independent auditors' firm (hereinafter - the "**Respondents**"). The motion alleges that the petitioners and the members of the represented classes suffered damages (as detailed below) due to acts and omissions of the Respondents who violated the provisions of the law, inter alia, by including in the financial statements of the Company and BCOM misleading particulars, thus failing to disclose to the investors material information they prima facie were obligated to disclose in accordance with the provisions of the law, in connection with the report of the two companies from November 9, 2020, according to which Bezeq International's books contain discrepancies amounting to hundreds of millions of shekels. The classes are defined in the motion as: (a) Anyone who purchased Company shares between March 9, 2003 (the date of publication of the annual report for 2002) and November 9, 2020, and held them on November 9, 2020, with the exception of the Respondents or parties on their behalf, and (b) Anyone who purchased BCOM shares on the Tel Aviv Stock Exchange between October 25, 2009 and November 9, 2020, and held them on November 9, 2020, with the exception of the Respondents or parties on their behalf. According to an economic report that was attached to the motion, in the wake of the publication of the immediate report of November 9, 2020 by the Company and BCOM, the Company's share price decreased by 5.26%-5.40% (it should be noted that the motion alleges in addition, according to an additional opinion that was attached to it, that compared with the Company's reference indices, the damage to the Company's shareholders is greater than the decrease in the value of the shares, amounting to 7%), and BCOM's share price decreased by 9.07%-9.36%. Accordingly, it is contended that the damage caused to the petitioners is equal to the amount obtained from multiplying the number of shares held by the members of said classes by said rate of decrease in the shares of the Company and BCOM.	"Over NIS 2.5 million (for purposes of substantive jurisdiction)"
.L	April 2021	Customer v. the Company	Central District Court	Motion to certify a class action	Its was alleged that the Company caused monetary and non-monetary damages to the class members, who paid an increased amount for a higher range of speeds than they were actually able to use following a modem upgrade meant to enable them to browse within that range, and in respect of harassment, inconvenience, mental distress and breach of autonomy. According to the motion, the class of plaintiffs should include anyone who used the Company's internet infrastructure in the seven years prior to the filing of the certification motion and up to the date of its certification as a class action, and who paid for a certain range of speeds, notwithstanding which the infrastructure in their home is capable of providing only a lower range of speeds.	* The amount of the class action cannot be estimated. It was noted that this involves damages in the millions of shekels that fall within the jurisdiction of the court.
.M	May 2021	Customer v. the Company	Tel Aviv District Court	Motion to certify a class action	A motion for approval of a class action that was filed replacing a similar motion dated May 2020 and ended (see Section 2.18.2) in which it was alleged that the Company misled customers who joined the B144 internet advertising service for businesses (hereinafter - the "**Service**") to think that the cost of the Service depended upon actual use up to the charge ceiling, whereas in fact it charged its customers the ceiling amount even if in practice less use was made. Accordingly, it is requested in the new motion to include in the definition of the class of plaintiffs on whose behalf the class action would be conducted all customers and/or subscribers of the Company who signed up for the various types of service packages from the date when the Company began marketing the Service, and who were charged by the Company said excess amounts.	* The amount of the personal claim is "NIS 8,112 for the petitioner and any future amount that will be determined for all the members of the class". The total amount of the claim is not specified, but it is stated that it is estimated in the substantive jurisdiction of the court.
.N	August 2021	Customer v. the Company	Tel Aviv District Court	Motion to certify a class action	It was argued, that during the Covid-19 crisis period, the Company charged its telephony customers amounts exceeding those set and approved by the Ministry of Communications under arrangements established due to the increase in use of fixed line phones during the Covid-19 pandemic, which were in force for two periods (March 1, 2020 through June 14, 2020 and September 21, 2020 through June 30, 2021). Pursuant to the motion, the plaintiff group is to include "all Bezeq fixed line telephony customers who were charged excess amounts in violation of the binding arrangements prescribed during the Covid-19 pandemic, by the Minister of Communications". The Applicant estimates the size of the class to be over one million of the Company's fixed line telephony subscribers (subscribers who use alternative payment packages).	* The amount of aggregate damage is estimated at an amount over NIS 2.5 million.

2.18.2. Legal proceedings that ended during the reporting period or by the date of publication of the report

	Date of filing of the claim	Parties	Court	Type of Proceeding	Details	Original Amount of the Claim (NIS millions)
.A	August 2016	Customer v. the Company	Tel Aviv District Court	Motion to certify a class action	A motion claiming that the Company charges a monthly payment, unlawfully and without consent, for "support and/or warranty services" as part of using its Internet infrastructure and adds customers to the service unlawfully, that the Company charged for Internet access services also after termination of the bundle, and that the Company added subscribers to a broadband speed that is incompatible with the existing infrastructure. On March 24, 2021, the motion was dismissed. In the judgment dismissing the motion the court held, *inter alia*, that the petitioner had not met the burden of showing, even *prima facie*, the existence of violations and/or torts on the part of the Company that would justify certifying a class action, considering especially that in the circumstances there is no homogeneous injured class.	* Claim for an unknown amount
.B	February 2017	Customer v. the Company	Central District Court	Motion to certify a class action	A motion alleging that the Company collects payment from some of its customers for an anti-virus service, while in practice it does not provide them with such service, and that it starts charging for provision of the service from signing of the agreement with the customers and not from actual provision of the service. Accordingly, the Applicant requests requiring the Company to compensate its customers that purchased the service and did not actually receive it for the damages incurred by them, including refunding of amounts collected for the service. On May 26, 2021, a judgment was issued approving a settlement agreement in the proceeding between the parties. The settlement agreement includes compensation of NIS 30 million (including petitioner's award and legal fees) to customers of the service, as well as benefits for subscribers of the service at an additional estimated cost of NIS five million.	* There is no accurate estimation, estimated at NIS tens of millions
.C	April 2017 and May 2017	Customer v. the Company	Tel Aviv District Court	Two motions for certification as class actions	The motion pertains to the Company's B144 service, which enables businesses to advertise on the Internet (the "**Service**"); according to the petitioner, the Respondents charged subscribers to the Service unlawful charges. On January 25, 2018, the court decided, further to motions filed by the Company and other respondents, to dismiss the first motion in limine on grounds that it does not meet the criteria set out in the Class Actions Law, the existence of flaws in the motion, and in view of the existence of the second motion which is similar to the first motion (an appeal against this decision was rejected). On April 4, 2021, a judgment was rendered confirming a settlement in the case. The settlement is at an immaterial cost to the Company of NIS two million, and it includes partial compensation to the plaintiffs in the class for the collection of service termination fees.	* The amount of the claim cannot be estimated

	Date of filing of the claim	Parties	Court	Type of Proceeding	Details	Original Amount of the Claim (NIS millions)
.D	December 2019	Customer v. the Company	Tel Aviv District Court	Motion to certify a class action	It is claimed that when the applicant ordered an ordinary telephone line, the Company added him to another service as well (voice mail and caller ID) without his knowledge and without requesting it. Accordingly, the applicant seeks to include in the definition of the class of claimants in whose name the class action is being made anyone who was charged by the Company for a service related to telephone services without receiving their explicit request and/or consent to ordering the related service, in the seven years preceding the motion to certify until the motion is certified. On May 18, 2021, the court issued a judgment striking out the certification motion at the petitioner's request, after the petitioner had been deemed unsuitable to represent the class. The proceeding was thus concluded.	At this stage, it cannot be estimated, but it is over NIS 2.5 million
.E	May 2020	Customer v. the Company	Tel Aviv District Court	Motion to certify a class action	It is alleged that the Company misled customers who joined the B144 service for businesses on the Internet (advertising for businesses on the Internet using the B144 website) (the "**Service**") to think that the cost of the Service depended upon actual use up to the charge ceiling, whereas in fact it charged its customers the ceiling amount even if in practice less use was made. Accordingly, it was requested to include in the definition of the class of plaintiffs on whose behalf the class action would be conducted all customers and/or subscribers of the Company who signed up for the various types of service packages, starting from the date when marketing of the Service by the Company began, and who were charged by the Company said excess amounts. Neither in the motion nor in the statement of claim is there any explanation or calculation in respect of this amount, other than the statement in the body of the motion that "this concerns thousands or tens of thousands of consumers". In addition, nonfinancial damage is .claimed in general On May 8, 2021, the court issued a decision rejecting the petitioner's motion to amend the certification motion by replacing the class representative (primarily because the petitioner had been deemed unsuitable to represent the class), thus ending the proceeding. It should be noted that in May 2021, a new motion to certify a class action was filed in the same matter by another petitioner in the Tel Aviv District Court (see Section 2.18.1).	"NIS 27,537 for the petitioner and any future amount that will be determined for all the members of the class". (Next to this is written in handwriting "NIS 908,721,000")
.F	October 2020	Shareholder of the Company v. the Company and Bezeq Inter-national	Jerusalem District Court	Motion for discovery and inspection of document prior to filing a derivative action	Motion for an order against the respondents for discovery and inspection of various documents in connection with the collection of charges from Bezeq International customers. The motion alleges that the respondents made misrepresentations that led to an inflated value for Bezeq International, by including in their financial statements "dormant subscribers" that do not use Bezeq International's services but continue to pay subscription fees. See also in this regard Section 4.4. On December 29, 2021, the court dismissed the claim in view of the applicant's notice of departure.	

2.19. Business strategy and goals

2.19.1. Forward-looking information

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

The Company's strategy and the business objectives stemming from it are based on internal research and data, secondary sources of information, and primarily the reports of research companies, publications about the activities undertaken by similar communications operators in Israel and around the world, and the work of consultants who assist the Company.

Nevertheless, it is far from certain that the strategy and the main activities described here will actually be implemented or implemented in the way described. The circumstances that could lead to non-implementation of the strategy or even its failure, lie mainly in the general condition of the economy, frequent technological changes, regulatory constraints, formation of a sustainable business model for new services that the Company intends to provide, a superior marketing strategy by competitors as well as significant difficulties that may prevent the implementation of the strategy, among other things, organizational and environmental difficulties and more. Nevertheless, it is far from certain that the strategy and the main activities described here will actually be implemented or implemented in the way described.

2.19.2. Strategy summary and intentions for the future

2.19.2.1 Vision and purpose

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

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

A) Preservation of leader status in an environment of intensifying competition (leader in service and strengthening of perceived values – innovative products, reliability, proximity to the customer);

B) Encouraging the recruitment of new customers and fidelity motivators among existing customers;

C) Creation of new sources of income by launching new, innovative services and products;

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

2.19.2.2 Means

To implement this strategy and attain these objectives, the Company operates a wide range of advanced communications networks that operate on a broad nationwide system of infrastructures, and allows it to provide the world’s most advanced communications services. The Company is working to upgrade and develop the communications networks that it operates and strives to continuously expand and improve the range of products and services which it offers. The Company operates the widest system of services among the communications companies in Israel, including technical and commercial centers and an extensive system of service and installation technicians.

2.19.3. Main projects – planned and in progress

With regard to the Company's deployment of a fiber optic network, see Section 2.7.2.

2.20. Discussion of risk factors

The Israeli economy in which the Company operates is essentially stable; nevertheless, there are risk factors stemming from the macroeconomic environment, the unique characteristics of the industry in which the Company operators, and Company-specific risk factors that are likely to have significant implications on the Company and affect, inter alia, its status, results credit rating and debt repayment capacity as follows:

2.20.1. Competition

The competition in the domestic fixed-line communications industry has recently intensified, from other communications groups, other domestic carriers, mainly HOT (holder of a general license), and cellular operators, and it strengthened significantly with implementation of the wholesale market by communications groups and other communications operators (holders of a special or unified license) competing with the Company in selling end-to-end service packages based on the Company's infrastructures at prices prescribed by the regulator (see Sections 1.7.3 and 2.16.4). A large number of customers receive wholesale Internet services provided on the Company's network, while the Company has no connection with such customers. There is also competition from potential infrastructure owners (see Section 2.6). This has led to the churn of some of the Company's customers and lowering of prices for part of the Company's services and to a rise in the costs of acquiring new customers and retaining existing ones. The entities competing with the Company at present or those that might compete with it in the future, benefit from greater business flexibility than the Company, including the ability to cooperate with subsidiaries and affiliates for marketing joint packages of services (see Sections 1.7.2 and 1.7.3). The ability of competitors to offer packages with tariff flexibility compared with the restrictions that prevent the Company from doing the same, harms the Company's ability to compete.

2.20.2. Government supervision and regulation

The Company is subject to government control and regulation relating, among other things, to the licensing of operations, setting permitted operating segments, setting tariffs, operation, competition, payment of royalties, providing universal service, holding its shares, relations between the Company and its subsidiaries and a ban on ceasing or limiting its services (which could oblige the Company to provide services even in circumstances which are not economically worthwhile); for details, see Section 2.16. This control and regulation result at times in government intervention that the Company believes impedes its business activities. As part of this, the Company is exposed to the imposition of various sanctions by the Ministry of Communications, including financial sanctions (see

Section 1.7.4.6).

In addition, the Minister of Communications may cancel, limit or condition, as the case may be, the Company's license according to terms set in the Communications Law, and is authorized to change the terms of the Company's license, intervene in existing tariffs and marketing offerings and impose instructions on the Company. Significant changes in the regulatory principles applicable to communications as a whole and to the Company in particular, could oblige the Company to make changes in its strategic plans, and harm its ability to plan its business activities for the long term. For possible changes due to the wholesale market reform, see Section 2.16.4. For possible restrictions by virtue of the Market Concentration Law on the renewal of licenses and allocation of new licenses, see Section 1.7.4.7.

2.20.3. Tariff control

The Company's tariffs for a central part of its services (including interconnect fees and price for use of the Company's infrastructure and network) are subject to government control and intervention. The Minister of Communications is authorized to intervene in existing tariffs and marketing offerings and impose instructions on the Company (see Section 2.16.1). On average, the Company's controlled tariffs erode in real terms. Significant changes in controlled tariffs, if implemented, could have a materially adverse effect on the Company's business and results. Regarding control and revision of the Company's controlled tariffs, see Sections 2.16.1 (including with respect to the decision in the hearing on the setting of maximum rates for retail telephony services of the Company) and 2.16.4. Additionally, the restrictions applicable to the Company in marketing alternative payment bundles may make it difficult for the Company to provide an appropriate competitive solution to market changes and are materially manifested compared to those competing with the Company basis of its infrastructures in the sale of end-to-end service packages using wholesale BSA services supplied by the Company. Similarly, if the approval and examination mechanism established by the Ministry of Communications with regard to reducing margins in the Company's packages and tracks is implemented (see Section 2.16.4.2). In the context of the implementation of a wholesale market, the Ministry of Communications has adjusted the wholesale service rates at which the Company will sell its services to license holders. The adjustment of the rates results in lower prices in a manner that may impair the Company's level of revenues and profits (regarding the wholesale market, see Section 2.16.4).

2.20.4. Streamlining procedures and labor relations

The Company's implementation of human resources and organization plans (including retirement plans and restructuring), involves coordination with the workers and significant costs, including compensation for early retirement. The implementation processes of such plans are liable to cause unrest in labor relations and to be damaging to the Company regular activities. See also Sections 2.9.3 and 2.17.3.

In addition, as described in Section 1.8, the Company, like the other companies in the Group, is implementing streamlining procedures that include, inter alia, a move to new offices, organizational changes and downsizing of employees, in parallel to managing infrastructure and other significant projects. The streamlining procedures, by their nature, involve the risk of loss of knowledge, employee turnover, shifting of management focus and so on.

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

Structural separation - The Company's general license obliges it to ensure that its relations with its main investees in the Group do not result in preferring them over their competitors. Separation is required between the managements of the Company and those companies, as is separation between the business, financial and marketing systems, assets and employees, which causes duplication high overheads and makes it difficult to manage strategy at the Group level. In addition, the Company is limited in its ability to offer joint service bundles with those companies (see Section 1.7.2).

In view of intensifying competition, based on the provision of service bundles to customers and the ability of the competitors, given wholesale services, of offering customers end-to-end services, the effect of this risk factor surpassed the Company's activity and results. Regarding the possibility that the Group will be granted a permit to provide service bundles that may not be unbundled and that the structural separation will be cancelled in the future, and other possible changes due to the wholesale market, see Sections 1.7.2 and 2.16.4.

2.20.6. Legal proceedings

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

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

The Company measures exposure to changes in exchange rates and inflation based on the surplus or deficit of assets against liabilities and also based on cash flow forecasts, according to the type of linkage. The Company's exposure to inflationary changes is high and its exposure to changes in currency exchange rates against the shekel is low. The Company hedges against part of its inflation and foreign currency exposure. In addition, the Company has exposure to changes in the interest rates on its borrowings. In this regard, see also Note 30 to the 2021 Financial Statements.

2.20.8. Electromagnetic radiation and licensing of broadcasting facilities

The subject of the electromagnetic radiation emitted from broadcast facilities is regulated mainly in the Non-Ionizing Radiation Law (see Sections 2.15 and 2.16.10). The Company is working to obtain permits to set up and operate its various broadcasting installations; however, the difficulties it faces in this area, including difficulties stemming from the change in policy by relevant entities and amendments to statutes and standards, could impact adversely on the infrastructure of these installations and on the regularity of provision of services using them, and as a result, on the Company's revenues from these services. The Company's third-party liability policy does not currently cover liability for electromagnetic radiation.

2.20.9. Frequent technological changes

The communications sector is characterized by frequent technological changes and the shortening of the economic life of new technologies - see Section 2.1.4. The significance of these trends creates a need to invest numerous resources in technology upgrades, a lowering of entry barriers for new competitors, an increase in depreciation rates, and in certain cases, redundancy of technologies and networks owned by the Company, the cost of investment in which is still recorded on its balance sheets. The introduction of innovative technology not used by the Company or that the Company is prevented from using may impair its competitive position.

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

Stability in the financial market and the strength of economies in countries around the world, have recently been subjected to high volatility. The Company estimates that if the local economy slides into a slowdown and a worsening of business activity following external or internal events, including upheavals in the global economy, political-security uncertainty, etc., then its business results may be harmed, *inter alia*, as a consequence of poorer revenues (including revenues from affiliates) or due to an increase in the Group's financing costs.

2.20.11. Failure of Company systems and cyber risks

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

The Company faces a risk of activity intended to affect use of a computer or the computer material stored in it ("**Cyber Attack**"). Attacks of this kind may lead to interference of business, theft of information/funds, reputation damage, and damage to systems. As a leading communications company that provides diverse communications services in various segments, it is a target for and experiences Cyber Attacks, which are handled by it.

The Company is an entity overseen by Israel National Cyber Directorate and is obligated to comply with stringent information security standards. In this regard, the Company implements a protection policy that includes the most advanced security systems available, which are operated in a manner that combines effective security with the operational needs of the Company and layers of security to protect its infrastructures and Systems, which are designed to prevent and reduce the possibility of malicious or unintentional use of data of the Company's network by an internal or external entity, and the possibility of an external entity taking control and managing network components or abusing information about the Company's infrastructures and networks in any manner. In this context, the Company received three ISO standards related to information security (standards that define and test the principles of establishing, managing and maintaining information security in the organization) and in the implementation of the requirements of the standards, the Company ensures the availability, integrity, reliability and confidentiality of its databases.

The Company supervises the implementation of its hedging policy, which includes testing the quality of its effectiveness and readiness. In this context, the Company conducts tests and assault drills with varying frequency for different scenarios (including through external companies that specialize in the field).

Despite the Company's investments in means of reducing these risks, it is unable to guarantee that these efforts will succeed in preventing harm and/or interference in the Systems and the information related to them.

2.20.12. Impairment of subsidiaries

Pursuant to the accounting standards, the Company prepares valuations of its subsidiaries to periodically test for impairment of goodwill and of assets regarding which there are indications of impairment. Taking note of the business position of the subsidiaries and the discrepancy, if there is any, between the carrying amount in the Company's accounts and their recoverable amount as a cash-generating unit, any decline in the value of the subsidiaries' operations could lead to the recording of an impairment loss (write-off) in the Company's books. Additionally, a significant change in circumstances that leads to a change in estimates could occur due to a high-intensity isolated event and/or as the result of a sequence of small changes that occur over time, which have a significant cumulative effect in the long term and/or due to a change in estimates (even on a small scale) regarding the long term. Valuations rely on assumptions which are correct at the date of the report that might not materialize or could partially materialize and different perspectives affect, with varying intensity, the value of the activity, where assumptions for the long term many have a relatively large weight compared with assumptions regarding the short term. These assumptions are sensitive to values in the representative year, to the discounting interest rate and the permanent growth rate. On this matter, see also Note 10 to the 2021 Financial Statements and Section 3.1 of the Directors Report.

2.20.13. Pandemic

At the beginning of 2020 the coronavirus broke out and spread across the world. Further to which the Company is monitoring developments in connection with this outbreak as well as pandemic events in general and examining actual and potential implications on its business operations. These implications have been and may potentially be reflected, among other things, in impairment of the supply chain and the customer service network. This is an evolving event that is not within the Company's control, therefore the continued spread of the virus or decisions by countries and the authorities in Israel and around the world in this regard may affect the Company accordingly; please see also in this regard Section 2.20.10.

It is noted that a significant part of the Company's activities (consolidated) are in its subsidiaries. The risk factors of these companies and the assessments of their managements as to the risk factors are described in Sections 3.19, 4.14 and 5.19.

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

Summary of risk factors - Domestic fixed-line communications[46]

	Extent of risk factor's impact on Company activities		
	Major	Moderate	Minor
Macroeconomic risks			
Exposure to changes in exchange, inflation and interest rates			X
Dependence on macro-factors and on levels of business activity in the economy		X	
Pandemic		X[47]	
Sector-specific Risks			
Increasing competition	X		
Government supervision and regulation	X		
Tariff control	X		
Electromagnetic radiation / Licensing of broadcasting facilities		X	
Frequent technological changes		X	
Company-specific risks			
Exposure in legal proceedings		X	
Labor relations		X	
Restrictions on relations between the Company and companies in Bezeq Group	X		
Failure of Company systems and cyber risks	X		
Impairment of subsidiaries			X

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

46 It is clarified that the Group Companies' assessments of the impact of the risk factors in the table (in this Section and Sections 3.19, 4.14 and 5.19) did not estimate the probability of the realization of the risk factor but rather, the impact of the risk factor on the relevant company should it be realized. It is also noted that some of the Group companies make estimates of the probability of the scenarios of some of the risk factors mentioned in these Sections for certain internal needs of their own, but no orderly estimate is made at the Group level of all the risks listed in the tables in this and the aforementioned Sections. Furthermore, in general, the extent of a risk factor's effect on the Company's operations depends in some cases also on the scope and duration of realization of the risk, thus it may differ from that indicated.

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

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

3.1. General information about the area of operations

3.1.1. Pelephone's area of activity

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

3.1.2. Major legislative and regulatory restrictions specific to the operating sector

3.1.2.1 Communications and mobile telephony (MRT) license laws

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

3.1.2.2 Tariff control

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

3.1.2.3 Environmental laws and planning and construction laws

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

3.1.3. Changes in the volume of activity

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

3.1.3.1 Revenue from services

The mobile radio telephony segment is extremely competitive. Competition in this sector (see Section 3.6) has led to high subscriber churn between the cellular operators and consistent erosion of the prices of base packages together with continued increase of browsing volumes included in the packages, and to an increase in the Internet browsing volume included in the base package that has caused in recent years further significant erosion of the average revenue per user (ARPU). The growth in number of postpaid subscribers in the last years partly compensated for the price erosion. In 2021, the volume of transitioning between companies decreased compared to recent years, and there was a certain recovery in revenue from roaming services, after the decrease that occurred in 2020 due to the effects of the coronavirus crisis on travel and stays abroad (see Section 3.19.1.2). In addition, at the end of 2020, companies in the market began to offer packages with a higher browsing volume that allow subscribers to browse with 5G technology, and with higher prices than 4G packages.

3.1.3.2 Revenues from sales of terminal equipment and electronic products

The terminal equipment market as well is characterized by intense competition among the cellular operators and with numerous stores that sell terminal equipment imported as parallel imports. In 2021, fierce competition continued in this area, which was exacerbated due to the consequences of the Corona virus crisis and to the global chip crisis that led to damage to the supply of some of the leading models of the various manufacturers in the market. To reduce the hit to revenues, Pelephone increased the range of equipment it sells and it also sells non-cellular electronic equipment.

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

3.1.4. Market developments and changes in customer characteristics

The cellular market growth rate is lower due to penetration rate saturation.[48] The estimated market penetration rate at September 30, 2021 is 120%.

3.1.5. Technological changes that can affect the operating segment

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

Technology developments and the desire to widen the range and quality of services offered to the customer, require the cellular operators to periodically upgrade their network technologies. Cellular networks in Israel today operate mainly over the GSM, UMTS and LTE technologies, and in 2020 use began of the New Radio technology based on a non-standalone architecture (5G).

As at the Reporting Date, Pelephone's LTE network is deployed in parts of the country, and Pelephone is continuing to expand the network to improve coverage through the use of 700 MHz frequencies and to improve performance through 2600 MHz frequencies, in addition to launching the 5G technology through 3500 MHz frequencies, which is to be implemented according to a methodical plan.

Pelephone is also operating an additional network features including carrier aggregation and MIMO 8x8 in 5G.

Pelephone offers IMS technology-based services:[49] Voice over Wi-Fi as an improved solution for indoor coverage, as well as Voice over LTE that enables making 4G-based voice calls. This ability improves the quality of the voice call and also enables vacating third-generation frequency resources for future LTE use. In addition, Voice over LTE enables sequence

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

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

service with Voice over Wi-Fi.

Pelephone constantly reviews new technologies that come onto the market and the need to upgrade its existing network technologies, depending on the competitiveness of the market and the economic viability of the investment in such technologies.

Expanding capacities and speeds with LTE (4G) and New Ratio (5G) technologies as well as the development of the next cellular generations depends on the allocation of frequencies. For details, see Section 3.8.2.

In the wake of winning the frequencies tender, Pelephone is operating frequencies in the 700 MHz and 2600 MHZ ranges using the 4G technology, and at some of the sites it is also using the 5G technology in the 3500 MHZ frequency (see Section 3.8.2.4).

3.1.6. Critical success factors

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

3.1.6.2 Subscriber base growth.

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

3.1.6.4 Competitive price level.

3.1.6.5 Extensive and varied distribution channels.

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

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

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

3.1.6.9 Top-notch and skilled work force.

3.1.7. Main entry and exit barriers[50]

3.1.7.1 Main entry barriers are:

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

B) The need for a mobile telephony license, allocation of frequencies that involve vast costs due to, among other things, the shortage of these resources (see Section 3.8.2.1) and the regulatory supervision (see Section 3.14.2).

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

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

50 The foregoing entry and exit barriers apply partially and to a limited extent to the virtual operators.

3.1.7.2 Main exit barriers are:

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

B) The commitment to provide customers with services is due to the terms of the mobile telephony license and agreements made in accordance with those terms.

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

3.1.8.1 General

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

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

3.1.8.2 Infrastructure sharing

Infrastructure sharing allows consolidation of the cellular operators' sites and substantially reduces the operating and maintenance costs of the radio sites of each operator. To the best of Pelephone's knowledge, as of the Reporting Date, the following infrastructure sharing ventures exist in the market:

A) Partner and HOT Mobile operate under radio segment infrastructure sharing through a joint company.

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

3.1.8.3 Virtual operators - MVNO

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

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

3.1.8.4 Call for proposals regarding private networks

On December 1, 2021, the Ministry of Communications issued a call for proposals regarding private networks, in which it seeks to hear the public's position, including for an understanding of the needs of companies and enterprises that will enter this field, and with emphasis on the issue of allocating frequencies to this service model (possibility of tenders for dedicated frequencies among the cellular companies and to other private entities that will choose to enter the field). Pelephone submitted its reference to the call for proposals.

3.2. Services and products

3.2.1. Services

Description of the services Pelephone provides for its subscribers:

3.2.1.1 Package services that include:

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

B) **Browsing and data communications services** – Internet browsing using 3G, 4G and 5G-compatible terminal equipment.

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

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

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

3.2.1.4 **Private cellular networks with LTE (Long Term Evolution) technology or 5G** - Pelephone offers business customers the installation and maintenance of a private cellular network on the premises of the business customer. A private network provides the business customer with various benefits, including: business continuity, bandwidth management between the customer's end users, low latency, connection to IOT devices, contribution to the security of the customer's networks and systems, and more.

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

Pelephone provides part of these services also under hosting agreements, to holders of mobile telephony licenses on another network that use Pelephone’s network to provide services to their customers.

3.2.1.6 Additional services

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

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

3.2.2. Products

Terminal equipment – Pelephone offers various types of mobile phones, on-board telephones, PTT devices, hands-free devices and supplementary accessories that support its range of services. Pelephone also offers other terminal equipment such as tablets, laptops, modems, speakers, smart watches, headphones and related electronic equipment.

3.3. Revenue from products and services

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

Products and services	2021	2020	2019
Revenue from services	1,642	1,591	1,709
Percentage of Pelephone's total revenue	71.7%	72.8%	72.4%
Revenue from products (terminal equipment)	647	595	653
Percentage of Pelephone's total revenue	28.3%	27.2%	27.6%
Total revenue	**2,289**	**2,186**	**2,362**

3.4. Customers

Breakdown of revenues from customers (in NIS million):

Products and services	2021	2020	2019
Revenue from private customers	1,361	1,194	1,334
Revenue from business customers (*)	928	992	1,028
Total revenues	**2,289**	**2,186**	**2,362**

(*) Revenue from business customers include revenues from hosting agreements, most of which was from Rami Levy.

At the end of 2021, Pelephone had 2.6 million subscribers, consisting of 2.1 million postpaid subscribers and 0.4 million prepaid subscribers.

Pelephone markets bundles with an increased browsing volume adapted also for 5G needs, and as of the report publication date, Pelephone has over 590,000 subscribers for bundles of this kind.

3.5. Marketing, distribution and service

Pelephone's distribution system consists of 300 points of sale at which subscribers can enroll for Pelephone services. The point of sale network is diverse and includes stores and stalls operated by Pelephone, retail chains that market Pelephone products and 20 customer service and sales centers deployed around the country that engage in sales, repair of devices and customer retention. Furthermore, Pelephone operates an internal and external network of telephony salespeople. As a rule, these dealers are paid a commission on sales.

Pelephone’s subscriber service network includes a variety of digital channels, including Pelephone’s website, a self-service app and call centers.

3.6. Competition

3.6.1. General

In recent years, the Ministry of Communications has adopted several regulatory measures aimed at increasing competition in the cellular communications market. The proliferation of cellular operators in the market led to extreme competition in recent years. This competition is reflected in the migrating of subscribers between operators and to a decline in prices of cellular service packages, resulting in significant erosion of rates and profit margins, on the private customer market as well as the business customer market.

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

Breakdown, to the best of Pelephone's knowledge, of the number of subscribers of Pelephone and of its competitors in 2020 and 2021 (thousands of subscribers, approximate):

<table>
<tr><th colspan="2"></th><th>Pelephone</th><th>Cellcom (including Golan Telecom) (3)</th><th>Partner (3)</th><th>HOT Mobile (2)</th><th>MVNO and Other Operators (1)</th><th>Total subscribers in market</th></tr>
<tr><td rowspan="2">As at December 31, 2020</td><td>No. of subscribers</td><td>2,442</td><td>3,204</td><td>2,836</td><td>1,653</td><td>803</td><td rowspan="2">10,938</td></tr>
<tr><td>Market share</td><td>22.3%</td><td>29.3%</td><td>25.9%</td><td>15.1%</td><td>7.3%</td></tr>
<tr><td rowspan="2">As at September 30, 2021</td><td>No. of subscribers</td><td>2,547</td><td>3,246</td><td>3,019</td><td>1,674</td><td>791</td><td rowspan="2">11,277</td></tr>
<tr><td>Market share</td><td>22.6%</td><td>28.8%</td><td>26.8%</td><td>14.8%</td><td>7.0%</td></tr>
</table>

(1) Most of the MVNOs and other operators (including, among others, XFone) are private companies which do not publish figures regarding the number of their subscribers and these figures are based on estimates, using subscriber intercompany migration figures.
(2) HOT Mobile's subscriber data for the third quarter of 2021 are based on an estimate, using data published in reports published by Altice.
(3) The number of subscribers as of September 30, 2021 is based on public reports issued by Cellcom and Partner.

3.6.2. Infrastructure sharing agreements and providing right of use of networks

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

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

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

3.6.3.1 Positive factors:

A) An extensively deployed high quality cellular network.

B) Its positioning as a high-speed and advanced cellular network, particularly considering advances in the deployment of the 5G network.

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

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

E) Ability to sell through sub-brands on designated selling channels alongside the Pelephone brand.

F) Robust equity structure and positive cash flow.

3.6.3.2 Negative factors:

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

B) Restrictions of joint activities with the Company, including marketing of joint service bundles (see Section 1.7.2).

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

3.7. Property, plant and equipment

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

3.7.1. Infrastructure

3.7.1.1 Pelephone currently operates communications networks using three main technologies:

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

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

C) 3G – The UMTS technology is based on the GSM standard. This technology is globally widespread, and enables subscriber identification and services to be provided through a SIM card, which can be moved from one handset to another.On December 10, 2020, the Ministry of Communications published a hearing concerning the future closure of mobile telephony networks operating on old technologies in Israel (second and third generation networks). In the framework of the hearing the Ministry presented an outline plan for closing these networks, which should lead to their closure on December 31, 2025. The outline plan includes, among other things, milestones for discontinuing the import of handsets that do not support new technologies (fourth generation and above), informing the public, and discontinuation of the hookup of these devices to the network. The Ministry has not yet published its decision on this hearing. It should be noted that Pelephone previously closed its second generation network. Following a secondary hearing published by the Ministry on this issue, on June 27, 2021, the Ministry of Communications' ruling in the hearing was received, stipulating that 2G and 3G networks will be closed on December 31, 2025 (or earlier, at Pelephone's request, while complying with the stipulated terms), and setting timetables for the discontinuation of the import and connection to the network of devices that do not support a new technology. Pelephone is preparing in accordance with the above ruling for closing its 3G network according to the timetables stipulated in the ruling.

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

3.7.1.2 Network investments

In recent years Pelephone has invested in deploying its fourth generation network and upgrading it with new technologies such as Beam Forming, MIMO4x4 and QAM 256, Carrier Aggregation on the access network and IMS on the core network (see Section 3.1.5).

In addition, as part of its ongoing investments, over the coming decade Pelephone will be required to continue establishing new broadcasting sites, among other things, to comply with the terms of its mobile telephony license.

Also, Pelephone is working towards the implementation of advanced 5G data communications services. This is planned to be integrated with existing infrastructures and systems. The operation of these advanced services will be based on the 5G technology, which Pelephone will continue to deploy, and eventually will be based on a new dedicated 5G core network (see Section 3.8.2.4).

Pelephone’s foregoing estimates concerning the costs of the network launches and the date they are incurred, are forward-looking information, as defined in the Securities Law, based on Pelephone’s forecasts and assessments, in part, regarding the speed of expanding and updating the network. Consequently, the information may not be fully or partially realized or may be realized in a different manner than that estimated, if these forecasts and assessments are not realized, or will be realized differently than expected.

3.7.2. Premises used by Pelephone

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

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

3.7.2.2 Until December 31, 2019, Pelephone’s permit agreement with the Israel Lands Authority (ILA) for the use of ILA land for erecting and operating telecommunication sites, which regulated, among other things, permit fees for such use through to December 31, 2019, was valid. On January 19, 2022, the decision of the Israel Land Council to extend the period of the umbrella agreement from December 31, 2019 to December 30, 2024 was amended with various changes. An addendum has not yet been signed regarding the extension and implementation of various changes to the umbrella agreement.

3.7.2.3 Pelephone’s head offices are located in Petah Tikva.

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

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

3.8. Intangible assets

3.8.1. Licenses

For details about Pelephone's mobile telephony license and its license to operate in the Administered Territories, see Section 3.14.2.

3.8.2. Frequency usage rights

3.8.2.1 Frequency shortage

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

3.8.2.2 Pelephone's inventory of frequencies

Under its mobile telephony license and the Telegraph Ordinance, Pelephone has rights of use of frequencies in the 850 MHz and 2100 MHz spectrums for operating its UMTS/HSPA network, in the 1800 MHz, 700 MHz and 2600 MHz spectrums for operating its LTE technology network (see also Section 3.1.5)[51], and in the 3500 MHz spectrum for operating its 5G technology network. In 2017 Pelephone returned two frequency bands of 1 mega bandwidth each in the 850 MHz spectrum to the national frequencies pool and towards the end of April 2017 it received a temporary allocation of one 5 mega bandwidth band in the 1800 MHz spectrum. This allocation has use restrictions and is for a limited period.

The Ministry of Communications reallocated the temporary allocation of this band until September 30 ,2022, under terms and restrictions, to allow Pelephone to prepare for the expected changes involved in switching frequencies in the first giga spectrum (see Section 3.8.2.3).

At frequencies in the range of 800 MHz that were allocated to Pelephone instead of frequencies of 850 MHz (see Section 3.8.2.3) Pelephone intends to use LTE technology for network deployment towards the end of 2022, and to activate it during 2023.

3.8.2.3 Switching frequencies in the first giga spectrum

In July 2018, the Ministry of Communications informed Pelephone that it plans to adapt the cellular frequencies in Israel to European standards and to the region in which the State of Israel is located, so that Pelephone and another cellular operator will be required to

51 Pelephone has the option to request to be allocated 5 mega in the 800 MHz spectrum, following the project for vacating the 850 MHz frequencies.

switch the frequencies allotted to them in the 850 MHz spectrum to others in the first giga spectrum. On February 5, 2020 the Ministry of Communications informed Pelephone of its intention to execute the plan to switch the 850 MHz frequencies that Pelephone uses, in light of the electromagnetic interference caused to neighboring countries due to the failure to adjust the allocation of cellular frequencies in Israel to the frequency commissioning based on European standards and the region in which the State of Israel is located. According to the plan, Pelephone will receive 800 MHz frequencies in place of the 850 MHz frequencies, while in the first stage and to deal with the foregoing interferences, the number of 850 MHz frequencies used by Pelephone will be reduced to 5 MHz (instead of the current 10 MHz), as of May 31, 2020. Pelephone submitted, at the request of the Ministry of Communications, its position on a number of issues, and on March 17, 2020, the Ministry announced its final decision regarding implementation of the outline according to its notice dated February 5, 2020.

On June 1, 2020, Pelephone returned to the Ministry of Communications frequencies of 5 mega bandwidth in the 850 MHz spectrum, such that the amount of frequencies in the 850 MHz spectrum held by it decreased from 10 MHz to 5 MHz. On November 26, 2020, the Ministry of Communications allowed Pelephone reuse of a full 2X10 MHz in the 850 MHz spectrum, until March 31, 2021. On June 27, 2021, the Ministry of Communications' ruling was received, concerning the extension of the allocation of frequencies in the 850 MHz and 2100 MHz range held by Pelephone, until December 31, 2030 (it is clarified that the extension of the 850 MHz frequency as aforesaid is subject to the description above, regarding the switching of frequencies in the first Giga spectrum).

Pelephone's foregoing estimates are forward-looking information, as defined in the Securities Law. These assessments may not materialize, may materialize partially or substantially differently from that expected, depending on, among other things, how the plan will be implemented in practice and on the condition of Pelephone's network.

3.8.2.4 Tender for mobile radio telephony services over advanced bandwidths ("**Tender**")

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

The highlights of the Tender that was won by Pelephone as aforesaid are, inter alia, as follows:

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

The Tender includes options for receiving the following incentives:

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

B) Option of receiving a performance grant for the deployment of 5G sites pursuant to the conditions provided in the Tender (such as compliance with scope of deployment, time schedules, duration and timing of the deployment compared with others and additional conditions set out in the Tender).

For further information, see Section 3.19.2.1. For information concerning exposure to disruptions in the frequency ranges used by Pelephone, see Section 3.19.3.9.

The following are the conditions awarded to Pelephone in said allocation of frequencies:

A) Award of 10 mega in the 700 MHz range (for a period of 15 years); of 20 mega in the 2600 MHz range (for a period of 10 years); and of 100 mega in the 3500 MHz range (for a period of 10 years). The period of the license does not change by virtue of the Tender, and will be renewable under the terms of the license (hereinafter - "**Allocation of Frequencies**"). It is noted that the frequencies awarded to Pelephone are for the exclusive use of the Pelephone network, which will give the Pelephone network a competitive edge. It is also noted that companies that do not own existing networks were not awarded frequencies.

B) The Allocation of Frequencies was awarded to Pelephone at a total cost of NIS 88,230,000, with the payment date set for September 2022. It is noted in this context that the Tender also specified that incentives may be received, as described above including receipt of a conditional grant in respect of the deployment of 5G sites according to the conditions specified in the Tender, which can reach a total of NIS 200 million for all the winners of the Tender. The amendment of the regulations according to which the frequency fees are paid established a reduction in the fee amounts for the 2600 and 3500 MHz frequencies as well as a conditional annual discount from the total amount of frequency fees that will be paid by Pelephone in the next four years (the discount is contingent on the Company's compliance with graded annual engineering targets, which will be examined by the Ministry of Communications each year). On October 27, 2021, the Ministry of Communications announced that Pelephone is entitled to a grant for the deployment of 5G sites in an amount of NIS 74 million.

On October 1, 2020, Pelephone's license was amended in accordance with the results of the award (shortly before, Pelephone was allocated the frequencies it had been awarded, as stated). Following the amendment of the license, Pelephone began operating the 5G frequencies awarded to it in the Tender at the broadcasting sites that were upgraded by it.

The aforesaid Allocation of Frequencies facilitates support for growth in the 4G broadband volume and will enable offering of 5G services in the future at much higher bandwidth speeds than current speeds, which, in turn, will enable expansion of the range of advanced uses of the cellular network, such as smart cities, IOT services, mission-critical, low-latency services, private networks, etc., all this in order to provide a competitive solution in the market, which will entail ongoing investments.

In this regard, see also Note 10 to the 2021 Financial Statements.

3.8.3. Trademarks

Pelephone has a number of registered trademarks. Its primary trademark is "Pelephone".

3.8.4. Software, computer systems and databases

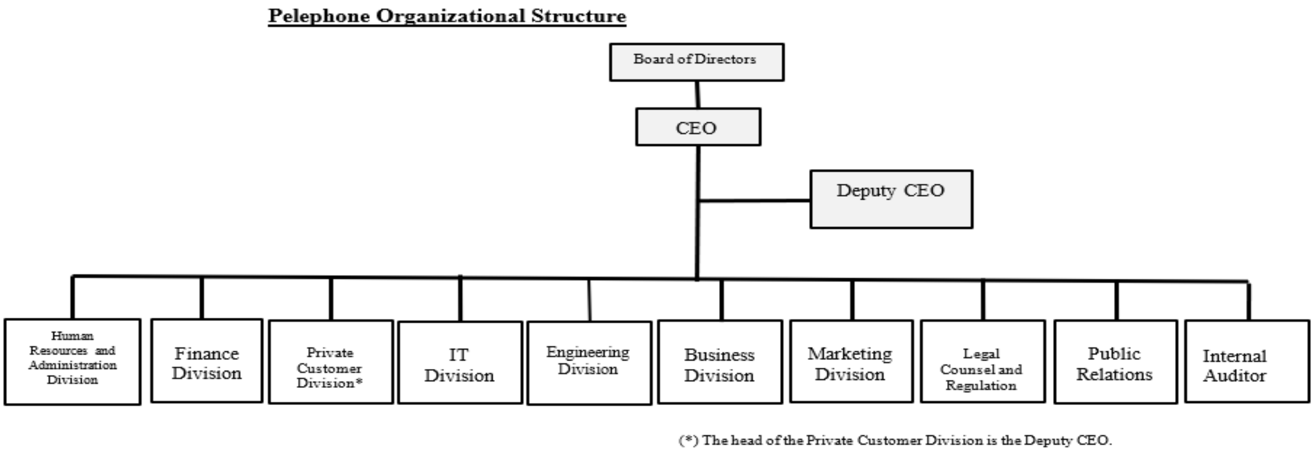
Pelephone uses software and computer systems, some under purchased licenses and others which were developed by Pelephone's IT department. Many of these licenses are limited in time, and are periodically renewed. The primary systems used by Pelephone are Oracle Applications' ERP system and Amdocs's customer management and billing system.

Pelephone is also upgrading its CRM (customer relations management) system on the state-of-the-art Salesforce cloud platform, together with Bezeq International and DBS. Pelephone is dependent on the Salesforce system and services, due to their importance for managing its customer relations. Failures in the system or discontinuation of the services by this provider can be expected to cause operational difficulties until the matter is rectified or the system/provider is replaced, which could take a long time.

3.9. Human resources

3.9.1. Organizational structure

Pelephone's organizational structure at the Reporting Date:



As part of implementing the synergy with the Group's subsidiaries, Pelephone's CEO, Ran Guron, also serves as CEO of DBS and Bezeq International. Most of Pelephone's current VPs also serve as VPs at DBS and Bezeq International.

3.9.2. Headcount and Positions

Breakdown of the number of employees at Pelephone according to organizational structure:

Division	Number of employees	
	31.12.2021	31.12.2020
Management and HQ	192	210
Business and Private Customers Divisions	1,190	1,290
Engineering and Information Systems	386	400
Total	**1,768**	**1,900**

The total number of employees in the above table includes employees employed in part time positions. The total number of positions[52] at Pelephone as at December 31, 2021 was 1,572 (at December 31, 2020 - 1,619).

3.9.3. Terms of employment

The majority of Pelephone's employees are employed under monthly or annual contracts, based on the professions and positions in which they are employed. Most of the service and sales employees are shift workers who work part time and are employed on an hourly basis. The rest of Pelephone's employees are employed under monthly contracts.

3.9.4. Collective agreement

Labor relations at Pelephone are regulated under a collective agreement signed between Pelephone and the New Histadrut Labor Federation - Cellular, Internet and High-tech Workers Union (“**Labor Union**”) and Pelephone workers' committee. The agreement applies to all Pelephone employees, with the exclusion of senior managers and certain employees in predefined positions.

On November 13, 2019, the parties signed a renewal of the existing collective agreement, which includes streamlining and synergy measures, for the period until June 30, 2022 (hereinafter - the "**Agreement**”).

According to the Agreement, Pelephone may, among other things, terminate the employment of 210 tenured employees during the Agreement period, some of whom as voluntary early retirement. In addition, according to its plans, it will terminate the employment of a further 190 non-tenured employees in addition to not recruiting employees to replace those who have ended their employment. Similarly, the Agreement includes the grant of a one-time bonus to employees who will not be included in the severance program.

3.9.5. Labor disputes

On January 31, 2018 Pelephone was informed by the New Histadrut Labor Federation - Cellular, Internet and High-Tech Workers Union (the “**Histadrut Notice**”), that it was announcing a labor dispute pursuant to the Settlement of Labor Disputes Law, 1957. According to the New Histadrut announcement, the matter under dispute is the employees demand for consultation and negotiations regarding the sale of the controlling interest in the Company to new controlling shareholders and the arrangement of their rights thereunder.

Subsequent to the New Histadrut announcement, on November 28, 2019, Pelephone received notice from the Chairman of the New Histadrut and Pelephone workers committee that included a demand to hold collective negotiations with the employees' representatives following the transaction for acquisition of control of the Company.

Regarding the notice by the New Histadrut Labor Federation - Cellular, internet and High-tech Workers Union from June 23, 2021 about the declaration of a labor dispute, inter alia, over the refusal of the joint management of Pelephone, Bezeq International and DBS to hold negotiations on various matters, which was also received at the Pelephone

52 The number of "positions" at Pelephone is calculated as: Total monthly work hours divided by the standard monthly work hours.

offices, see Section 4.8. On August 2, 2021, the employee representative bodies at Pelephone and Bezeq International began taking a range of organizational sanctions which, according to the notification by the workers committees, are directly tied to the synergies between Pelephone, Bezeq International and DBS. For information concerning the announcement by Pelephone and Bezeq International of their lockout, see the Section 4.8. On November 1, 2021, the subsidiaries reached agreements in principle with the General Federation of Workers and the workers' representatives regarding cessation of sanctions and start of negotiations. For more information on this matter, see Section 4.8.

3.10. Trade payables

3.10.1. Suppliers of terminal equipment

Pelephone purchases some of the terminal equipment and accessories from various suppliers in Israel and worldwide, and others it imports independently. In addition, Pelephone purchases terminal equipment and accessories on consignment with the right to return terminal equipment to the suppliers. The agreements with some of the suppliers are based on framework agreements that regulate, among other things, the supplier's technical support for the terminal equipment it supplies, the availability of spare parts and repair turnaround, as well as the supplier's product warranty as required by law. Most of these agreements do not include a purchase commitment on Pelephone's part, purchases are made on a regular basis by means of purchase orders based on Pelephone's needs.

In the event of termination of an engagement with a supplier of certain terminal equipment, Pelephone can increase quantities of terminal equipment purchased from other suppliers or purchase terminal equipment from a new supplier.

Other significant suppliers of Pelephone are Apple, with which there is an agreement requiring defined purchase targets, and is in effect until March 2024, and Samsung, with which Pelephone does not have an agreement requiring the purchase of a minimum annual quantity, and purchases are made on the basis of orders that Pelephone places from time to time.

The rate of Pelephone’s purchases from each of the suppliers, Apple and Samsung, in 2021 was approx. 14.4% and approx. 12.4% (respectively) of Pelephone’s total purchases from all of its suppliers[53]. The distribution of the purchase of terminal equipment among the suppliers is such that it does not create any significant dependence on a particular supplier or model of equipment.

It should be noted that the global microchip shortage has caused, among other things, shortages and disruptions in the supply of terminal equipment from the Company's key suppliers.

3.10.2. Infrastructure suppliers

The cellular infrastructure equipment for the UMTS, LTE and 5G networks is supplied by LM Ericsson Israel Ltd. (hereinafter - "**Ericsson**”). Ericsson is also a material supplier of Pelephone in the field of microwave transmission. Pelephone has multi-annual agreements for maintenance, support and

53 All Pelephone suppliers, including vendors who are not suppliers of terminal equipment and electronic devices. The rate of purchases from the suppliers, Apple and Samsung, from the total purchases of the Bezeq Group from all of its suppliers is approx. 7.2% and 5.8% (respectively).

upgrading of software for the UMTS network and an agreement for purchasing 4G (LTE) and 5G equipment with Ericsson, and in its opinion, it may be dependent on Ericsson for support for and expansion of this network. In addition, the cellular network uses transmission, for which the Company is Pelephone's main supplier.

Pelephone has a multi-annual transmission agreement with the Company that includes use and maintenance.

3.11. Working capital

3.11.1. Credit policy

Credit in handset sales transactions – Pelephone grants its customers who purchase mobile handsets an option to spread payment for up to 36 equal installments. In order to reduce its possible exposure from providing its customers credit, Pelephone acts according to a credit policy that is reviewed from time to time. Pelephone also examines the financial stability of its customers (based on parameters that it sets).

Credit in monthly billing for cellular services – Pelephone customers are billed once a month in billing cycles on different days throughout the month, for service consumption during the previous month.

From most of its suppliers, Pelephone receives credit for periods ranging from 30 days to EOM + 92 days.

3.11.2. Breakdown of average customer and supplier credit in 2021:

	Credit In NIS millions	Average credit days
Customers for sales of terminal equipment (*)	539	260
Customers for services (*)	221	42
Trade payables	228	32

(*)Net of doubtful debts.

3.12. Taxation

See Note 7 to the 2021 Financial Statements.

3.13. Environmental risks and means for their management

3.13.1. Statutory provisions relating to the environment applicable to Pelephone's operations

The broadcasting sites used by Pelephone are radiation sources, as defined in the Non-Ionizing Radiation Law. The erection and operation of these sites, excluding those listed in the addendum to the law, requires a radiation permit.

The law prescribes a two-step licensing mechanism for obtaining a radiation source operating permit under which the applicant first applies for a permit to construct a radiation source (hereinafter - "**Construction Permit**"), which will be in effect for no more than three months and may be extended by the Commissioner for up to nine months, then for a permit to operate the radiation source (hereinafter - "**Operating Permit**"), which will be in effect for five years or as otherwise determined by the Minister for Environmental Protection.

With regard to the Erection Permit, by law provides that the permit is contingent upon assessment of the maximum radiation levels to which human beings and the environment are expected to be exposed from the radiation source when in operation, including in the event of a malfunction, and the required measures for limiting the levels of exposure of human beings and the environment to the expected radiation from the radiation source when operating, including implementation of technological means that are in use (hereinafter - the "**Limiting Measures**").

With regard to the Operating Permit, the law provides that the permit is contingent upon application of the Limiting Measures and to measuring the levels of exposure of human beings and the environment to the radiation generated while the radiation source is operating. The law further provides that the Operating Permit is contingent upon presentation of a license under the Communications Law and in certain cases, also of a construction permit pursuant to the Building and Planning Law.

The law includes a punitive chapter under which, inter alia, the construction or operation of a source of radiation in contravention of the provisions of the permit and the construction or operation of a source of radiation without a permit, after having been warned in writing by the Commissioner, are strict liability offenses.

It should be noted that regulation of the maximum permissible human exposure levels to radiation from a source of radiation and the safety ranges from communication broadcasting installations, including a limit on the placing of radiation masts on roof terraces, is still making its way through the Knesset's interior Committee for Environmental Quality, as part of a proposed amendment to the regulations under the Non-Ionizing Radiation Law, which was accompanied by disagreements between the government ministries.

In January 2009, the Radiation Supervisor at the Ministry of Environmental Protection published guidelines regarding safety ranges and maximum permitted exposure levels with respect to radio frequency radiation, including from cellular antennae. Discussions are underway regarding these ranges following the World Health Organization's International Agency for Research on Cancer (IARC) announcement to the effect that radio frequency electromagnetic fields associated with the use of mobile phones may be carcinogenic to humans (Group 2B).[54]

It is also noted that the Ministry of Environmental Protection operates continuously to supervise and monitor the broadcasting sites to check that they comply with the provisions of the Law.

Cellular services are provided through a cellular phone which emits non-ionizing radiation (also known as electromagnetic radiation). Consumer Protection Regulations (Information regarding Non-Ionizing Radiation from a Cellular Telephone) 2002, specify the maximum permitted radiation level for a cellular phone which is measured in units of Specific Absorption Rate (SAR) and requires that Pelephone informs its customers accordingly. To the best of Pelephone knowledge, all the cellular phones that it markets comply with the relevant SAR standards. Also see Section 3.19.2.5.

3.13.2. Pelephone's environmental risk management policy

Pelephone conducts periodic radiation tests to ascertain its compliance with permitted operating and international standards. These tests are outsourced and carried out by companies authorized by the Ministry of

54 In this matter, it should be noted that from time to time, various documents are published on the websites of the Ministry of Environmental Protection at www.sviva.gov.il and of the World Health Organization at www.who.int.

Environmental Protection. Pelephone applies an internal enforcement procedure for monitoring implementation of the provisions of the Non-Ionizing Radiation Law, under the supervision of a senior manager. The purpose of the procedure is to assimilate the provisions of the law and limit the possibility of violation.

3.13.3. Transparency for consumers

Pelephone is subject to relevant laws prescribing obligations to publicize and inform customers about the radiation sources that it operates and from the mobile handsets that it supplies. Pelephone publishes information on its website regarding the SAR levels emitted from cellular phones and Ministry of Health regulations regarding preventive caution to be taken when using cellular phones.

3.14. Restrictions on and control of Pelephone's operations

3.14.1. Statutory limitations

3.14.1.1 Communications Law

The cellular services provided by Pelephone are subject to the provisions of the Communications Law and its regulations. For details of the cellular permit granted to Pelephone under the Communications Law, see Section 3.14.2.

The law authorizes the Director General of the Ministry of Communications to impose financial sanctions for violations of the provisions of the law and of orders and directives issued thereunder, and for violation of the terms of the license.

3.14.1.2 Wireless Telegraph Ordinance

The Telegraph Ordinance regulates the use of the electromagnetic spectrum, and applies, inter alia, to the Company's use of radio frequencies, as part of its infrastructure. Setting up and operating a system using radio frequencies is subject, under the Telegraph Ordinance, to receiving a license, and the use of radio frequencies is subject to designation and allocation of a suitable frequency. The Telegraph Ordinance imposes license fees and fees for the designation and allocation of frequencies. The Ordinance authorizes the Ministry of Communications to impose financial sanctions due to various violations of its provisions.

For the allocation of radio frequencies to Pelephone, see Section 3.8.2.

3.14.1.3 The Non Ionizing Radiation Law

With regard to electromagnetic radiation facilities see Section 3.13.

3.14.1.4 Consumer Legislation and Privacy and Information Security Laws

Pelephone's operations are subject to the Consumer Protection Law, which regulates the obligations of an operator vis-à-vis consumers and the Protection of Privacy and Information Security Laws (see Section 1.7.4.5).

3.14.1.5 Changes in interconnect fees (call completion fees)

Interconnect rates are fixed by the regulator. For details, see Section 1.7.4.1.

3.14.2. Pelephone's mobile radio telephony (MRT) license

3.14.2.1 General

Pelephone's MRT license and its general license for providing cellular services in Judea and Samaria are valid through September 9, 2032.[55]

Breakdown of the primary provisions of Pelephone's mobile telephony license:

A) Under certain circumstances, the Minister may modify the terms of the license, restrict or suspend it, and in certain instances even revoke it.

B) The license is non-transferable and contains restrictions on the acquisition or transfer (including by way of a charge), directly or indirectly, of control or of 10% or more of any means of control in Pelephone, including a pledge on said means of control, unless the Minister has given prior consent.

C) Pelephone is obliged to provide interconnect services to all other operators at equal terms and it must refrain from any discrimination in carrying out such interconnect service.

D) Pelephone is required to refrain from granting infrastructure service priority to an affiliate licensee company (as defined in the license) over another licensee.

E) The license sets out the mobile telephony services that Pelephone is permitted to provide and it stipulates that it is not permitted to provide additional mobile telephony services that are not specified in the license.

F) Pelephone may not sell, lease or mortgage any of the assets used for the implementation of the license without the consent of the Minister of Communications, other than certain exceptions as set out in the license.

G) In times of emergency, whoever is statutorily competent shall have the authority to issue Pelephone with certain instructions on its mode of operation and/or manner of provision of services (see Section 3.19.2.9).

H) The license stipulates the types of payments Pelephone may bill its subscribers for with regard to cellular services, and the reports it is required to submit to the Ministry of Communications. The license also determines the Minister’s power to intervene in tariffs, in certain cases.

I) The license obligates Pelephone to a minimum standard of service.

J) To secure Pelephone's undertakings and to compensate and indemnify the State of Israel for any damage that may be caused by acts committed by Pelephone, Pelephone provided bank guarantees to the Ministry of Communications of NIS 72 million.

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55 The text of Pelephone's MRT license is published on the Ministry of Communications website at www.moc.gov.il. The Judea and Samaria license is subject (with certain changes) to the provisions of the mobile telephony license.

3.14.2.2 Ministry of Communications guidelines regarding amendments to the license

From time to time the Ministry revises various matters in the Company's licenses, as part of the hearings it conducts.

3.14.3. Site construction licensing

Pelephone's cellular service is provided, inter alia, through cellular sites deployed throughout Israel in accordance with engineering requirements. The constant need to upgrade and improve the quality of cellular services necessitates setting up cellular sites, configuration changes and changes in existing deployment of antennae.

Pelephone uses two main types of broadcasting sites and with two tracks: macro sites that require a building permit from planning and construction committees (see reference to NOP 36A) and wireless access devices (hereinafter - "**Access Devices**"), which are exempt from a building permit under the Communications Law and the Building and Planning Law (hereinafter - the "**Exemption Provision**"), and with regard to which regulations were published in 2018. On January 1, 2022, a series of legislative amendments came into effect within the framework of the Arrangements Law, which defined the cellular infrastructure as a national infrastructure and created a self-licensing route for certain cellular antennas and for making adjustments in the various transmission facilities, as detailed below.

Pelephone's ability to maintain and preserve the quality of its cellular services as well as its coverage is based partly on its ability to construct cellular sites and install information equipment, including broadcasting sites. The difficulties encountered by Pelephone in obtaining the permits and approvals required may have an adverse effect on the existing infrastructure, network performance and on the construction of the additional cellular sites required by the network. There are also deployment difficulties in Judea and Samaria, where a special system of laws applies.

Inability to resolve these issues in a timely manner is liable to prevent the achievement of the service quality targets laid down in the mobile telephony license.

Pelephone, as have the other cellular operators in Israel, established part of the cellular sits around the country on properties administered by the Israel Lands Administration. This, among other things, under an umbrella agreement from 2013. It should be noted that the validity of this umbrella agreement ended on December 31, 2019, and Pelephone, as well as the other cellular operators, and the Israel Land Authority reached understandings regarding the extension of the agreement, and on January 19, 2022, the decision of the Israel Land Council to extend the period of the umbrella agreement from December 31, 2019 to December 30, 2024 with various changes. An addendum has not yet been signed regarding the extension and implementation of various changes to the umbrella agreement.

3.14.3.1 Building permits for erecting a cellular broadcasting facility under NOP 36A:

Licensing for the construction of cellular broadcasting sites that require building permits is governed under NOP 36A, which came into force in 2002.

The licensing procedure under NOP 36A requires, among other things, that the following permits be obtained: a) An erection and operating permit from the Ministry of Environmental Protection, as set out in Section 3.13.1 ; b) approval of the Civil Aviation Administration in certain cases; c) IDF approval.

In addition, by law, as a condition for obtaining a permit for erecting a cellular communications broadcasting facility a deed of indemnity must be submitted to the local committee for impairment compensation claims. As at the Reporting Date, Pelephone has deposited 650 such indemnity notes with various local councils.

Notwithstanding the current format of NOP 36A, Pelephone (and to the best of its knowledge, also its competitors) encounter difficulties in obtaining some of the required permits, and in particular permits from planning and construction authorities.

In view of the criticism against NOP 36A by various entities, a proposed amendment of NOP 36A was published about ten years ago (hereinafter - the "**Proposed New NOP 36/A**"), which is more stringent and onerous that the current version, and could make the options for obtaining construction permits for cellular sites using this track more difficult. The amendment to NOP 36A has not progressed in recent years, however the need and desire to amend NOP 36A remains.

3.14.3.2 Access devices exempt from building permits

The second track in which Pelephone has deployed broadcasting sites until now is the access installation track. The access installations are subject to obtaining specific radiation permits, but are exempt from obtaining a construction permit provided that they are erected under the conditions that are set out in the exemption provision (Section 266C(a) of the Planning and Building (Installation of Wireless Access Facility for Cellular Communications) Law, 2018) and the regulations. However, in view of the amendment to the Planning and Construction Law set forth in the Arrangements Law and the self-licensing track thereunder (see below), the access facilities track is superfluous.

As of the Reporting Date, Pelephone operates approx. 460 wireless access facilities.

It should be noted that in specific enforcement proceedings, that are adopted from time to time, additional arguments arise as to the manner in which the exemption may be used, including compliance with the regulating standards. If Pelephone facilities fail to comply with the conditions set out in the Regulations, there will be exposure, with regard to those facilities, for the need to dismantle or adjust the installations.

On March 27, 2018, an exemption provision was added to the building and planning (Exemption of Permit) regulations for a micro broadcasting facility, as defined in the regulations. The regulations further stipulate, inter alia, that the installation of a micro broadcasting facility and its external components on an existing building or facility is exempt from a building permit, subject to compliance with cumulative conditions. This provision will also be repealed in view of the amendment to the Planning and Building Law set forth in the Arrangements Law (see details below).

Within the framework of the Economic Arrangements Law that entered into effect on January 1, 2022, an amendment was adopted to the Planning and Construction Law, which includes the removal of regulatory barriers regarding the construction of sites. The main amendment is the granting of an exemption from licensing procedures for placing and using installations of up to 6 meters on the roof of a building, an exemption for replacing a transmission installation, an exemption for adding an antenna to a transmission installation established under the Planning and Building Law and an exemption for replacing masts of up to a height of 18 meters. The amendment to the Planning and Construction Law also includes a new classification of "transmission installations for communications using the cellular method", as defined in Section 202B of the Planning and Construction Law, as "national infrastructure", and a new classification of NOP 36A as a "detailed national master plan for national infrastructure". The amendment to the Planning and Building Law also includes arrangements to facilitate the replacement of antennas, the addition of an antenna to existing sites, and the strengthening of masts. This is all under technical and practical conditions set out in the amendment. Such installations will continue to comply with the NOP 36 terms and conditions and the regional guidelines of the local committees, with the actual significance of the amendment is the possibility for “self-licensing", namely a self-licensing and control procedure in the above cases and submission of documents to the Planning and Construction Committee retrospectively (after completion of the construction of the sites). Concurrently with this amendment, an amendment was also made to the definition of "wireless access facility" in Section 27A of the Communications Law. As part of the aforesaid amendment, a "transmission installation for communications using the cellular method” as defined in Section 266C2 of the Planning and Building Law was removed from the definition of a "wireless access facility". This means that the wireless access facilities set up without a permit continue to exist, but it is no longer possible to set up new mobile sites in the "access facilities" track, as detailed above).

In the report of the inter-ministerial committee that served as the infrastructure for amendments to the Arrangements Law, it was also recommended to update NOP 36A, which came into effect about twenty years ago.

At this stage, it is impossible to estimate the future implications of the amendments.

On November 14, 2021, Pelephone signed a framework agreement to expand point-by-point collaboration in the establishment of passive infrastructure on cellular sites shared with Cellcom P.H.I. Networks (2015) Limited Partnership. This agreement may boost the construction of shared cellular sites. To the extent that regulatory approvals are required for this agreement, Pelephone will work to obtain them.

3.14.3.3 Conclusion:

A few sites constructed years ago still lack approvals from the Civil Aviation Administration and the IDF, even though applications for such approvals were submitted a long time ago. Furthermore, there are administrative or other delays in some of the building and planning committees for issuing building permits for sites. Consequently, Pelephone operates several broadcasting sites that have not yet been granted the requisite building permits.

Construction of a broadcasting site without a building permit constitutes a breach of the law and in some cases it has led to the issuing of demolition orders of sites or the filing of indictments or instigation of civil proceedings against Pelephone and some of its officers.

At the Reporting Date Pelephone has succeeded in most of the above cases in refraining from demolition or delaying implementation of the demolition orders as part of arrangements made with the planning and building authorities in order to attempt to regulate the missing licensing. These understandings did not require admission of guilt and/or conviction of Pelephone's officers. Notwithstanding, there is no certainty that this situation will continue in future, or that there will be no further cases where demolition orders will be issued and indictments will be filed because of building permits, including against officers.

Like other cellular operators in Israel, Pelephone might be required to dismantle broadcasting sites before the requisite approvals and permits have been obtained, on the dates stipulated in the law. Pelephone uses access installations to provide coverage and capacity for highly populated areas. If legal grounds are established requiring the simultaneous demolition of sites in a given geographic area, service in that area may deteriorate until alternative broadcasting sites can be established.

3.14.4. Economic Competition Law

The terms of the merger between Pelephone and the Company include various restrictions regarding cooperation between the companies (see Section 2.16.8.4).

Regarding an amendment from April 2021 to the Competition Commissioner's conditions for the merger between the Company and DBS, see update to Section 2.16.8.

3.15. Material agreements

3.15.1. For information regarding the agreements with Ericsson, see Section 3.10.2.

3.15.2. In July 2016 an agreement was signed between Pelephone and the Ministry of Finance Accountant General (hereinafter - the "**Accountant General**"), under which Pelephone will provide mobile telephony services to State employees for an estimated 100,000 subscribers for three years. Under the agreement, Pelephone provides devices to some of the Accountant General subscribers, in accordance with the provisions of the agreement.

In May 2019 the State decided to exercise its option to extend the agreement and it was extended until August 2022.

3.15.3. For information concerning the agreement with the Israel Lands Administration (that has expired and not yet renewed) see Section 3.7.2.2.

3.15.4. With regard to the collective agreement between Pelephone and the New Histadrut and the Pelephone workers committee, see Section 3.9.4.

3.16. Legal proceedings[56]

Legal claims have been filed against Pelephone as part of the normal course of its business, including motions for certification as class action suits.

3.16.1. Pending legal proceedings

Details of proceedings in claims for material amounts and claims which could have material implications for the operations of Pelephone:

	Date	Parties	Court	Type of Proceeding	Details	Amount of the Claim (NIS millions)
.A.	May 2012	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action	It is alleged that Pelephone does not inform customers wishing to join its services using a handset that was not purchased from Pelephone, that if the handset does not support the 850 MHz frequency, they will only get partial reception over one frequency rather than two. In March 2014, the court certified the claim as a class action, and this subsequent to Pelephone announcing its agreement (for reasons of efficiency) to conduct the claim as a class action, while retaining its arguments. The proceeding was divided into two stages (first stage is clarification the responsibility and quantification of damages, if necessary, will be the second stage). On January 20, 2019, a ruling was handed in the case that Pelephone is responsible as alleged in the claim, on grounds of misleading conduct under the Consumer Protection Law and on grounds of bad faith in conducting negotiations, and this, with regard to the period up to the date of the certification of the claim as a class action (March 2014). In accordance with the ruling and a previous decision in the case, the next stage in the hearing of the case will be the question of the alleged damage.	124
.B	November 2013	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged that Pelephone does not grant the same benefits to all its customers, thereby discriminating between those customers they "favor," in the plaintiff's words, and others, which they claim is in breach of Pelephone's license and the law. In December 2019 a ruling was handed to dismiss the claim without expenses and subsequently, an appeal was filed with the Supreme Court.	300
.C	July 2014	Customer v. Pelephone, three other cellular companies and additional defendants	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged that Pelephone, together with three other mobile telephony companies, registered subscribers for content services without obtaining their consent and in contravention of the law, thereby creating a "platform" for iQtech Group to unlawfully charge tens of thousands of people for content services.	100 with regard to the mobile telephony companies and 300 against all the defendants.

56 For information concerning reporting policies and materiality, see Section 2.18.

	Date	Parties	Court	Type of Proceeding	Details	Amount of the Claim (NIS millions)
.D	May 2015	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged that Pelephone does not offer Walla Mobile tracks to all its existing customers and those who join are subscribers who want to transfer to a different track, and that this is in violation of the provisions of the license that obligates equality, and thereby it misleads its customers. The proceedings in the case were consolidated with another case due to the similarity between the proceedings. In December 2019 a ruling was handed to dismiss the claim without expenses and subsequently, an appeal was filed with the Supreme Court.	The amount of the claim is not stated, but the motion is estimated to be in the millions of shekels.
.E	October 2016	Customer v. Pelephone, Partner and Cellcom	Lod District Court	Financial claim with a motion to certify it as a class action.	It is alleged that the defendants do not allow their subscribers to make full use of their overseas package and this through discriminatory terms under which the package can be used for a very short period (between one week to one month only) and that at the end of that period, the unused balance of the package expires and no reimbursement is given. The parties are awaiting the Court's ruling. On April 5, 2020, a ruling was issued dismissing the motion. On June 29, 2020, an appeal against the ruling was filed by the petitioners in the motion to certify a class action.	The amount of the claim is not stated, but is estimated in the tens of millions of shekels.
.F	April 2017	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged that the defendant changed, unilaterally and without consent, the terms of the agreement between it and the petitioner, and others like her, by allowing continued Internet use once the included Internet usage limit was reached, instead of blocking it, despite Pelephone's announcement on this matter.	80
.G	October 2017	Customer v. Pelephone and Partner	Central District Court	Financial claim with a motion to certify it as a class action.	It is alleged that the defendants unlawfully use their customers' information and thereby violate the communications agreements with them, their operating licenses and various laws, including the Protection of Privacy Law, 1981.	850
.H	April 2018	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action.	It is alleged that Pelephone markets and sells to its customers a repair service with an undertaking for unreasonable periods, without the agreement providing for any possibility to cancel the transaction during the period of undertaking or to transfer the service to another handset.	The amount of the claim is not specified
.I	April 2019	Customer v. Pelephone, Bezeq International and 6 other companies	Central District Court	Financial claim with a motion to certify it as a class action.	It is alleged that the respondents do not inform their customers as required concerning the potential dangers involved in the use of the Internet and the option of joining content filtering services free of charge, and this contrary to the provisions of the Communications Law. Furthermore, the respondents provide abusive website and content filtering services which, they argue, are not sufficiently effective. The applicants claim that the foregoing constitutes, among other things, a violation of the provisions of the Consumer Protection Law, violation of their duties under the Torts Ordinance, a breach of contract and unjust enrichment.	The amount of the claim is not stated, but is estimated in the tens of millions of shekels.
.J	January 2020	Customer v. Pelephone	Tel Aviv District Court	Financial claim with a motion to certify it as a class action	It is alleged that Pelephone forces every customer that purchases from it an overseas communications package that includes calls and/or Internet browsing, via its website or mobile phone app, to consent to receiving advertising notices from it.	The amount of the claim is not specified

3.16.2. Legal proceedings that ended during the Reporting Period

	Date of filing of the action	Parties	Court	Type of Proceeding	Details	Original Amount of the Claim (NIS millions)
A.	August 2010	Customer v. Pelephone	District (Central)	Financial claim with a motion to certify it as a class action.	It is asserted that Pelephone should not collect Value Added Tax from customers who use its services when they are outside Israel. The motion also contains relief for an order instructing Pelephone to cease charging its customers VAT for such services which they use outside Israel, and an order instructing that the moneys collected to date be refunded. In August 2014 the Court dismissed the application for recognition. In October 2014 an appeal of the ruling was filed. On July 3, 2017 the Supreme Court handed a judgment according to which the applicants' appeal of the dismissal was accepted and the claim was returned to the District Court for a ruling on the question of whether VAT was unlawfully collected for mobile telephony services abroad. Pursuant to the Supreme Court judgment, if the District Court rules in favor of the question and Pelephone will be required to refund its customers the VAT that was erroneously collected it will be able to file an indemnification claim against the Tax Authority for the amounts that it will be required to refund. The judgment further rules with regard to the overseas services packages for which payment is made in advance, the VAT rate is 0. Based on Pelephone's preliminary estimates, the meaning of the Supreme Court judgment is that the outcome of this proceeding has no further material consequences for Pelephone. The petitioners and the State are conducting negotiations, and therefore the Court is staying its decision regarding the motion. On August 22, 2021, a ruling was handed approving the settlement arrangement between Pelephone, the Applicants and the State, under which Pelephone will be charged NIS 300,000 (with VAT) for partial expenses of executing the settlement and will not bear any additional expenses.	The amount of the claim is not stated, but the motion is estimated in the tens of millions of shekels.
B.	November 2012	Customer v. Pelephone	Jerusalem District Court	Financial claim with a motion to certify it as a class action.	It is alleged that Pelephone allowed unlawful charging of subscribers for mobile content services that were not ordered, by the content service company, E-interactive. On May 3, 2021, a judgment was handed down approving a settlement between Pelephone and the petitioners in the proceeding, which includes the grant of benefits to the relevant customers and to NPOs for a value of NIS 2.5 million.	107
C.	November 2019	Customer v. Pelephone, Cellcom and Partner	Tel Aviv District Court	Financial claim with a motion to certify it as a class action	It is alleged that Pelephone collected from its customers in the past fees for third parties for content services using the payment means that were provided to Pelephone for paying their cellular bill, and this contrary to the provisions of Pelephone's license and the provisions in law. On January 31, 2022, a judgment was rendered confirming a request for departure which was submitted by the applicant in the case.	400 (against each of the defendants)

3.17. Business strategy and goals

Pelephone's strategic goals are to continue the growth of its customer base while promoting a variety of communication packages and solutions for customers, and advancing services based on the 5G network, further development of network innovations and technologies, and providing excellent service and an improved cost structure.

3.18. Anticipated developments in the coming year

In 2022, a number of factors are expected to affect Pelephone's activities, the main ones being:

3.18.1. Continuing competition and increasing value to the customer.

Pelephone expects that in 2022 the competition will focus on increasing value and browsing volume in the packages offered to the customer.

3.18.2. Cellular network and product innovations

In 2022 Pelephone expects to continue promoting a few services and products that will allow it to increase its revenues and image advantage against the competitors, such as: private networks, cyber services and IOT, and to continue focusing on large-scale launches of devices, simultaneously with the implementation of the 5G network deployment plan.

3.18.3. Increase in Pelephone subscribers' consumption of services

Pelephone expects that as a result of the increase in browsing volume offered in its packages, and an increase in the marketing of service packages based on the 5G network, the upward trend of online data communications consumption will continue.

3.18.4. Digital transformation

In 2022 Pelephone is expected to continue to develop and expand its online service and sales channels.

3.18.5. Synergies with the Group's subsidiaries

In 2021, Pelephone continued implementing synergetic processes with the Group's subsidiaries. For details, see Section 1.8. These processes are expected to continue in 2022.

3.18.6. 5G network

In 2022, Pelephone is expected to continue deploying the 5G network and promoting marketing and sales of services based on this technology.

Pelephone's above assessments of developments during the year to come are forward-looking information as defined in the Securities Law. These assessments are based, inter alia, on the state of competition in the cellular sector, the existing regulatory situation and the manner in which innovative changes are implemented in regulation. These assessments may not materialize or may materialize in a manner materially different from that described, depending, inter alia, on the structure of competition in the market, changes in consumption habits of cellular customers, technological and regulatory developments in the sector.

3.19. Discussion of risk factors

Risk factors deriving from the macro-economic environment, the unique qualities of the sector in which Pelephone operates, and risk factors specific to Pelephone.

3.19.1. Macroeconomic risks

3.19.1.1 Exposure to changes in the currency exchange rates

Pelephone is exposed to exchange rate risks as most of its terminal equipment, accessories, spare parts and infrastructure equipment are purchased in USD, whereas Pelephone's revenues are in NIS. Erosion of the NIS against the USD may affect Pelephone's profitability if it is unable to adjust selling prices at short notice. Also, changes in price indices may affect site rental costs.

3.19.1.2 The pandemic and the supply chain

The global outbreak of the coronavirus at the beginning of 2020 has had numerous implications, including in the macroeconomic sphere. In light of the pandemic, many countries, Israel among them, have taken significant measures in an attempt to prevent the spread of the virus, such as restrictions on movement in public spaces and on public gatherings, work restrictions, restrictions on the transport of passengers and goods, the closing of borders between countries, etc. As an outcome, the virus as well as the measures taken have had significant repercussions on many economies and on the global capital market. During 2020, the crisis brought on by the COVID-19 pandemic significantly affected revenues from roaming services. Pelephone took extensive cost-cutting measures, which partly offset the decrease in these revenues. In 2022, there was a partial recovery from this damage, in view of the easing of the consequences of the Corona pandemic. As of the date of approval of these financial statements, Pelephone's working assumption regarding the continued spread of the COVID-19 pandemic is that measures aimed at containing the virus will continue at varying degrees of intensity also throughout alongside gradual and prolonged recovery of the aviation and ,2022 .international tourism sectors Accordingly, and subject to the above assumptions, Pelephone expects that the main effect of the COVID-19 pandemic on its operations will be a decline in revenues from roaming services compared to these revenues in the pre-pandemic period, due to the pandemic's effects on the aviation and international tourism sectors, with no material adverse effects in other operating segments. At the same time, this is an unfolding event that is not within the Pelephone's control, thus the possible continuation or worsening of the pandemic beyond the Group's assumptions, as detailed above, may have a material adverse effect on the Pelephone's results. This effect is likely to be reflected, among others, in a greater-than-projected decrease in revenues from roaming services. The continuation or worsening of the pandemic may also affect revenues from sales of cellular terminal equipment, employee availability, customer service and technician service systems and supply chain.

3.19.1.3 Damage due to natural forces, war, catastrophe

any damage to the switching farm and/or servers used by Pelephone for its core activities could have an adverse effect on Pelephone’s business and its results.

3.19.2. Sector-specific risks

3.19.2.1 Investments in infrastructures and technological changes

the cellular market in Israel and worldwide is characterized by substantial capital investments in the deployment of infrastructure. The frequent technological changes in infrastructure and terminal equipment and the fierce competition in various market segments impose a heavy financial burden on the companies operating in the market, requiring them to update their infrastructure technology from time to time.

3.19.2.2 Competition

The cellular market in Israel is highly saturated and fiercely competitive with a large number of operators, and is exposed to risks resulting from technological and regulatory developments. The costs of establishing, maintaining and operating a mobile telephony network pro rata to the number of subscribers is expected to be higher for Pelephone due to the fact that it does not operate under a network sharing model. The terminal equipment market is also fiercely competitive among the cellular operators and competing against the stores that sell terminal equipment imported by parallel import.

3.19.2.3 Customer credit

A significant portion of terminal equipment sales is made through the granting of credit. Most of this credit, which is not covered by either insurance or sureties, is exposed to risk. It is noted though, that the credit is spread among a large number of customers and Pelephone's collection mechanisms are efficient and competent.

3.19.2.4 Regulatory developments

The industry in which Pelephone operates is subject to legislation and standardization relating to issues such as increasing competition, setting tariffs, environmental protection, liability for and ways of repairing products, regulation of interconnect rates, etc. Regulatory intervention in the industry may materially impact Pelephone's structure of competition and operating costs.

3.19.2.5 Electromagnetic radiation

Pelephone operates hundreds of broadcasting facilities and sells electromagnetic radiation emitting terminal equipment (see Section 3.13). Pelephone is taking measures to ensure that the levels of radiation emitted by these broadcasting facilities and terminal equipment do not exceed the radiation levels permitted in the Ministry of Environmental Protection guidelines (the levels adopted are based on international standards). Even though Pelephone acts in accordance with the Ministry of Environmental Protection guidelines, if health risks are found to exist or if the broadcasting sites or terminal equipment are found to emit radiation levels exceeding the permitted radiation standards, thereby constituting a health hazard, this may have an adverse effect due to reduced consumption of Pelephone's services, difficulty in renting sites, compensation claims for physical and property damages in substantial amounts and attempts to exercise the deeds of indemnity deposited with the planning authorities with respect to Section 197 of the Building and Planning Law. Pelephone's third-party liability policies do not currently cover electromagnetic radiation.

3.19.2.6 Site licensing

Establishing and operating cellular antennae require building permits from various planning and building committees, a process that involves, inter alia, obtaining several approvals from State entities and regulatory bodies. For further details of the difficulties Pelephone encounters when erecting and licensing sites, see Section 3.14.3. These difficulties may adversely affect the quality of the existing network and especially the deployment of a new network.

3.19.2.7 Severe malfunctions in information and engineering systems

Pelephone provides its services through various infrastructure systems, including switches, data communications and access transmission networks, cables, computer systems, physical infrastructures and others (hereinafter - the "**Systems**"). Pelephone's business is highly dependent on these Systems. Pelephone has backup systems for some of these Systems, however in the event of damage to some or all of the Systems, whether due to a large-scale technical malfunction, natural disaster (such as an earthquake, fire, etc.), or damage to physical infrastructures (such as the introduction of viruses and cyber attacks as set out below), significant difficulties may arise in providing of services, including in the event that Pelephone is not able to restore the Systems quickly.

3.19.2.8 Information security, customer data protection and cyber risks

As a leading cellular company that provides service to hundreds of thousands of customers, Pelephone is a target for cyber attacks aimed at harming the use of information systems or the information itself. Such attacks or hacking may cause interruption of business, theft of information/money, damage to reputation, damage to systems and information leakage.

Pelephone has experienced cyber attacks that it handled. Pelephone operates information security systems to protect against unauthorized hacker access to the network and/or critical systems. Pelephone supervises the implementation of its protection policy, which includes testing the quality of its effectiveness and readiness. As part of this Pelephone conducts various tests scenarios and attack exercises (including through external companies specializing in this area).

An additional risk is posed by information leaking out of the organization by a Pelephone employee, accidentally or maliciously. Pelephone implements strict internal organizational information security policies and procedures in order to reduce the risk of information leakage.

Notwithstanding Pelephone's investments in means for reducing such risks, it cannot guarantee that these measures will succeed in preventing damage and/or disruption of the Systems and the information linked to them.

3.19.2.9 State of emergency

During an emergency, legislative provisions and certain provisions of the cellular license empower competent authorities to take necessary measures for ensuring the security of the State and/or public safety, including: obligating Pelephone (as a mobile telephony license holder) to provide services to the defense forces, the appropriation of engineering equipment and facilities belonging to Pelephone, and even to take control of the system.

3.19.2.10 Frequency shortage

For information concerning the shortage of frequencies, see Section 3.8.2.1. In many cases, allocation of frequencies is carried out in tenders, in a way that could increase the costs of acquiring frequencies and place cellular operators that are not given allocations under the tender at the risk of competitive disadvantage.

3.19.3. Pelephone’s risk factors

3.19.3.1 Property risks and liabilities

Pelephone is exposed to various property risks and liabilities. Pelephone employs the services of an external professional insurance consultant specializing in this field. Pelephone has insurance policies that cover the regular risks to which it is exposed with restriction on the terms of the policies, such as various property insurances, various liability insurances, loss of profit cover, third-party cover and officers liability insurance. Nonetheless, Pelephone's insurance policies do not cover certain types of risk, including certain faults arising from negligence or human error, radiation risks, terror, etc.

3.19.3.2 Serious malfunctioning of the cellular network

Pelephone’s cellular network is deployed throughout the country via core network sites, antenna sites and other systems. Pelephone's business has absolute dependence on these systems, which are often, sometimes temporarily, in a state of partial survivability. Wide scale malicious damage or malfunction might adversely affect Pelephone’s business and results.

3.19.3.3 Device malfunction epidemics

Various exposures arising from Pelephone's liability as an importer due to manufacturing defects in devices which are not supported by the manufacturers.

3.19.3.4 Legal proceedings

Pelephone is a party in legal proceedings, including class actions, which may result in it being liable for material amounts that cannot presently be estimated and no provision has been made in Pelephone’s financial statements for these proceedings. Class action suits may reach high amounts, since a major part of the residents of Israel are Pelephone consumers, and a claim relating to a small amount of damage to a single consumer could grow into a material claim against Pelephone if certified as a class action applicable to all or a large proportion of those consumers.

3.19.3.5 Material suppliers and customers

For information regarding agreements with material suppliers and customers, see Sections 3.10 and 3.15 above. Some of Pelephone's agreements, including with its key customers, are limited in time. There is no certainty that these agreements will be renewed at the end of their term or that options granted to customers for their extension will be exercised. Furthermore, Pelephone may be dependent on certain suppliers as specified in Section 3.10.2 above.

3.19.3.6 Labor relations

Pelephone has a collective agreement with the New General Federation of Workers and with the employees' committee that applies to most of its employees. The collective labor agreement may reduce managerial flexibility and incur additional costs for Pelephone (see Section 3.9.4). In addition, implementation of workforce programs may cause labor unrest and harm Pelephone's current operations. Regarding labor disputes at Pelephone, see Section 3.9.5.

3.19.3.7 Loss of knowledge and information

The changes that are taking place in the labor market in Israel and around the world, along with organizational changes, entail a risk of losing key employees, a loss of knowledge as a result of employee turnover, difficulty in recruiting employees, and so on.

3.19.3.8 Impairment of Pelephone's assets

In accordance with the accounting standards, Pelephone performs periodic impairment testing of assets with regard to which signs impairment have been identified. For further information concerning the risk factor relating to identification of impairment losses, see Section 2.20.12.

3.19.3.9 Frequency spectrums

700 MHz, 850 MHz, 1800 MHz, 2100 MHz, 2600 MHz and 3500 MHz. The frequencies are exposed to interferences that could impair the service quality of the networks operated by Pelephone. The factors that could cause interference include the fact that the 850 MHz frequency is also used for terrestrial television broadcasts by television stations in the Middle East on the same frequency, causing interference in Pelephone's 850 MHz UMTS/HSPA network. Furthermore, the Jordanian networks also use the same 2100 MHZ frequency range that Pelephone uses and in view of the limited cooperation between the operators in Jordan and Pelephone, this could have an effect. In addition, Pelephone may not interfere with satellite broadcasts made at several points in Israel in the 3500 MHz frequency spectrum, which limits the operation of 5G services around those points.

For further information regarding the implications of switching frequencies in the first giga spectrum, see Section 3.8.2.3.

3.19.3.10 Existence of sufficient cash flow

Pelephone is required to maintain cash flows that are sufficient for complying with its business plan for the long term. The lack of sufficient cash flows may adversely affect Pelephone's business and its ability to invest in a widespread network, and could impair its ability to deal with the competitive threats in the market.

The table below grades the impact of the foregoing risk factors on Pelephone's operations, as assessed by Pelephone's management. It should be noted that Pelephone's assessments of the extent of the impact of a risk factor reflect the scope of the effect of such risk factor, on the assumption that it the risk factor will be realized and the foregoing does not express an assessment or give weight to the chances of its realization as aforesaid. The order in which the risk factors appear above and below is not necessarily based on the extent of the risk.

Summary of risk factors - cellular telephony

	Effect of risk factor on Pelephone's activities as a whole Risk factors		
	Major	Moderate	Minor
Macro risks			
Exposure to changes in the currency exchange rates		X	
The pandemic and the supply chain	X		
Damage due to natural forces, war, catastrophe	X		
Sector-specific Risks			
Investments in infrastructures and technological changes		X	
Competition	X		
Customer credit		X	
Regulatory developments	X		
Electromagnetic radiation			X
Site licensing		X	
Severe malfunctions in information and engineering systems	X		
Information security, customer data protection and cyber risks	X		
State of emergency	X		
Frequency shortage		X	
Pelephone's risk factors:			
Property risks and liabilities			X
Serious malfunctioning of the cellular network	X		
Device malfunction epidemics			X
Legal proceedings		X	
Material suppliers and customers		X	
Labor relations		X	
Loss of knowledge and information	X		
Impairment of Pelephone's assets			X
Frequency spectrums	X		
Existence of sufficient cash flow			X

The information contained in Section 3.19 and Pelephone's assessments of the effect of the risk factors on its operations and businesses is forward-looking information as defined in the Securities Law. The information and assessments rely on data published by the Ministry of Communications, Pelephone's assessments of the market situation and its competitive structure. Actual results may differ significantly from these assessments if a change occurs in any of the factors taken into account in the assessments.

4. Bezeq International – Internet, International Telecommunications, and NEP Services

4.1. General

4.1.1. Operating segment structure and changes

Bezeq International operates in a number of key areas: providing ISP services; international telephony services; domestic telephony services; NEP services; as well as providing ICT (infrastructure and communication technologies) solutions and data transmission and PBX (private branch exchange) services.

Regarding regulatory changes in the Internet services market for private customers that are expected to materially affect Bezeq International's operations in this market, see Section 4.11.5.4.

4.1.2. Legislative and statutory restrictions applicable to Bezeq International

Most of Bezeq International's operating segments are primarily regulated by the Communications Law and its regulations, and the terms of the license granted to Bezeq International (see Section 4.11).

For key developments in the regulatory framework applicable to Bezeq International, see Section 4.11.5.

4.1.3. Changes in volume and profitability of operations

For information on changes in the volume and profitability of Bezeq International's operations, see Sections 1.5.4.3 and 4.3.

4.1.4. Market developments and customer characteristics

The international call market in Israel has in recent years seen a decline in call minute volume (incoming and outgoing), mainly due to applications that enable calls over the Internet. In 2021, the downtrend in the international call market continued.

In the subsegment of ICT services, in 2021 there was an increase in the demand for hosting services in server farms, as well as for the public cloud services of international companies.

4.1.5. Main entry and exit barriers

4.1.5.1 The main entry barrier to the international call market is the need for a license under the Communications Law and for investments in infrastructure (the volume of investments in infrastructure is lower than the volume of investments in domestic carrier or cellular infrastructure), which are affected by frequent technological changes. The change in the licensing policy, as set out below, and the expanding use of VoIP technology in this field significantly reduce the effect of these barriers.

4.1.5.2 The main entry barrier to the data and Internet services market is the need for investments in infrastructure (international capacity, access to the Internet network) and a broad service network.

4.1.5.3 The main exit barriers from these markets stem from long-term binding agreements with infrastructure providers and from the long timeframe for recovery of investments. Furthermore, Bezeq International is obligated to provide service to its customers throughout the term of the contract with them.

4.1.6. Alternatives to Bezeq International products; structure of competition in the international call market and changes therein

In the international call market, use of the VoIP technology, the transmission of international calls over the Internet to other users of this technology, as well as to TDM network users, through the use of software products (such as Skype, WhatsApp or Zoom) and services of overseas telecommunications providers, as well as the attractive rates for these services (including the absence of user fees), have led to steady growth in the number of users of these services, and as an outcome, to a decline in Bezeq International's revenues. Concurrently, there are at present more than ten international operators with a license from the Ministry of Communications to provide International telecommunications services.

4.1.7. Structure of competition in the market and changes therein

In the Internet access service (ISP) sector, a range of licenses for the provision of Internet access services has so far been granted to some 80 companies that are permitted to provide, inter alia, also international operator services.

For further information on competition in the sector, see Section 4.6.

4.2. Products and services

Description of the main products and services provided by Bezeq International.

4.2.1. Internet services

In the subsegment of Internet services, Bezeq International provides: **Internet access services** (ISP) for private and business customers, including the provision and support of the required terminal equipment on the basis of DSL infrastructure, transmissions or cables. Internet access services are provided by Bezeq International in the following configurations:

- "Retail market" services: Internet access service, without infrastructure services;
- "Wholesale market" services: An integrated package that includes an Internet access service together with the Internet infrastructure service of the infrastructure companies included in the wholesale market reform;
- "Bundle" or "Reverse Bundle" packages: a combined package that includes an Internet access service together with the Company's Internet infrastructure service, provided by Bezeq International (in the case of a bundle) or by the Company (in the case of a reverse bundle);
- Packages that include Bezeq International's Internet access services, the Company's infrastructure services and the STING TV brand of D.B.S. - a television service platform based on the Internet (together with Internet access services), and in addition D.B.S. markets the Internet access services of Bezeq International.

Bezeq International provides Internet services through a wholly and exclusively owned submarine cable (JONAH) between Israel and Italy launched in December 2011, as well as through submarine cables owned by other companies, from which Bezeq International acquires capacities (see Section 4.9). Bezeq International is the only provider among major ISPs operating in Israel to own a submarine cable. Ownership of the submarine cable frees Bezeq International from dependence on infrastructure providers, and also allows it to offer its customers higher quality browsing.

It should be noted that revenues from Internet services are expected to be materially impaired as a result of the Ministry of Communications' decision to cancel the separation between broadband infrastructure service and Internet access service (ISP) (see Section 4.11.5.4).

4.2.2. Voice (telephony) services

In the VOICE services sector Bezeq International provides international direct dialing (IDD) services to business and private customers; toll-free dialing overseas for business customers; international call hubbing and routing services - transferring international calls between foreign telecommunication providers (worldwide); phone-card services enabling dialing from Israel overseas and from overseas to Israel. Furthermore, Bezeq International provides domestic telephony services.

4.2.3. International data services

Providing international data communication solutions for business customers including customized global deployment.

The services are provided via Bezeq International's submarine cable and the optic cables deployed from Israel to Europe over which Bezeq International has long-term user rights, and through its business partnerships with leading global telecom providers, which provide its customers access to their sophisticated global network services.

In addition to the foregoing services, Bezeq International offers licensees for the provision of international telecommunications services and ISP licensees the use of its international capacities (through leasing or by purchasing indefeasible rights of use), over Bezeq International's submarine cable, and the user rights it acquired in European terrestrial infrastructures and in other international networks.

4.2.4. ICT solutions for business customers

Bezeq International provides ICT (Information and Communication Technology) solutions for business customers. Customer ICT solutions include extensive communications solutions such as server hosting services, maintenance and technical support services for the computer and communications systems, system and networking services, security and risk management services, IP-based managed services, cloud computing services, licensing for Microsoft's public cloud services, backup and recovery services from a disaster, setting up wireless networks at the customer's site and equipment sales. Bezeq International has adopted a broad customer service model, where the customer deals with a single contact person.

4.2.5. PBX services (exchanges)

Bezeq International markets and maintains communication systems, including PBX exchanges, telephony networks and IP communications for its business customers. As part of its service contracts, Bezeq International provides maintenance services for various PBX exchange manufacturers. These services are given for gateways, PBX exchanges and network end points (NEP), for lines used as both internal and external lines.

4.3. Revenues

Breakdown of Bezeq International's revenues (in NIS millions):

	2021	2020	2019
Internet and data-communication services	683	710	746
% of Bezeq International total revenues	55%	57%	56%
International communications	177	181	198
% of Bezeq International total revenues	14%	14%	15%
Communication and computer services for businesses	142	131	106
% of Bezeq International total revenues	11%	10%	8%
Equipment, licensing and service contracts for businesses	235	249	289
% of Bezeq International total revenues	19%	20%	22%
Total revenues	**1,237**	**1,271**	**1,339**

4.4. Customers

Bezeq International is not dependent on any single customer and it does not have one customer that provides 10% or more of its total revenues.

Breakdown of revenue from private and business customers (in NIS millions):[57]

	2021	2020	2019
Revenue from private customers	372	401	441
Revenue from business customers	865	870	898
Total revenues	**1,237**	**1,271**	**1,339**

Regarding customers of Bezeq International and their characteristics, the diverse consumption characteristics associated with the purchase of Internet packages by the public has resulted in a certain percentage of customers buying ISP services from more than one ISP provider, while actually using the services of only one provider. On September 10, 2020, the Ministry of Communications issued a letter to the operators expressing the concern that some of the subscribers for Internet services or other services such as an electronic mail box do not use these services and are not even aware of their existence. The Ministry recommended in its letter to act to inform the subscribers that do not use these services and stop charging them, and requested to receive periodic reports on the matter during the next six months. The letter also states that the Ministry will consider in the future whether to issue binding directives in this regard, if independently initiated actions do not substantially minimize the problem. On November 8, 2020, an additional letter was received in the matter from the Ministry of Communications, stating that by the next reporting deadline (set for December 17, 2020) it expects that the data reported will significantly reflect the substantial minimization of the phenomenon, since on that date details must be provided of how the licensee is acting to prevent the recurrence of the phenomenon, and, like in its previous letter, that as long as the phenomenon is not significantly reduced, the Ministry will take various measures, including issuing binding directives in this regard. Bezeq International believes that the cancellation of the infrastructure-provider separation will lead to a significant reduction in the scope of the phenomenon.

In this regard, see also Note 10.6 to the 2021 Financial Statements. Regarding motions to certify class actions in this matter that were filed against Bezeq International, see Section 4.12.

57 The figures are after reclassification of small office home office (SOHO) customers from private customers to business customers in 2019.

4.5. Marketing, distribution and service

Bezeq International has sales channels for the private market, including customer recruitment and retention call centers, a countrywide direct sales network, a technical support and customer service network and a distribution channel system that includes external marketing and dealership centers. The business market sales channels include customer recruitment centers and business and administration service and solution centers for business customers. In addition, the Company sells Bezeq International services as part of joint service bundles - “reverse bundle” (see Section 1.7.2.3), and Bezeq International services are also sold by DBS as part of the marketing of Triple bundles (see Section 4.2.1).

4.6. Competition

4.6.1. ISP Services

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

Bezeq International estimates that its share of the ISP market at December 31, 2021 is 34%.[58]

4.6.1.2 Competition in 2021 is characterized by a decrease in the number of retail market package subscribers, alongside an increase in "reverse bundle" package subscribers sold by the Company.

4.6.1.3 Developments in 2021:

A) Continuation of the service bundle sales trend, particularly in view of the wholesale sales model operations (provider + infrastructure) in 2021.

B) Focusing of the competitors' on the promotion of high-speed browsing services. Some of the competitors launched ultra high-speed browsing bundles, inter alia through fiber optic infrastructure they deployed. In 2021, Bezeq International began offering its customers packages at high browsing speeds through the Company's fiber infrastructure.

C) There was a decrease in customers joining the retail market services, and on the other hand an increase in joining "reverse bundle" packages.

D) The trend of selling "Triple" packages by competitors continues, which include, in addition to the television services, an Internet provider and infrastructure in a package of services that cannot be unbundled.

4.6.2. International telephony services

4.6.2.1 As of the end of 2021, there are some ten players in the market (including Bezeq International, Cellcom, Partner, Golan Telecom and HOT Mobile).

Bezeq International estimates that its market share in the customers’ outgoing calls segment as at December 31, 2021 is 22.6%.[59]

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58 Bezeq International's estimate of its ISP market share sector is based on an external telephonic survey conducted for the Company and is not based on the implicit data that the Company has at this time.

59 Based on Ministry of Communications publication of figures for outgoing calls in the second quarter of 2021.

4.6.2.2 General characteristics of competition in 2021:

A) In 2021, the average number of call minutes via international telephony continued to decline, partly due to an increase in the use of various apps for making calls, and also due to the service packages offered by cellular operators, which include international call minutes. The effects of the COVID-19 pandemic included also changes in business work habits, including an increase in the use of services enabling online calls and meetings, with a parallel reduction in the use of international telephony services.

B) Competition focuses on defined population sectors that are more active in this segment.

C) The product is a commodity (brand has no significance).

4.6.3. Communication solutions for the business sector

4.6.3.1 ICT sector

Bezeq International competes with competitors such as Binat, Taldor, IBM and others. In 2021 Bezeq International continued to consolidate its position in the ICT market.

4.6.3.2 NEP services

The traditional telephone exchange sector includes a large number of competitors and fierce competition that has given rise to erosion of service prices.

4.6.3.3 Hosting services

In 2021, there was an increase in demand for hosting services in server farms, partly as a result of the trend in the business market to move to managed services (as a service) and to services in cloud environments, and in view of the intention of giant companies operating public cloud services to establish points of presence in Israel.

4.6.3.4 Public cloud services

In recent years there has been a growing demand for public cloud services offered by companies such as Amazon, Microsoft, Google and Oracle. Bezeq International serves both as a marketer (selling directly to customers) and as a distributor (selling through resellers) of licensing for Microsoft's cloud services to customers in Israel, and implementing these service solutions for the customers.

4.6.4. Unique characteristics

Bezeq International promotes its business with emphasis on differentiating it from its competitors as the owner of its own international infrastructure (Jonah cable) for its customers' traffic providing high quality browsing performance, as well as its leading customer service.

The fact that Bezeq International does not own domestic access infrastructure is a competitive disadvantage vis-à-vis competitors that control infrastructure of this type.

4.7. Property, plant and equipment

Bezeq International's property plant and equipment include switching and Internet equipment, submarine cable, PBX equipment and leased routers, office equipment, computers, software licenses, and leasehold improvements. Bezeq International has five server farms throughout the country.

Bezeq International has SoftSwitch switches of Dialogic. These switches are used to route Bezeq International’s voice traffic. The value-added services, including dialing cards, are based on an intelligent network (IN). Bezeq International is upgrading its CRM (customer relations management) system on the state-of-the-art Salesforce cloud platform, together with Pelephone and DBS. Bezeq International is dependent on the Salesforce system and services, due to their importance for managing its customer relations. Failures in the system or discontinuation of the services by this provider can be expected to cause operational difficulties until the matter is rectified or the system/provider is replaced, which could take a long time.

Bezeq International’s technological infrastructures, which support voice, data and Internet systems, are deployed at several sites, inside and outside Israel, inter alia, to ensure, when necessary, high service survivability.

Bezeq International has long-term agreements for the lease of the two main buildings in which it is based. With regard to one of the buildings, the lease period is until March 2024, with several exit options for Bezeq International during this period. The term of the lease on the other building is until December 2023 (with two equal extension options until 2027).

Bezeq International has a lease agreement for a building that houses a server farm. The term of the lease is until August 2026, with two additional extension options until 2036.

Bezeq International has other lease agreements for warehouses (including a main logistics center) and for buildings where it operates the call centers that it uses for its operations.

4.8. Human resources

Breakdown of the Bezeq International workforce in 2020 and 2021:

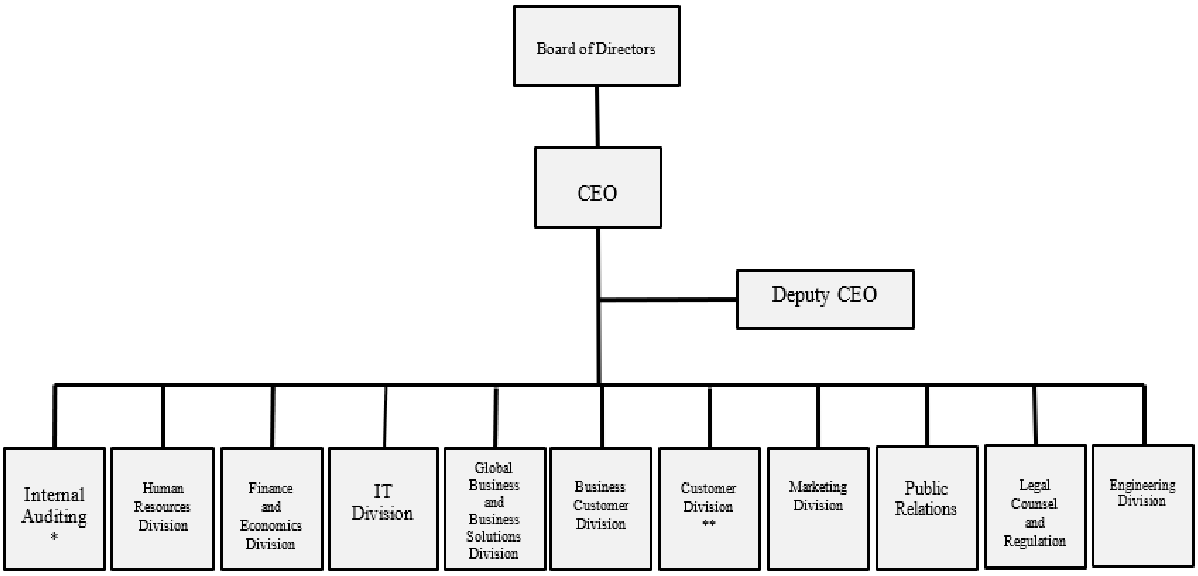
	31.12.2021	31.12.2020
Head office employees	758	827
Sales and service representatives	363	484
Total	**1,121**	**1,311**

The total number of employees in the foregoing table includes employees in part-time positions. The total number of positions[60] at Bezeq International’s as at December 31, 2021 was 1,047 compared to 1,228 as at December 31, 2020.

The following chart presents the organizational structure of Bezeq International:

60 Total monthly work hours divided by the standard monthly work hours.

Bezeq International Organizational Structure



(*) The Internal Auditor is an employee of Pelephone.
(*) The head of the Customer Division is a Deputy CEO.

As part of implementing the synergy with the Group's subsidiaries, Bezeq International's CEO, Ran Guron, also serves as CEO of DBS and Pelephone. Most of Pelephone's current VPs also serve as VPs at DBS and Bezeq International.

On July 11, 2019, Bezeq International signed a collective agreement with the New Histadrut General Federation of Labor and the workers committee, which includes streamlining and synergetic measures for the period until December 31, 2021. According to Bezeq International's program and pursuant to the agreement, Bezeq International may, among other things, reduce the employment of up to 325 employees (of which 150 are permanent employees, some as part of voluntary redundancy), in addition to not recruiting employees to replace those who have ended their employment. Similarly, the Agreement includes the grant of a one-time bonus to employees who will not be included in the severance program. The estimated cost of the foregoing agreement is NIS 68 million, assuming that Bezeq International exercises its full rights for such streamlining and complies with the conditions for granting additional financial benefits to the employees.

For further information concerning to the streamlining and inter-organizational changes at Bezeq International, Pelephone, and DBS, see Section 1.8.

On November 28, 2019, Bezeq International received notice from the Chairman of the New Histadrut and Bezeq International workers committee that included a demand to hold collective negotiations with the employees' representatives in view of the transaction for acquisition of control of the Company.

On October 11, 2020, Bezeq International received fromthe New Histadrut General Federation of Labor in Israel – the Cellular, Internet and High-Tech Workers Union a noticeof declaration of a labor dispute under the Settlement of Labor Disputes Law, 1957 and a strike beginning on October 26, 2020. According to the Notice, the disputed issues revolve around the unilateral intention to make changes in the telecommunications market that would enable the Company to enter the ISP sector and operate as an Internet provider. This could adversely affect Bezeq International, to the extent of raising a real concern over the possible closure of the company, layoff of workers and changes in employment conditions, rights, status, employment security and organizational power.

On March 24, 2021, Bezeq International received fromthe New Histadrut General Federation of Labor in Israel – the Cellular, Internet and High-Tech Workers Union a noticeof declaration of a labor dispute under the Settlement of Labor Disputes Law, 1957 and a strike beginning on April 7, 2021. According to the notice, the disputed issues revolve around management's unilateral intention to make organizational and structural changes in Bezeq International, including merger, consolidation of operations, synergy and so forth with DBS and/or Pelephone, which, if implemented, will impact, according to the Notice, in a critical manner on the employees, including on employment conditions, status, employment security and impairment of organizational power and bargaining capacity.

On June 23, 2021, Bezeq International received from the New Histadrut General Federation of Labor in Israel – the Cellular, internet and High-Tech Workers Union a notice of declaration of a joint labor dispute at Bezeq International and at Pelephone under the Settlement of Labor Disputes Law, 1957, and a strike beginning on July 7, 2021. The matters in this dispute, as stated in the notice are, among others: refusal by the joint management of Pelephone, Bezeq International and DBS (hereinafter - the "**Joint Management**") to negotiate with regard to changes in the bargaining unit in view of the changes in the corporate structure; refusal by the Joint Management to engage in negotiations to regulate the rights of Bezeq International employees and their job security due to the foregoing corporate structure changes, and the lack of good faith actions by the Joint Management, which include taking extraneous and unlawful considerations into account in the plan for the corporate and structural changes, aimed at impairing the right of organization and the bargaining power of the employees and their representative organization. On July 1, 2021, Bezeq International filed with the Tel Aviv Regional Labor Court a petition of a party to a collective dispute and an urgent motion for relief to prevent organizational steps pursuant to the Notice. In the petition it was argued that the Notice is invalid, as a petition had been filed on a combined and consolidated basis against Bezeq International and Pelephone in an attempt to produce a unilateral and non-consensual change in the bargaining units and to establish a joint workers committee referred to as the "Alpha Committee" for the Subsidiaries, including DBS. In a hearing held on July 4, 2021, it was agreed that: (1) Pelephone and DBS, who were formal respondents in the proceeding, would be joined as petitioners in the proceeding; (2) Bezeq International and Pelephone would each conduct negotiations with its own workers committee regarding the sale of control of the Company; (3) Up to the issuance of another decision, the respondents (the New Histadrut General Federation of Labor and the workers committees of Pelephone and Bezeq International) would not call a strike in connection with the dispute over the sale of control. Regarding the bargaining unit, it was determined that the court would issue a decision after all the responses had been filed and an opportunity given to cross examine the affiants.

On July 7, 2021, the court issued a decision for the consolidation of the proceedings in the two disputes (sale of control and bargaining unit). At a court hearing held on July 27, 2021, Bezeq International withdraw its request for temporary relief, and that the negotiations between the parties would continue, to a certain extent under the auspices of the court. The adjudication of the main proceeding is to continue. In the meantime, the parties have submitted additional statements of claim on their behalf, but the hearing on the request has been delayed by consent in view of the negotiations and the mediation procedure between the parties as detailed below.

On August 2, 2021, the employee representative bodies at Pelephone and Bezeq International began taking a range of organizational sanctions which, according to the notification by the workers committees, are directly tied to the synergies between Pelephone, Bezeq International and DBS. On August 30, 2021, Bezeq International and Pelephone filed a request as a party to a collective dispute and an urgent request for temporary remedies against certain strike measures by the workers' representatives. On August 30, 2021, a ruling was issued preventing a strike in control rooms, support centers, server centers and farms and other issues specified in the request. In another decision dated September 9, 2021, this order was extended until there is a different decision. The employee representation continued to operate other organizational measures.

In view of the continuation of sanctions, on October 19, 2021, Pelephone and Bezeq International filed (each separately) (hereinafter - in this section, the "**Subsidiaries**") notice to the Chief Supervisor of Labor Relations at the Ministry of Economy and Industry, of a lockout in accordance with Section 5A of the Labor Dispute Settlement Law, 1957. The announcements explained that continuation of the sanctions at the Subsidiaries may result in certain processes in the Subsidiaries being rendered no longer financially viable and/or operationally possible. The date of commencement of the lockout and the number of employees whose jobs may be suspended as part of the such lockout, if adopted by either of the Subsidiaries, is dependent on the organizational measures and sanctions to be adopted by the employees.

On November 1, 2021, as part of the parallel mediation proceeding conducted between the parties, the Subsidiaries reached agreements in principle with the General Federation of Workers and the workers' representatives, subject to the signing of collective agreements, as well as an agreement that all organizational measures (including all sanctions) against the Subsidiaries will cease immediately and intensive negotiations will resume for signing of collective agreements to regulate workers' rights as part of the execution of the planned structural changes at Bezeq International and DBS. The main highlights of the outline that was formulated are as follows:

• A collective agreement will be signed between the new integrating company that will be established and the General Federation of Workers.

• Bezeq International’s operations that will not be moved over to the new integrating company will be merged into DBS and the employees will be absorbed as DBS employees under a new three-year collective agreement that will be signed with the General Federation of Workers. The General Federation of Workers and the chairman of the Bezeq International Workers' Committee will continue to represent the employees who move over to DBS and the integrating company, for the term of the agreement, including for the purpose of signing collective agreements. The matter of the bargaining unit remains controversial and will be discussed during the negotiations.

• Permanent employees of Bezeq International who do not wish to move over to DBS will be offered retirement conditions as agreed between the General Federation of Workers and Bezeq International's management.

• An agreement was reached with the representatives of Pelephone employees to maintain the cellular network owned by Pelephone for the term of the agreement.

• Employees of the Subsidiaries will be entitled to a special bonus to be paid to them at the beginning of 2022 in a total amount that is not material at the Group level. This section is not subject to the signing of collective agreements. Simultaneous to this agreement, the General Federation of Workers and the representatives o the employees of the Subsidiaries waive their financial demands in the labor dispute that was announced with regard to the sale of the Company's controlling shares to the new owners.

As of the date of publication of the report, no further collective agreements have been signed.

The collective agreements reached following the agreements in principle will be brought for the approval of the boards of directors of the Subsidiaries. The Company is not able to assess at this stage whether at the end of the negotiations the collective agreements will be signed as expected nor the total cost that will be involved.

It should be noted that on March 16, 2022, decisions were made by the Company's Board of Directors as well as the boards of directors of Bezeq International and DBS regarding the cancellation of the structural change plan for the organization and the approval of an alternative plan as detailed in Section 1.1.5, which is expected to affect the continued conflict management and negotiations between the parties regarding the structural change.

4.9. Trade payables

4.9.1. Foreign operators

Bezeq International has collaboration agreements with some 200 foreign operators, under which Bezeq International transfers to and from these operators international calls (including outgoing calls from Israel, incoming calls to Israel and calls between various destinations outside of Israel) to some 240 destinations worldwide.

4.9.2. Capacity providers

Bezeq International is dependent upon the Company for domestic capacity to provide its services.

Most of the international capacity that Bezeq International uses is transmitted via its wholly owned submarine cable. As backup, Bezeq International uses capacity purchased from Med Nautilus and the Cyprus Telecommunications Authority (CYTA).

Under its agreement with Med Nautilus, Bezeq International purchased indefeasible rights of use in a non-specific and unspecifiable part of the communication capacity transferred by the undersea cable system operated by Med Nautilus between Israel and Europe, as well as continued capacity in this company’s ground infrastructure for several communication nodes in Europe. The periods of use were extended until July 2030. Bezeq International paid for these rights of use in a lump sum payment shortly before the date on which it started using the capacity.

Under its agreement with CYTA, Bezeq International purchased indefeasible rights of use to a particular non-specific part of the communication capacity transmitted via the sub-marine cable network operated by CYTA between Cyprus and Europe. The term of use is at least until May 2022, with an option to extend the period.

In addition, Bezeq International purchased indefeasible rights of use in a non-specific and unspecifiable part of the communication capacity transmitted through ground infrastructure in Europe from GTT Communications Inc. for the purpose of bridging Bezeq International’s submarine cable to communications nodes in Europe. The term of use of these infrastructures is at least until 2026, with an option to extend the period.

4.9.3. Hosting services providers

Bezeq International purchases hosting services in long-term agreements with a number of server farm facility operators, mainly for the purpose of providing hosting services to business customers:

As part of an agreement signed in 2011, Bezeq International purchases hosting services from the Company at the Company's server farm facility. These services are mostly used to provide hosting services to business clients. The agreement is in effect until 2024 for certain parts of the facility, and for other parts until 2033.

As part of an agreement signed in 2019 with Adgar Investments and Development Ltd., Bezeq International purchases hosting services at the server farm facility of that company. The agreement is in effect until 2041, with an option for early termination in 2034. These services are used to provide hosting services to business customers.

As part of an agreement signed in 2021 with Server farm IIF Bnei Zion Limited Partnership, Bezeq International will purchase hosting services at a server farm facility under construction by this partnership. The agreement is in effect until 2039, with options for extension until 2047. These services are expected to be used to provide hosting services to business customers.

4.10. Taxation

See Note 7 to the 2021 Financial Statements.

4.11. Restrictions and supervision of Bezeq international's operations

4.11.1. Legislative restrictions

Under the Communications Law, telecommunications operations and provision of telecommunications services, including international telecommunications services and Internet access services, require licenses from the Minister of Communications. The Minister is authorized to amend the terms of the license, add to them or detract from them, while taking into consideration, inter alia, the government’s telecommunications policy, interests of the public, compliance of the licensee to provision of services, contribution of the license to competition in the telecommunications industry, and the level of service therein

The law authorizes the Director General of the Ministry of Communications to impose financial sanctions for violations of the provisions of the law and of orders and directives issued thereunder, and for violation of the terms of the license.

4.11.2. Licenses

Bezeq International holds a unified general license for providing telecommunications services (hereinafter - the "**Unified License**") that is valid through to May 2, 2025.

The main provisions of the Unified License are:

4.11.2.1 Under certain circumstances, the Minister may modify the terms of the license, add to or detract from them, and in certain instances even revoke it.

4.11.2.2 The license is non-transferable and contains restrictions on the acquisition or transfer (including by way of a charge), directly or indirectly, of control or of 10% or more of any means of control in Bezeq International, including a pledge on said means of control, unless the Minister has given prior consent.

4.11.2.3 Bezeq International is obliged to provide interconnect services to all other operators at equal terms and it must refrain from any discrimination in carrying out such interconnect service.

4.11.2.4 Bezeq International is required to refrain from granting infrastructure service priority to an affiliate licensee company (as defined in the license) over another licensee.

4.11.2.5 Bezeq International may not sell, lease or mortgage any of the assets used for the implementation of the license without the consent of the Minister of Communications, other than certain exceptions as set out in the license.

4.11.2.6 In times of emergency, whoever is statutorily competent shall have the authority to issue Bezeq International with certain instructions on its mode of operation and/or manner of provision of services.

4.11.2.7 The license stipulates the types of payments Bezeq International may bill its subscribers for with regard to telecommunications services, and the reports it is required to submit to the Ministry of Communications. The license also determines the Minister's power to intervene in tariffs, in certain cases.

4.11.2.8 The license obligates Bezeq International to a minimal level of service.

4.11.2.9 Pursuant to Ministry of Communications requirements, Bezeq International provides a bank guarantee of NIS 2 million in compliance with the terms of the Unified License.

4.11.3. Land powers

On July 9, 2014, the Minister of Communications granted Bezeq International the powers pertaining to land that are listed in Chapter 6 of the Communications Law, including access to land for the purpose of laying and maintaining a network (see Section 2.16.5).

4.11.4. Interconnect payments

With regard to interconnect fees paid to domestic carriers and mobile telephony operators, see Section 1.7.4.1.

4.11.5. Key regulatory developments

4.11.5.1 For possible changes in the communications market that could also affect Bezeq International as a consequence of policy to increase competitiveness, see Section 2.16.4.1.

4.11.5.2 For further information regarding the resolutions adopted with regard to the wholesale market that also affect the operating segment, see Section 2.16.4.

4.11.5.3 Regarding the publication of a hearing to examine the separation of broadband infrastructure services from Internet access (ISP) services, see Section 1.7.2.3.

4.11.5.4 Also, regarding the publication of a hearing to examine the separation of broadband infrastructure services from Internet access (ISP) services, see Section 1.7.2.3. The changes in the communications market, which are expected to be caused as a result of this decision, are expected to have a material impact on its subscriber base, and on Bezeq International's revenues from the Internet. Bezeq International is preparing for its potential effects on the Company's business and operating methods.

4.11.5.5 Regarding an amendment from April 2021 to the Competition

Commissioner's conditions for the merger between the Company and DBS, see Section 2.16.8.3.

4.12. Legal proceedings[61]

During its normal course of business, legal claims have been filed against Bezeq International, including motions to certify class actions.

4.12.1. Pending legal proceedings

	Date	Parties	Court	Type of Proceeding	Details	Amount of the Claim (NIS millions)
.A	January 2015	Customer v. Bezeq International	District (Central)	Financial claim with a motion to certify it as a class action.	It is contended that the Moreshet content filtering services that Bezeq International provides for its religious and traditional sector customers, for a fee, do not protect users from offensive content and that their exposure to such content caused them harm. It is further contended that Bezeq International must compensate the customers who purchased content filtering services and who were not offered the basic filtering service which is provided free of charge. In April 2018, the court partially certified the claim as a class action (the part relating to additional compensation in the amount of NIS 1,000 for each pupil in the schools that use the website filtering software that was removed).	Approximately 61 with the addition of NIS 1,000 for each of the members of the class (every pupil in the Israeli education system)
.B	March 2016	Customer v. Bezeq International and other telecommunications operators	District (Central)	Financial claim with a motion to certify it as a class action.	It is alleged, inter alia, that Bezeq International sells its customers a broadband speed, despite the fact that the infrastructure where they live does not enable this speed. In January 2021 the court certified the claim as a class action.	Not specified
.C	April 2019	Customer v. Bezeq International and other telecommunications operators	District (Central)	Financial claim with a motion to certify it as a class action.	The applicants allege that Bezeq International does not inform its customers as required concerning the possible risks involved in the use of the Internet and the option of joining content filtering services free of charge, and this contrary to the provisions of the Communications Law. Furthermore, Bezeq International provides abusive website and content filtering services which, the applicants argue, are not sufficiently effective.	Not specified
.D	October 2020	Customer v. Bezeq International	District (Central)	Financial claim with a motion to certify it as a class action.	It is alleged, inter alia, that Bezeq International charges its customers for services it does not actually provide to them, supposedly in the knowledge that the customer has switched to another Internet provider and disconnected from Bezeq International. On November 5, 2020, Bezeq International was served with an additional motion to certify a class action in the same matter.	Not specified

61 For information concerning reporting policies and materiality, see Section 2.18.

	Date	Parties	Court	Type of Proceeding	Details	Amount of the Claim (NIS millions)
.E	November 2020	Customer v. Bezeq International	District (Central)	Financial claim with a motion to certify it as a class action.	It is alleged, inter alia, that Bezeq International charges for the provision of an Anti-Virus service and Backup service, without these services actually being provided. It is further alleged that Bezeq International does not inform the customers at the time of concluding the contract that using the services requires that they first carry out preparatory actions on their own, such as installing special software programs; nor does it apprise them that they are billed for such services as of the contract conclusion date, and not from the actual date of service provision.	Not specified

Regarding two motions for discovery and inspection of documents prior to filing derivative actions under Section 198A of the Company Law against the Company and against Bezeq International, from October 2020 with respect to "dormant subscribers," and from November 2020 with respect to asset balances in Bezeq International's books – see Section 2.18I.

4.12.2. Legal proceedings that ended during the reporting period or by the date of publication of the report – none

4.13. Goals, business strategy and expected development

In view of the cancellation of the separation between infrastructure provider and Internet access provider (ISP), Bezeq International intends to reduce ISP activity in the private sector, and focus on developing integration activities and services for the business sector with the aim of becoming a growth-focused ICT company. This will enable management focus and dedication of resources to the integration activities and cloud services, which is growing due to the trend of the business sector moving to a cloud service model. Bezeq International will continue to acquire capabilities and knowledge through the recruitment and training of personnel and through the acquisition of companies in complementary fields. Bezeq International will maintain collaborations with partners in Israel and abroad for the purpose of providing a full service package to its customers. Bezeq International anticipates that the main growth engines will be in the areas of hosting services, cloud services and information security services. For further details, see Sections 1.1.5 and 1.8. These processes depend in part on the cooperation of employee representatives.

Bezeq International cannot assess whether the above goals will be fully or partially realized and when. In addition, these goals may be affected by changes and developments in the relevant markets, due to regulatory changes that could harm Bezeq International's ability to provide solutions for existing or changing market requirements, and due to all the other risk factors described below.

4.14. Discussion of risk factors

Description of the risk factors deriving from the macro-economic environment, from the unique characteristics of the sector in which Bezeq International operates, and Bezeq International's company specific risk factors:

4.14.1. Competition

For information concerning the effect of competition on Bezeq International's areas of business, see Section 4.6.

4.14.2. Frequent technological developments and infrastructure investments

Bezeq International's operations are characterized by frequent technological changes. The development of technologies constituting attractive alternatives to some of Bezeq International's products (such as WhatsApp, Skype and Zoom) may have a materially adverse effect on its operations. Furthermore, technological developments require frequent investment in infrastructure. See Sections 4.1.5.2 and 4.1.6.

4.14.3. Exposure to changes in the currency exchange rates

Bezeq International is exposed to risks due to changes in exchange rates, especially in connection with equipment sales and integration, as well as in international data services, since most purchases of equipment and services in these areas are made in USD, whereas Bezeq International's revenues are in NIS. Erosion of the NIS against the USD may affect Bezeq International's profitability if it is unable to adjust selling prices at short notice.

4.14.4. Government supervision and regulation

For information relating to the application of the provisions of the law and licensing policies and their effect on Bezeq International, see Section 4.11. Certain regulatory changes applicable to Bezeq International could have an adverse effect on its results and operations.

4.14.5. Pandemic

At the beginning of 2020 the coronavirus broke out and spread across the world. Further to which Bezeq International is monitoring developments in connection with this outbreak as well as pandemic events in general and examining actual and potential implications on its business operations. These consequences may be reflected, and some already are reflected, among other things, in the customer service system, and in the damage to the supply chain and the delay in the purchase of equipment, which may affect Bezeq International’s revenues and its ability to meet its obligations to business customers. According to Bezeq International's estimates, as at the Reporting Date, no material decrease in revenues is expected that can be attributed to the outbreak of the pandemic. Nonetheless, this is by nature an evolving event that is not within Bezeq International's control, therefore the continued spread of the virus or decisions by countries and the authorities in Israel and around the world in this regard may affect the Bezeq International accordingly.

4.14.6. Severe malfunctions in information and engineering systems

Bezeq International provides services using various infrastructure systems that include, among others, switches; transmission, data communication and access networks; cables; computer systems and others (“**Systems**”). Bezeq International's business is highly dependent on these Systems. Bezeq International has backup systems for some of these Systems, however in the event of damage to some or all of the Systems, whether due to a large-scale technical malfunction, natural disaster (such as an earthquake, fire, etc.), or damage to physical infrastructures (such as the introduction of viruses and cyber attacks as set out below), significant difficulties may arise in providing of services, including in the event that Bezeq International is not able to restore the Systems quickly.

4.14.7. Information security, customer data protection and cyber risks

Bezeq International is a target for cyber attacks aimed at harming the use of information systems or the information itself. Such attacks or hacking may cause interruption of business, theft of information/money, damage to reputation, damage to systems and information leakage.

Bezeq International operates information security systems to protect against unauthorized hacker access to the network and/or critical systems. Bezeq International supervises the implementation of its protection policy, which includes testing the quality of its effectiveness and readiness. As part of this Bezeq International conducts various tests scenarios and attack exercises (including through external companies specializing in this area).

An additional risk is posed by information leaking out of the organization by a Bezeq International employee, accidentally or maliciously. Bezeq International implements strict internal organizational information security policies and procedures in order to reduce the risk of information leakage.

Notwithstanding Bezeq International's investments in means for reducing such risks, it cannot guarantee that these measures will succeed in preventing damage and/or disruption of the Systems and the information linked to them.

4.14.8. Damage due to natural forces, war, catastrophe

Damage to the server farms used by Bezeq International for its core activities could have an adverse effect on Bezeq International’s business and its results.

4.14.9. Legal proceedings

Bezeq International is party to legal proceedings, including class actions, which could result in its being required to pay substantial sums that cannot be estimated and for some of which no provision has been made in the financial statements of Bezeq International. These class actions can come to high amounts, since a substantial proportion of the country's population are customers of Bezeq International, and a claim for damage in a small amount to an individual customer may become a material claim for Bezeq International if it is recognized as a class action covering all or a significant proportion of its customers. In addition, in certain engagements, mainly in the government and public sector, Bezeq International sometimes enters into contracts for the provision of services subject to a partial liability limit, or no liability limit at all. Given the sensitivity of the services provided by Bezeq International to these customers, in the event that the customer is harmed in such an engagement, this may lead to legal proceedings in large amounts. For information concerning legal proceedings to which Bezeq International is a party, see Section 4.12.

4.14.10. Labor relations and streamlining measures

Bezeq International has a collective agreement with the New General Federation of Workers and with the employees' committee that applies to most of its employees. Implementation of the collective agreement could impact Bezeq International's operating activities. In addition, implementation of workforce programs may cause labor unrest and harm Bezeq International's current operations. As described in Section 1.8, Bezeq International implements streamlining plans that include, among other things, sharing of management resources, organizational changes and reducing the workforce, while managing significant infrastructure and other projects. The streamlining procedures, by their nature, involve the risk of loss of knowledge, employee turnover, shifting of management focus and so on. Bezeq International currently has several unresolved labor disputes. Regarding labor disputes at Bezeq International, see Section 4.8.

4.14.11. Loss of knowledge and information

The changes that are taking place in the labor market in Israel and around the world, along with organizational changes, entail a risk of losing key employees, a loss of knowledge as a result of employee turnover, difficulty in recruiting employees, and so on.

4.14.12. Impairment of Bezeq International's assets

In accordance with generally accepted accounting standards, Bezeq International performs periodic impairment testing of assets with respect to which signs of impairment have been identified. For further information concerning the risk factor relating to identification of impairment losses, see Section 2.20.12. Regulatory changes in the Internet services market (see Section 1.7.2.4) may adversely affect Bezeq International's results and/or impair its assets. Regarding the effects of dealing with Bezeq International customers that do not use ISP services on the value of Bezeq International's assets, see Section 4.4.

4.14.13. Cash flow

Bezeq International must maintain an adequate cash flow to keep up its long-term business plan. Cash flow may be adversely affected in cases of planning gaps, changes in the business model and difficulties in collecting payments from customers or from telecom operators. The lack of an adequate cash flow may impact negatively on Bezeq International's business operations and hamper its ability to contend with competitive threats.

The table below demonstrates the effects of the foregoing risk factors on Bezeq International's operations, as assessed by its management. It should be noted that Bezeq International's assessments with regard to the extent of the effect of a risk factor reflect the extent of effect of such risk factor, based on the assumption that the risk factor will be realized and the foregoing does not express an assessment or give weight to the chances of its realization as aforesaid. The order in which the risk factors appear above and below is not necessarily based on the extent of the risk:[62]

Summary of risk factors - international telecommunications, Internet and NEP services

	Extent of risk factor's impact on Bezeq International activities		
	Major	**Moderate**	**Minor**
Macro risks			
Exposure to changes in the currency exchange rates		X	
Pandemic		X[63]	
Sector-specific Risks			
Increasing competition	X		
Investments in infrastructure and technological changes		X	
Government supervision and regulation	X		
Severe malfunctions in information and engineering systems	X		
Information security, customer data protection and cyber risks	X		
Special risks for Bezeq International			
Damage due to natural forces, war, catastrophe	X		
Legal proceedings		X	
Labor relations and streamlining measures	X		
Loss of knowledge and information	X		
Impairment of Bezeq International's assets		X	
Cash flow		X	

The information contained in Section 4.14 and Bezeq International's assessments of the effect of the risk factors on its operations and businesses is forward-looking information as defined in the Securities Law. The information and assessments rely on data published by the Ministry of Communications, Bezeq International's assessments regarding the market situation and the structure of competition in it, and possible developments in the market and in the Israeli economy. Actual results may differ significantly from these assessments if a change occurs in any of the factors taken into account in the assessments.

62 See footnote 46.

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

5. DBS – Multi-Channel Television

DBS, also known by its commercial name "yes", is a wholly owned subsidiary of the Company, that provides multi-channel satellite and online television transmissions (OTT) and other services to subscribers in Israel and Judea and Samaria, and owns broadcasting rights for content purchased from third parties and productions in which it invests.

DBS is the only company that currently holds licenses (which are not exclusive) for multi-channel satellite TV broadcasting.

5.1. General information about the area of operations

5.1.1. Structure and changes in operating segment

5.1.1.1 Several operators operate in subscriber TV broadcasting sector in a number of key categories:

A) Broadcasting licensees under the Communications Law operating in the multi-channel television sector, are DBS and HOT, which provides cable television services and has a declared monopoly under the Competitions Law in the multi-channel television broadcasting sector (hereinafter - the "**Satellite and Cable Broadcasting Sector**"). For further information regarding regulation applicable to the foregoing broadcasting licensees, see Section 5.15. DBS and HOT provide linear channel broadcasts (in this chapter also referred to as “Channels”) and VOD services (regarding the regulation of DBS’s VOD services, see Section 5.15.2).

B) OTT (over-the-top) Internet content providers - several local and international audio and visual content providers operate in Israel, broadcasting content via the Internet that can be viewed on various types of terminal devices (including mobile devices). The main local providers operate in a format that includes linear channels and VOD content (including DTT network content that is broadcast via the network or the Internet), among them are DBS (through STING TV, yes+ services; for further information see Sections 5.2.2.2 and 5.2.2.1) Cellcom, Partner and HOT. The main international providers that operate in Israel are Netflix, Apple and Amazon, which provide VOD content viewing options (as at the Reporting Date, most of this content is not translated into Hebrew), without linear channels. To the best of DBS's knowledge, most of the subscribers of the international providers in Israel also subscribe to services provided by the local providers or broadcasting licensees.

C) Providers offering pirated content without copyright permission[64].

D) DTT network

[65]A digital terrestrial television broadcasting system (DTT) known as Idan+ through which certain channel are broadcast to

64 DBS is a shareholder of Zira Ltd., which acts to prevent infringement of video content copyrights over the internet.

65 As at the Reporting Date the network broadcasts the Broadcasting Corporation's TV channels (CAN 11, CAN Education and Channel 33), the commercial TV channels (Keshet and Reshet), Channel 14,

the public, free of charge. The system is operated as of the date of the report by the Second Authority.

The channels are broadcast for a broadcasting fees, however the Ministers of Communications and Finance may decide that the State will subsidize broadcasting fees applicable for thematic channels and niche channels.

As at the Reporting Date, DTT is an alternative product, in part, to the multi-channel television broadcasts.

5.1.1.2 Under the Broadcast Distribution Law, a broadcaster whose broadcasts are part of the "open broadcasts" (i.e., television channels transmitted via the digital stations), will provide each "registered content provider"[66] consent to the transmit its linear broadcasts via the Internet free of charge, however, without derogating copyrights and production rights pursuant to the law and subject to certain conditions set out in the law, including obtaining a license from the copyright holders and performers (including through the broadcasting entity). With regard to the commercial channels[67], the effective date of the arrangement was deferred for five years, which were extended in January 2022 for an additional nine months (until October 2022)[68] during which special arrangements will apply, including granting a license to any registered content provider that applies for one, at the best price and under the best terms granted by the commercial channel to other content providers under another broadcasting license that is valid when the license is granted, and all as set out in the interim provisions of the Law.

5.1.1.3 HOT, Partner and Cellcom offer their services together with the other communications services they provide, including as part of bundles which are not unbundleable (such as the Triple bundles providing fixed-line telephony, Internet and TV services). For information pertaining to additional communication services provided by these telecommunication groups, see Section 1.7.1. For communications service packages offered by DBS and relevant restrictions, see Section 1.7.2.3.

In the reporting year, a high level of competition in the field continued to

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and the Knesset Channel (Channel 99), as well as several radio stations. The DTT operator will also be required to broadcast thematic channels (for which most broadcasts are devoted to a topic set out in the Digital Television Broadcasting Law, 2012 (the “Broadcasting Law”)) and broadcasts of holders of small independent TV broadcasting and Niche TV licenses. The Minister of Communications and the Minister of Finance have the authority to appoint a private operator to run it, for which the Council has the authority to grant a general broadcasting license that will be financed from subscription fees or commercials.

66 A "registered content provider" is defined in the Broadcasting Distribution Law as a content provider that is registered in the register. A "content provider" is defined in the Broadcasting Distribution Law as an entity whose primary activity is broadcasting a range of content to the public in Israel (such as DBS), provided that the content is broadcast at its initiative, through an interface under its control, whether the content can be viewed in real time, simultaneously by the public, or whether the content can be viewed at a time and place at the viewer's demand.

67 To the best of DBS's knowledge, as at the Reporting Date, such commercial channels are Channels 12 and 13. In this matter, see also Section 5.15.1.4.5.15.1.4

68 The Minister of Communications, with the approval of the Knesset's Economics Committee, may issue an order to extend this period by a single period of six months.

prevail, mainly due to the strengthening foothold of local and international online content providers, which operate at relatively low prices. These providers that operate via the Internet, without requiring designated infrastructures, and as at the Reporting Date also without regulatory supervision, have a materially adverse impact on DBS's competitive position. For further information concerning competition in the sector and the changes that occurred in the reporting year, including in DBS's mode of operation, see Section 5.6. For information regarding regulation of broadcasts via new broadcasting technologies, see Section 5.15.2.

For information on changes in the number of DBS subscribers, see Section 5.6.1.

5.1.2. Legislation, restrictions and special constraints in the operating segment

Licensed operations in the broadcasting sector are subject to extensive communications regulation, particularly the Communications Law, a strict licensing and monitoring regime and Ministry of Communications supervision and policy decisions. Broadcasting operations are also under the ongoing supervision of the Council, which sets policy, makes rules and monitors many areas of the sector, including broadcasting content, compliance regarding original Israeli production obligations, broadcasting ethics, consumer protection and approval of the channels that are broadcast.

TV services provided by non-licensed broadcasters that are not broadcast via satellite or cable, as defined in the Communications Law, are not subject to the foregoing supervision.

In July 2021, a report was published on the recommendations of a committee to examine the super-regulation in the field of broadcasting, headed by former MK Roy Folkman (hereinafter - "**Folkman Committee**"). The Committee's report includes, *inter alia*, recommendations on the following matters:

- Abolition of the Council and the Council of the Second Authority for Television and Radio, and establishment of the Commercial Broadcasting Authority in their place.
- Application of regulation on all audio-visual content providers (those whose main activity is delivering content to subscribers), including the different OTT operators. With regard to local content providers – application of regulation according to a scale to be determined according to their volume of activity, based on their total annual revenues. With regard to international content providers – application of regulation to a limited and partially voluntary extent.
- Establishment of provisions to promote original productions of top genre only and of a gradual investment obligation applicable to the different content providers, while reducing the present provisions regarding the obligation to invest in original productions.
- Establishment of provisions that prohibit exclusivity in sports broadcasts, to apply to all local content providers, and additional provisions with respect to the broadcasting and purchase of sports content.
- A mechanism for the establishment of provisions with respect to consumerism in the broadcasting sector as well as recommendations regarding cancellation of the basic cable and satellite bundles.

According to the Committee's report, there are issues on which the Committee has not reached a final conclusion, including the issue of economic models for the broadcasting market (for which the Committee recommends gradually abolishing the present separations and restrictions, including the must-carry obligation of the commercial channels (see Section 5.15.1.4), the channel allocation obligation, and the ban on broadcasting commercials on traditional platforms, including of DBS, while offering two plans for implementation of this recommendation) as well as the possibility for multi-channel platforms to hold news entities. Accordingly, the Committee allowed for reference to be made to its recommendations for further examination.

In September 2021, a the Minister of Communications decided on a reform of the broadcasting market. In the decision, among other things, the Minister announced the adoption in principle of the committee's recommendations, subject to changes and adjustments as specified in the decision, and ordered that his staff begin work concerning some of the recommendations. The Minister determined that the decision on the issue of the economic models for the broadcasting market will be made after receiving comments from the public and recommendations from the professional team. In addition, the Minister instructed the professional echelon at the Ministry of Communications to begin the work on anchoring the recommendations in legislation and guidelines[69], while completing the staff's work on the issues set out in the decision. The Minister further noted that he intends to act to complete the reform within a year at most. The effects of the decision on DBS' business depend, among other things, on the Minister's decisions on matters for which a final decision has not yet been made; since this is an economic decision and staff work is required regarding the recommendations contained therein; and since legislative proceedings are still required for the implementation of the committee's recommendations and their implementation, there is difficulty in assessing the extent of the impact of the legislative amendments or other regulations, insofar as they are adopted, on DBS' business, as adopted and in the wording and manner adopted.

DBS's assessments in this regard are forward-looking information, as defined in the Securities Law, based in part on the Folkman Committee's conclusions, the Minister of Communications' decision as stated and the wording of the proposed legislation. There is no certainty that this issue will be legislated or regulated in general, and in the proposed manner in particular. These assessments may not be realized, or they may be realized in a materially different manner than expected, depending, among other things, on the actual manner of implementation of the Minister's decisions, legislative amendments that will be formulated pursuant thereto and additional regulation. For information about possible effects on OTT services, see Section 5.15.2.

5.1.3. Changes in the segment's volume of operations and profitability

For further information concerning the changes in the scope of DBS's operations and its profitability, see Section 1.5.4.4.

69 In recent years, a number of legislative initiatives have been implemented regarding a change in the format of the aforesaid regulation, including the Memorandum on the Communications Law (Bezeq and Services) (Regulation of Content Providers) (Amendment No. _), 2018, which the Folkman Committee was instructed to take into consideration.

5.1.4. Critical success factors in the operating segment and changes occurring in it

5.1.4.1 Quality, differentiation, innovation and originality in the content, variety, branding and packaging of its broadcasts.

5.1.4.2 Applicable value offers to various target audiences.

5.1.4.3 Provision of television services using advanced technologies (with regard to broadcasting technologies, to terminal devices and to user interface).

5.1.4.4 Television services via the Internet

5.1.4.5 Offering communication service bundles that include television and other services such as telephony and Internet browsing services (see Section 5.15.2).

5.1.4.6 Access and connectivity to international content applications.

5.1.4.7 High level of customer services appropriate for the type of service.

5.1.4.8 Brand strength and its identification with quality, innovation and industry-leading content and services.

5.1.4.9 Attractive price.

5.1.5. Main entry and exit barriers for the operating segment

5.1.5.1 The main sector entry barriers are: (a) cable and satellite broadcasting - the need for cable and satellite broadcasting licenses and compliance with the applicable regulatory requirements; (b) the investments required of carriers in the sector, including for acquisition and production of content, and for cable and satellite broadcasting - installation of specific infrastructures; (c) the limited volume and the characteristics of the Israeli market. The scope and level of the entry barriers with regard to OTT TV services are very low, especially for international providers for which Israel constitutes another market for existing operations, and this is reflected in an increase in the number and variety of OTT services offered.

5.1.5.2 The main exit barriers are: (a) with regard to licensed broadcasters there are regulatory barriers – termination of operations under the Broadcasting License depends on a decision of the Minister of Communications to cancel the license prior to the end of the license term, under the conditions set out in the license, including arrangements (which could be imposed on the licensee) for ensuring the continuation of broadcasts and services and minimization of harm to subscribers; (b) long-term contracts with important suppliers, and with entities which granted DBS long-term loans.

5.1.6. Alternatives for products in the sector and changes therein

DBS considers the option of receiving multiple foreign channels via inexpensive terminal equipment as an alternative to its services for certain sectors. For information concerning additional alternatives, see Section 5.1.1.

5.1.7. Structure of competition in the sector and changes therein

Competition in the television sector is fierce with a relatively large number of players, most of which operate at very low prices (see Section 5.1), and via advanced online customer interfaces, increasing the intensity of the competition in the sector. Increasing the number of subscribers under current competitive conditions can be achieved mainly by recruiting the competitors' subscribers, which requires considerable investment of resources for retaining existing subscribers and recruiting of new subscribers.

DBS does not have information regarding the number of subscribers to the international companies operating in the market or the number of DTT viewers, and DBS believes that most of them are, in addition, also subscribers of the local TV providers operating in the market. DBS estimates that the increasing of the total market share of these players has been slowed down due to the fact that a large part of the remaining households are not potential audiences.

For further information regarding competition in the segment, see Section 5.6.

5.2. Products and services

DBS offers satellite TV service and OTT services in bundles of varying values, differentiating between them by the scope of content, scope of inclusive services, interfaces through which they are offered and price. The OTT services are offered as part of DBS's migration trend to gradually migrate its services from satellite TV to OTT services. For information concerning the migration process see Section 5.18.1.

5.2.1. Satellite broadcasting and related services

DBS satellite broadcasts include linear channel broadcasts, as well as radio, music and interactive services.

To allow reception of DBS satellite services, dish antennas are installed on buildings and decoders of different types with various features are installed in the subscribers' houses, which allow a variety of services to be received depending on the converter's features (recording of broadcasts in various resolutions, recording of content, VOD and more).

Pursuant to DBS's broadcasting license and the Council's decisions, DBS's satellite broadcasts include a basic package that every subscriber is required to purchase (along with additional basic packages which DBS is permitted to offer), as well as additional subscriber selectable channels, either as packages or as individual channels.

DBS provides subscribers to its satellite broadcasts (hereinafter - "**Satellite Subscribers"**) online (OTT) VOD services. The vast majority of the satellite subscribers subscribe to content bundles that include VOD services and the rest can purchase them if they want. Part of the VOD service content is provided for a separate fee.

Connecting Satellite Subscribers to VOD services requires, among other things, the use of specific types of decoders. Regarding the issue of regulating DBS's VOD services, see Section 5.15.2.

Satellite TV services are offered in an expanded bundle that contains the vast majority of the linear channels and VOD services, which is purchased by most of the Satellite Subscribers, as well as in bundles with more limited content (with subscribers able to purchase additional channels that are not included in any of the bundles they purchased).

5.2.2. OTT services

DBS offers several OTT services:

5.2.2.1 yes+

DBS offers the yes+ service, which includes linear TV channels, as well as VOD content offered in several bundles, the most prevalent among them being similar in scope to the expanded bundle offered to satellite subscribers. An advanced technology interface including advanced features not available on the satellite interface. The service is provided via suitable streamers and other suitable terminal devices, including mobile phones. The services can be used independently or in parallel with the satellite service.

5.2.2.2 Sting TV

DBS operates the Sting TV service, which includes linear TV channels and VOD content, and is intended for customers who are not satellite subscribers. The service is offered in several viewing bundles that do not include the full range of content offered as part of DBS's other services, at relatively low prices. The service is provided via suitable streamers and other suitable terminal devices, including mobile phones.

5.3. Revenue of products and services

Following is a table containing a breakdown of DBS' revenues (in NIS millions):

	2021	2020	2019
Revenue from broadcasts and multi-channel television services to subscribers	1,252	1,254	1,316
Percentage of revenue	Approx. 99%	Approx. 97%*	Approx. 98%*

* The revenues balance is mainly due to payments from channels for broadcasting by DBS as well as due to the sale of rights to content.

5.4. Customers

The overwhelming majority of DBS's subscribers are private customers. DBS usually engages with its subscribers in subscriber agreements that regulate the rights and obligations of subscribers in their relations with DBS. The subscriber agreement for Satellite Subscribers is subject to the Council's approval, which was granted[70].

5.5. Marketing and distribution

Marketing of DBS services is by way of publication in the various media. DBS sales to existing and new subscribers are carried out through two key distribution channels (some operated by DBS employees and others by external resellers, including Bezeq International and Pelephone):

5.5.1. Call centers

70 Pursuant to the broadcasting license, the approval of the Standard Contracts Tribunal is required for the standard subscriber contract (approval was granted in the past, and has expired). DBS applied to the Council to amend the subscribers' agreement and the license. In its application DBS requested, among other things, that the provision of the license requiring the Standard Contracts Tribunal's approval for uniform contracts be canceled in view of the legislative amendment concerning this issue. As at the Reporting Date, the Council's position concerning DBS's application has not yet been received.

5.5.2. Digital channels

5.5.3. Sales representatives working to recruit new subscribers.

5.6. Competition

5.6.1. Competitors in the market

As at the Reporting Date there are several competing groups in the market (see Section 5.1).

DBS's main competitors are HOT, which was declared a monopoly in the multi-channel television broadcasting sector[71] and holds the largest share of the market, as well as Cellcom, Partner and Netflix.

Breakdown of DBS's subscriber numbers and market shares[72], to the best of its knowledge, as at December 31, 2020 and 2021[73]:

2021		2020	
Subscribers (in thousands)	Market share	Subscribers (in thousands)	Market share
563	32%	557	32%

5.6.2. Nature of competition today

Competition in the market focuses on broadcasting content, price of services, quality of services, as well as offering advanced terminal equipment and state-of-the-art user interfaces, and additional services such as HD and 4K broadcasts and VOD services.

Competition also involves offering additional communications services together with video content (for information regarding service bundles offered by HOT, Cellcom and Partner see Section 1.7.1 and regarding the service bundles offered by DBP, see also Section 1.7.2.3), regarding accessibility and connection to international content providers and regarding the increase in the number of competitors and the foothold they gained (see Section 5.1).

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71 To the best of DBS' knowledge, in the second half of 2021, HOT appealed to the Competition Commissioner to cancel her declaration of HOT as a monopoly.

72 The market shares were calculated out of the foregoing total number of subscribers of DBS, HOT, Partner and Cellcom as specified below (and not out of the total number of viewers and subscribers in the market, due to lack of actual figures in this regard). The estimate of DBS's market share in 2020 and 2021 is based on the number of subscribers of DBS, Cellcom and Partner (based on their reports of the number of their subscribers at the end of the third quarter of 2021), and of HOT, that does not publish the number of its subscribers, and therefore the figures relating to HOT are estimated by DBS, taking into account past trends and existing figures for the other players). Nonetheless, there is no certainty that the figures assumed for HOT are accurate, and therefore it is possible that the actual market share may be different from those estimated.

73 The number of subscribers is approximate and the market share is rounded. Subscriber – one household or small business customer. In the case of business customers who have more than a minimum number of decoders (such as hotels, kibbutz or gym), the number of subscribers are standardized. The number of business customers who are not small business customers is calculated by dividing the total payment received from all non-small business customers by the average revenue from a small business customer, as is determined periodically.

5.6.3. Positive and negative factors that affect DBS's competitive status

5.6.3.1 DBS's management estimates that DBS has competitive advantages, the main ones being:

A) The quality and variety of content DBS broadcasts to its subscribers.

B) The level, quality and availability of DBS's customer service.

C) Using the most advanced cutting-edge technology for providing advanced services.

D) Fostering and promoting the "yes" brand as a preferred, popular brand with a high level of loyalty.

E) Marketing of several agreement plans, with different prices, offering different content, using different broadcasting methods, via various technological interfaces and various customer service formats.

5.6.3.2 DBS's competitive operations in the broadcasting sector suffer from inferiority or from adverse factors in a number of areas, the main ones being:

A) Infrastructure inferiority – DBS's satellite infrastructure does not enable bidirectional communications, does not enable provision of VOD services and does not enable transmission of telephony and Internet services, as opposed to the infrastructures used by HOT, Cellcom and Partner, which enable them to provide these services. For further information concerning OTT services - see Section 5.2.2. In addition, satellite infrastructure is limited compared to the Internet infrastructure with regard to advanced technological interfacing options.

B) Regulatory restrictions -

For information regarding restrictions on marketing joint service bundles see Section 5.15.3.

For information regarding restrictions under the Commissioner's conditions for a merger with the Company, see Section 2.16.8.3. These restrictions also apply to DBS's OTT operations.

For information regarding the competitive inferiority resulting from the absence of regulatory supervision of players who do not have broadcasting licenses, see Section 5.19.2.2. The establishment of the wholesale market reform as set out in Section 1.7.3, which does not allow DBS to purchase services from the Company, could facilitate the entry of new players and the establishment of a foothold by them.

C) Space segments - The use of space segments involves heavy expenses, is dependent on receiving services from a third party (see Section 5.16), and is restrictive with regard to the ability to expand the supply of broadcasts (see Section 5.7).

5.6.4. Main methods for coping with competition

Below are the main methods used by DBS for dealing with competition:

5.6.4.1 Content – DBS purchases, produces and broadcasts high-quality, innovative and diverse content, creating differentiation by focusing on branding and attaining dominance with regard to the content it broadcasts;

5.6.4.2 Pricing policy - offering a variety of services at various price levels.

5.6.4.3 Offering OTT services (see Section 5.2.2).

5.6.4.4 Service – DBS places emphasis on its customer service network;

5.6.4.5 Technology – DBS invests in expanding its technological capacities by focusing on providing innovative and advanced services.

5.6.4.6 Branding – DBS nurtures, promotes and differentiates the "yes" brand.

5.7. Production capacity

The number of channels that DBS is capable of broadcasting to its Satellite Subscribers depends on the number of space segments uses, its compression capability and the bandwidth required for transmission of each types channel. As at the Reporting Date, DBS uses almost all the space segments at its disposal. Space segments are provided to DBS by Space Communications Ltd. (see Section 5.16). These restrictions do not apply for OTT and VOD services, the broadcasting of which depends on Internet browsing speeds.

5.8. Property, plant and equipment

Below are the main components of DBS's property, plant and equipment:

5.8.1. Land

DBS leases several real estate properties for its operations. DBS's head office and its main broadcasting center are located in rented premises in Kfar Saba, for which the lease term ends in 2024 (with options granted to DBS for extension of the lease, subject to the terms of the agreement, until 2034). The remainder of the lease term for the other premises that DBS leases ranges between a year and a half and three years (these terms are based on the assumption that DBS will exercise the options granted to extend the leases).

5.8.2. Terminal satellite equipment

DBS installs a receiver dish and other terminal equipment in its subscribers' homes, including decoders enabling reception of broadcasts and smart cards for decoding the encrypted broadcasts. The decoders are leased to subscribers for a fixed leasing fee paid during the entire period the services are received, or are lent to subscribers.

5.8.3. OTT terminal equipment

yes+ and Sting TV services can be viewed via a wide range of terminal equipment, including various streamer models. DBS purchases streamers and rents them to subscribers.

5.8.4. Broadcasting equipment and computer and communications systems

DBS has its central broadcasting center in Kfar Saba and a secondary broadcasting center located in Ella Valley from where it transmits its broadcasts by satellite and via the OTT systems. The broadcasting centers contain reception and broadcasting equipment, as well as computer and communication systems. The secondary broadcasting center is partly operated at the premises of a third party which provides DBS a part of the secondary broadcasting center operating and maintenance services under a framework agreement which is valid until the end of 2024 (with DBS having an option to extend that can be exercised six months before the agreement terminates).

5.8.5. Operating and encryption systems

DBS purchases from Synamedia development, integration, encryption, maintenance and warranty services with regard to the operating system of the satellite transmission network and acquires similar services from Synamedia with regard to the OTT system, based on framework agreements signed by DBS and Synamedia. These services are provided for various DBS systems, terminal equipment, and for viewing cards and other hardware components required for receiving these services, and DBS receives relevant user licenses for the systems and terminal equipment.

The agreement with Synamedia regarding the satellite system is valid until February 2026, subject to the terms of the agreement, with an option for early termination of the agreement by DBS in the event that it discontinues its satellite broadcasts as part of the migration. See also Section 5.18.1.

With regard to the services and products provided under this agreement, DBS pays monthly installments where the agreement stipulates a minimum monthly amount for a set volume of services provided, as well as possible additional amounts that may vary depending on the types and scope of use of services provided to DBS, and development services that DBS is entitled to order under the agreement.

The term of the agreement for the OTT system is until December 2024 (with an automatic renewal mechanism for two-year terms, unless one of the parties announces otherwise, according to the dates set in this regard in the agreement). DBS has the right to exit the agreement regarding the OTT system, starting from January 2023 and thereafter, subject to prior notice and an exit fee (at a descending rate based on the duration of the remaining term of the agreement).

DBS is dependent on the continuous supply of these services, for both the satellite system and the OTT system.

5.8.6. Computerized billing system

DBS uses software and computer systems for managing its subscriber agreements, including its billing and collection system. In this context, DBS engaged in agreements for licenses, development services and technical support with NetCracker Technology Solutions Ltd and NetCracker Technology EMEA Limited (hereinafter jointly - “**NetCracker**"); DBS also uses the Salesforce software program together with Pelephone and Bezeq International in accordance with Pelephone's agreement with Salesforce (for details see Section 3.8.4).

DBS is dependent upon the NetCracker and Salesforce system and services, due to their importance for managing and monitoring services and content purchased by subscribers and for billing its subscribers. System malfunctions or shutdown of these services to DBS (including as a function of the agreement with Salesforce) could cause operational difficulties until the fault is repaired or the system or supplier are replaced, which could take a long time. As at the Reporting Date, part of the agreement components with NetCracker are renewed annually and some are valid until the end of 2024. The agreement with Salesforce is until the end of 2025.

5.9. Intangible assets

5.9.1. Licenses

DBS holds the following key licenses:

5.9.1.1 Broadcasting license valid through January 2023 – this license is material to DBS's operations and is the main regulatory permit for its operations (for the conditions of this license, see Section 5.15).[74]

5.9.1.2 A satellite television license for broadcasting in the Administered Territories, valid through December 2022, the terms[75] of which are similar to those of DBS's main broadcasting license, as set out in Section 5.9.1.1.

5.9.1.3 License to perform uplink operations (transfer of broadcasts from DBS's broadcasting center to the broadcasting satellite and implementation of set and ancillary operation activities), which is valid until January 2027.[76] This license is essential for DBS's operations and is the regulatory permit for the transmission of broadcasting messages from the broadcasting center to the broadcasting satellites and from them to the satellite subscribers' homes.

5.9.2. Trademarks

DBS has registered trademarks, the main ones intended to protect its trade name and the major brands it uses (yes, yes +, STING TV).

5.10. Broadcasting rights

5.10.1. DBS has the broadcasting rights of two types of video content.

Content purchased from third parties, including content and channels, that own the broadcasting rights thereto. DBS is working to adapt, as far as possible, broadcasting rights that it acquired to enable it to broadcast via the various media that it operates.

Content which DBS invests in producing (in full or in part), and in addition to the actual right to include the content in its broadcasts, DBS generally also has rights in such content, at the rates specified in agreements with the producers. In most instances, DBS is also entitled to issue authorizations to use the rights and share the revenues stemming from additional use of the content, in addition to DBS broadcasting thereof

The broadcasting and distribution of content by DBS over various media involves payment of royalties to the owners of copyrights and performance rights to music, sound recordings, scripts and directing of content, and for secondary broadcasting included under the Copyright Law, 2007 ("**Copyright Law**") and the Performers and Broadcasters Rights Law, 1984.

74 In July 2021, DBS submitted a request for renewal of the broadcasting license, which is being examined.

75 In July 2021, an application was made to the Director General of Judea and Samaria for the renewal of this license.

76 This is after an extension made in January 2022.

Such royalties are paid to several organizations for royalties collected on behalf of the owners of the intellectual property rights, under blanket licenses. Royalty payments under these licenses are, at times, based on a fixed payment and sometimes on various pricing methods, and with respect to some of the organizations, DBS may be required to pay additional amounts as royalties for broadcasting content via certain media, and in amounts that DBS estimates are not expected to be material.

This estimate by DBS is a forward-looking statement, based among other things on estimates by DBS, including regarding the amount of use of the content and the positions of the various organizations, and should any of them change, this estimate may change accordingly.

5.10.2. The main content providers and dependence on a single content provider

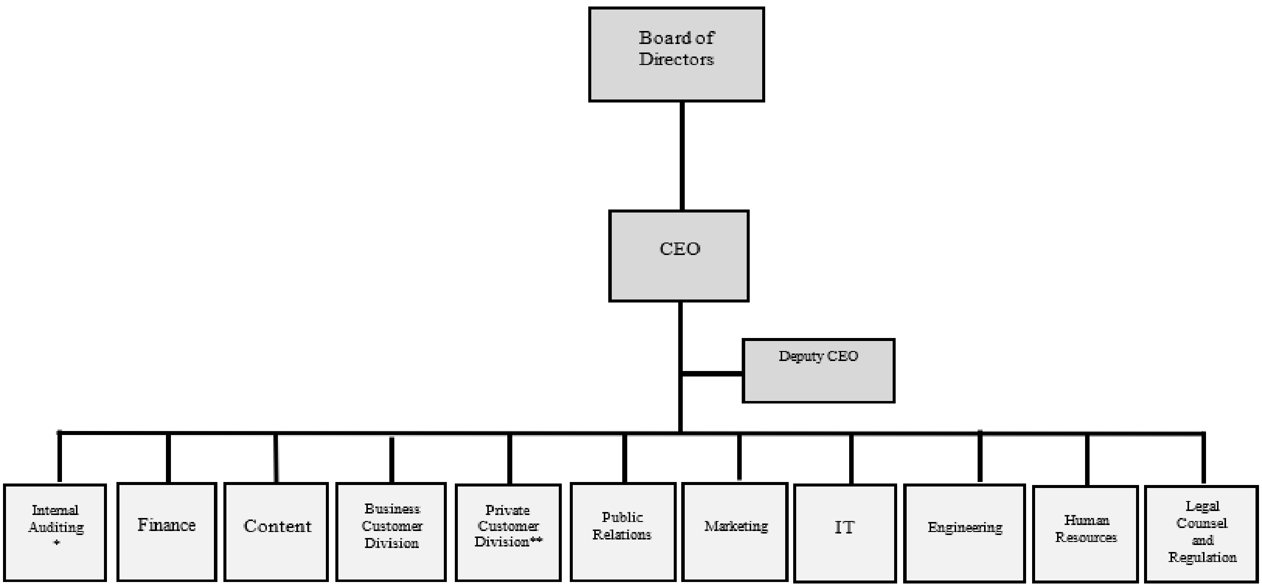
Given the many content providers from which DBS purchases broadcasting rights, DBS does not have a main content provider and is not materially dependent on any single content provider. Nonetheless, as at the Reporting Date, the Israeli sports broadcasting sector is dependent on acquiring broadcasting rights for local sports channels from Sport Channel Ltd. and Charlton Ltd., with which it has a long term agreement. This dependence is due to them being exclusive providers of Israeli sports broadcasts and in light of the high demand for such services among a significant group of DBS customers. The fees paid under these agreements are based on regular monthly payments based on the number of subscribers to DBS broadcasts (excluding the exceptions stipulated in these agreements).

5.11. Human resources

5.11.1. Organizational structure

DBS's management consists of divisions, each of which is headed by a VP who is a member of the DBS management.

DBS Organizational Structure



(*) The Internal Auditor is an employee of Pelephone.

(*) The head of the Private Customer Division is the Deputy CEO.

As part of applying synergy among the Group's subsidiaries, DBS's CEO, Ran Guron, also serves as CEO of Pelephone and Bezeq International. Most of DBS's current VPs also serve as VPs at Pelephone and Bezeq International.

5.11.2. DBS personnel by division

	Number of employees	
	31.12.2020	31.12.2021
Head office employees	382	347
Customer Division	847	747
Total	**1,229**	**1,094**

The total number of employees in the above table includes employees employed in part time positions. The total number of positions at DBS as at December 31, 2021 was 999.

5.11.3. Bonuses and Nature of Employment Agreements

Terms of employment at DBS are regulated, among other things, in collective agreements and a collective arrangement, as detailed below, and apply to the majority of the employees (they do not apply to some of the management levels or to all the employees in special trust positions). The DBS representative workers union is the General Federation of Workers.

Furthermore, DBS employees are employed under personal employment agreements, on the basis of a monthly salary or an hourly wage, with some of the employees also entitled to performance-based compensation. The employment agreements are usually for an indefinite term and each party may terminate the agreement with prior notice as set out in the personal agreement and according to the law, and subject to the provisions of the collective agreement, if applicable.

In 2019, DBS signed a collective arrangement with the General Federation of Workers and the workers' committee with regard to streamlining and synergy measures. The arrangement stipulates, among other things, that DBS will be entitled to terminate employment of up to 325 employees during the years of the arrangement and that a one-time bonus will be given to employees who will not be included in the retirement plan. Under the arrangement, it was agreed to cancel all pending labor disputes. In addition, the arrangement stipulates that DBS is also entitled to streamline by not recruiting new staff, in place of employees whose employment is terminated.

In August 2021, DBS signed a collective agreement with the General Federation of Workers and the workers' committee, which included, among other things, amendments to the collective agreements and the collective arrangement as stated. The new collective agreement is in force from January 1, 2022 through December 31, 2024. Under this new collective agreement, among other things, wage increases and bonuses will be granted, ancillary benefits will be improved, a retirement plan was agreed upon, the labor dispute announced by the General Federation of Workers in December 2019 was lifted, as DBS management’s intention to merge Bezeq International into DBS was explained and the parties agreed to maintain labor stability throughout the term of the agreement on all matters settled therein. The collective agreements applicable to DBS employees (as amended above) regulate, among other things, the periods after which DBS employees will become tenured employees, mechanisms for involving the Workers Committee in decision making concerning employment and termination of the employment of tenured employees, as well as annual wage increments and other general benefits DBS will grant to its employees during the term of the agreement.

The foregoing collective agreements and arrangement are valid through to December 31, 2024. The validity will automatically be renewed for further terms of 12 months each time, unless one of the parties gives at least 90 days notice prior to expiration of their intention to change the agreement.

Regarding the notice from June 2021 by the New Histadrut Labor Federation - Cellular, internet and High-tech Workers Union about the declaration of a labor dispute, inter alia, over the refusal of the joint management of Pelephone, Bezeq International and DBS to hold negotiations on various matters, which was also received at the DBS offices, and a legal proceeding brought by Bezeq International in July 2021 pursuant to the notice, which is underway in the Tel Aviv Regional Labor Court, see Section 4.8.

5.11.4. Employee compensation schemes

DBS customarily awards its officers and managers, as well as some of its employees, annual bonuses based on attaining goals and performance assessment. Regarding equity-based compensation from the Company for some of DBS's officers, see Section 2.9.5.

5.12. Trade payables

For information concerning an agreement with Spacecom, see Section 5.16.

For information concerning an agreement with Synamedia, see Section 5.8.5.

For information concerning agreements with NetCracker and Salesforce, see Section 5.8.6.

With respect to the purchase of broadcasting rights for local sports channels, see Section 5.10.2.

5.13. Financing

DBS's main sources of financing are shareholders loans and investments by the Company, based on its needs, which DBS estimates, also in the foreseeable future it expects that it will need financing from the Company.

DBS's foregoing estimate is forward-looking information. It is not at all certain that DBS will require financing from the Company or that the Company will always finance DBS's operations and for which periods, and this depends, inter alia, on DBS's situation, developments in the sectors in which it operates, and the state of competition in these sectors, and DBS's future financing needs.

In November 2021, the Company approved the provision of a credit facility or capital investment to DBS for a total of up to NIS 40 million, for 15 months as of October 1, 2021. This approval replaces a similar approval given in August 2021 (and is not in addition thereto).

5.14. Taxation

For further information, see Note 7 to the 2021 Financial Statements.

5.15. Restrictions on and supervision of DBS

5.15.1. Regulation of satellite broadcasts

DBS's operations, as a holder of a broadcasting license, are regulated by and are subject to an extensive system of laws that apply to the satellite and cable broadcasting sector, including primary legislation (and specifically the Communications Law and subsequent regulations), secondary legislation (including the Communications Rules), as well as, inter alia, the Council's decisions.

Additionally, DBS's satellite operations are subject to the provisions of its licenses, and particularly the broadcasting license.

The law authorizes the Director General of the Ministry of Communications and the chairman of the Council to impose financial sanctions for violations of the provisions of the law and of orders and directives issued thereunder, and for violation of the terms of the license.

5.15.1.1 Eligibility requirements for satellite broadcasts licensee, cross-ownership restrictions

The regulations of the satellite broadcasting license place various restrictions on a licensee, including eligibility requirements that relate to the holdings of the owner of the license and the interested parties, directly and indirectly, in the licensees under the Second Authority Law[77] and the owners of daily newspapers, as well as requiring DBS officers to be Israeli and at least 26% to be held in Israeli hands, in accordance with the provisions set out in the regulations..

5.15.1.2 Tariff control

The broadcasting license provides provisions regarding the types of fees the licensee may collect from its subscribers for services provided under the license, and those fixed in the DBS price list. The vast majority of the Satellite Subscribers subscribe to campaigns offering DBS services, including various combination content packages, related services, and receipt and installation of terminal equipment, at prices below the listed price.

DBS is obligated to notify the Council chairperson regarding every change in the DBS price list that was approved by the Council and the chairperson may, in certain cases, may prohibit the change in the price list. The Council chairperson may intervene in campaigns or discounts offered by DBS if he/she finds that they are misleading to the public or discriminate between subscribers.

Under the Communications Law, the license may stipulate maximum prices that can be charged to subscribers. At the date of this report, no such prices had been set.

5.15.1.3 Obligation to invest in local productions

Under the provisions of the broadcasting license and the Council's decisions, in each of the years 2021 and 2022, DBS is required invest no less than 8% of its revenue from subscription fees[78] in local productions, and according to the Communications Regulations and the decisions of the Council, DBS is required to invest various amounts of such investments in different genres of local productions.

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77 As at the Reporting Date, the operations of these entities (in the cable broadcasting sector and under the Second Authority Law) are regulated through licenses and not franchises.

78 Based on DBS Satellite Subscriber revenues in the past year, including DBS revenues from terminal equipment and installations. According to the Council's position that actual investment are being made, although DBS disagrees with this, these revenues also include revenues from VOD services for satellite subscribers.

In December 2021, the Council decided to defer until 2023 the applicability of its earlier decision according to which the required rate of investment in local productions will increase to 9%. The Council further decided that in 2022, and based on developments, the Council will hold another hearing to review the current legislative status and the financial position of the licensees, including the hedge formula set out in the Council's previous decision, and will give instructions as it deems appropriate.

5.15.1.4 Requirement to transmit channels

DBS is obligated to transmit in the satellite broadcasts the "mandatory channels," as determined by the Minister and in the broadcasting license.[79]

In addition, DBS is required to allow the channel producers as provided in the law to use its infrastructures to transmit broadcasts to its subscribers, and this in exchange for a fee (hereinafter - "**transmission fee**") to be determined in an agreement, and in the absence of an agreement, in exchange for a fee to be determined by the Minister, after consulting with the Council. Furthermore, the Minister may require the transmission of broadcasts of small channel licensee under the Second Authority Law (which did not hold special licenses prior to the amendment to the law), taking into account DBS satellite capacity. According to the amendment to the Second Authority Law, 2018, holders of small and niche channel licenses that were holders of niche licenses under the Communications Law are exempt from paying transmission fees to HOT and DBS, for a period of 5 years from date of the amendment.

5.15.1.5 Content of the broadcasts and obligations with respect to subscription

The broadcasting license sets out provisions that relate to the content of DBS's broadcasts, including an obligation to obtain the Council's approval of the channels broadcast by DBS. The Communications Law forbids holders of broadcasting licenses to broadcast commercials, other than a few exceptions.

The broadcasting license also includes provisions regarding the subscriber service terms, including discrimination prohibition.

Regarding a hearing published by the Ministry of Communications in January 2021 with respect to a requirement from communications providers to provide information about the use of communications services, see Section 1.7.4.11.

Regarding a preliminary request by the Council for data in connection with inactive subscribers, see Section 1.7.4.13.

5.15.1.6 Ownership of broadcast channels

Pursuant with the Communications Rules, DBS, including its affiliates as defined in the Communications Rules, may own up to 30% of the domestic channels it broadcasts (compared with the

79 According to the provisions of the Communications Law, DBS is exempt from payment to the commercial channels included in the mandatory channels for its transmission of their broadcasts.

20% applicable to HOT.) DBS is restricted under the Communications Law from owning a news program producer.

5.15.1.7 General provisions regarding the broadcasting license

The Minister and the Council have parallel authority to amend the broadcasting license. The Minister was authorized to cancel or postpone the broadcasting license for causes set out in the Communications Law and the broadcasting license. The Communications Law and broadcasting license stipulate restrictions on the transfer, attachment and encumbrance of the broadcasting license and any of the assets of the broadcasting license. The broadcasting license requires receipt of the approval of the Minister for specific changes in the holding of the means of control in DBS and imposes a reporting requirement regarding the holders of the means of control; hurting competition by way of an agreement, arrangement or understanding with a third party in terms of provision of broadcasts and services is prohibited, unless approved in advance and in writing by the Council; the obligation to file reports to the Ministry of Communications was defined as well as conditions regarding the regulation of the activity of the licenses; an obligation was stipulated to provide bank guarantees to the Ministry of Communications in the amount of NIS 30 million (principal) (as at the Reporting Date, NIS 40 million).

5.15.2. Regulation of OTT services

OTT services (such as those offered by Cellcom, Partner, Netflix, and DBS) are not subject to the current regulation on multi-channel satellite TV broadcasting or other regulation under the Communications Law. DBS believes that also the VOD services it provides via the Internet to Satellite Subscribers (see Section 5.2.1) are not subject to the foregoing regulation. Nonetheless, from the Council's various decisions (also see Section 5.2.1) it appears that the Council believes it is authorized also to regulate DBS's VOD services.

For information concerning the examination the regulation of OTT services see Section 5.1.2.

If regulation is applied to OTT content broadcasting as aforesaid, it is expected to impose restrictions on DBS providing these services, however such regulation may reduce the existing gap in the regulation regime between broadcasting licensees and other entities operating in the OTT market.

DBS's assessments in this regard are forward-looking information, as defined in the Securities Law, based in part on the Folkman Committee's conclusions, the Minister of Communications' decision as stated and the wording of the proposed legislation. There is no certainty that this issue will be legislated or regulated in general, and in the proposed manner in particular. These assessments may not be realized, or they may be realized in a materially different manner than expected, depending, among other things, on the actual manner of implementation of the Minister's decisions, legislative amendments that will be formulated pursuant thereto and additional regulation.

5.15.3. Offering service bundles

Under the broadcasting license, DBS may offer joint service bundles that include service provided by the Company and service by DBS, subject to obtaining Ministry of Communications approval (and if no objections are raised within the period specified in the license, such approval will be deemed granted) and subject to conditions, the most important of which are the "unbundling" obligation, and the existence of a corresponding bundle marketed by a licensee that is unrelated to the Company (see Section 1.7.2.3). A joint service bundle marketed by DBS that includes the Company's Internet infrastructure service only, does not require Ministry of Communications approval and the unbundling obligation does not apply.

With regard to conditions published by the Commissioner with regard to the merger of the Company and DBS, and the amendment in regard thereto, see Section 2.16.8.3.

DBS believes that in view of the development of competition between the communications groups and the growing importance of the supply of comprehensive communications services (see Section 1.7.1), particularly the competition between it and HOT, Cellcom and Partner that are not subject to such restrictions, if the restrictions with regard to the Company's collaboration with DBS (see Section 1.7.2.3) remain in place, the adverse impact of such restrictions on DBS's results may increase.

5.16. Material agreements

Following is a brief description of the main points of the agreements likely to be considered as material agreements outside the ordinary course of DBS's business, which were signed and/or were in force in the reporting period:

5.16.1. Space segment leasing agreement[80]

Under the 2013 agreement with Spacecom, as amended (including the July 2021 amendment), DBS leases Amos satellite space segments (hereinafter - the "**Spacecom Agreement**").

Under the provisions of the Spacecom Agreement, DBS leases space segments on the satellites, Amos 3 (the estimated end of life of which is at the beginning of 2026), and on Amos 7, in which Spacecom owns the right to lease space segments under its agreement with the owner of the rights in this satellite, in which segments of its space are leased to DBS until February 2024 (or until the end of its life, whichever is earlier), with DBS being able to extend for an additional six months.

Term of the agreement - Until the end of the life of the "Amos 3" satellite (subject to exceptions set forth in the agreement), but in any case the agreement will end no later than February 2026[81].

80 The estimates in this Section concerning the satellite operations and end of their useful life, the number of segments leased and the effects of these aspects are forward-looking information, as defined in the Securities Law, based among other things on the information given by Spacecom to DBS and which, in part, is not in the control of Spacecom, and is dependent on its engagements with third parties. Consequently, these estimates may not materialize or may materialize in a manner significantly different from that expected, inter alia, depending on conditions relating to satellites operating, conditions required for their proper running and the end of the life expectancy of existing satellites, and other external factors (including third parties, among them the holder of rights in the Amos 7 satellite) that impact their operation and the operations of Spacecom and the state of its business.

81 In some cases, DBS may notify regarding the continued use of the "Amos 3" satellite even after the end of its life.

Leased space segments - under the Spacecom Agreement (and subject to non-availability incidents), until the end of the lease term of Amos 7, DBS will lease 12 space segments from Spacecom, according to distribution between the relevant satellites as determined in the agreement, according to the various periods, after which DBS is expected to lease 10 space segments of Amos 3. The agreement also regulates the provision of backup segments for space segments leased by Spacecom during the term of the agreement, such that in the event of space segments not being available on one of the satellites, Spacecom will provide alternative segments on the other satellite so that the number of segments will not be less than 10 segments, subject to conditions and constraints set forth in the agreement[82].

Cost - The average annual cost until the end of the lease in Amos 7 is approx. USD 25 million, and thereafter approx. USD 18 million, subject to the discount and reimbursement mechanisms set forth in the Spacecom agreement.

Early termination of the agreement - According to the Spacecom agreement, DBS may give notice of an early termination, without cause, of the Spacecom agreement subject to 12 months' prior notice and payment of the lease in "Amos 7" plus a partial payment of the balance of the lease in the space segments in "Amos 3".

Leasing fees in 2021 amounted to NIS 75 million.

DBS is materially dependent on Spacecom, as the exclusive holder of the rights and the sole provider of space segments used by DBS, which is also responsible for operation of the space segments. For information concerning exposure to risks in the event of malfunction of one of the satellites, unavailability of the space segments that DBS uses, or lack of redundancy of the Amos 3 satellite as at the end of the Amos 7 lease, see Section 5.19.3.4. Regarding dependence on Spacecom see Section 5.19.3.5.

82 In addition, according to the Spacecom agreement, it holds reserve tubes on the "Amos 7" satellite, and must make every reasonable effort to locate alternative satellite segments in other satellites under the conditions and constraints set forth in the agreement, including maximum amounts and rates of Spacecom's participation in additional expenses that may arise from the lease of sections on another satellite as aforesaid.

5.17. Legal proceedings[83]

5.17.1. Pending legal proceedings

	Date	Parties	Court	Type of Proceeding	Details	Amount of claim/Relief
.A	December 2020		Tel Aviv District Court		For further information concerning an indictment filed in December 2020 by the State Attorney's Office (in the wake of an overt investigation initiated in June 2017, inter alia, against the former CEO and the former CFO of DBS, see Section 1.1.6.	
.B	June 2017	The Company's share holders against the chairman of the Company's Board of Directors, members of the Company's Board of Directors, and Eurocom Group companies, and against the (former) CEO of the Company and the (former) CEO and CFO of DBS in Tel Aviv District Court (Economic Department)	Tel Aviv District Court (Economic Department)	Motion for certification of class actions	For further information concerning the motion for certification of a class action that was filed, inter alia, against the former CEO and the former CFO of DBS, with respect to a transaction from 2015, under which the Company acquired from Eurocom D.B.S. Ltd. the balance of DBS shares held by it, see Section 2.18.1D.	
.C	July - August 2017	Shareholders of the Company against DBS	Tel Aviv District Court	A motion for discovery of documents prior to filing a motion for certification of a derivative action under Section 198A of the Companies Law	For information concerning a motion for discovery of documents prior to filing a motion for certification of a derivative claim under Section 198A of the Companies Law, against the Company and DBS, and to disclose certain documents relating to an interested party transaction between DBS and Spacecom from 2013, as amended in 2017 (the Spacecom Agreement), see Section 2.18.1E.	
.D	June 2018	Shareholders of the Company against the Company, DBS and the Company's former controlling shareholders	Tel Aviv District Court (Economic Department)	Motion for discovery and inspection of documents under Section 198A of the Companies Law	For further information regarding a motion for discovery of documents prior to the filing of a motion for certification of a derivative claim pursuant to Section 198A of the Companies Law, which were filed by shareholders against the Company, DBS, the former controlling shareholder of the Company, Mr. Shaul Elovitch, and his son, Mr. Or Elovitch ("Messrs. Elovitch"), for the furnishing of documents and information relating to a breach of the duties of trust, loyalty and fairness by Messrs. Elovitch with regard to the sale of the Company's shares on February 2, 2016 by B Communications, see Section 2.18.1G.	

83 For information concerning reporting policies and materiality, see Section 2.18.

	Date	Parties	Court	Type of Proceeding	Details	Amount of claim/Relief
.E	June 2021	Customer v. DBS	Central District Court	Motion to certify a class action	It was claimed, inter alia, that customers of DBS who order a paid channel close to the date of closing of the invoice, and cancel it shortly thereafter (so that they are supposed to pay a daily rate), are supposedly overcharged, allegedly due to a system malfunction. The class in the motion is defined as all DBS customers who were overcharged for an order for a paid channel as a result of a malfunction in the DBS system, during the 7 years prior to the filing of the motion and up to its approval. The amount of the personal damage claimed is NIS 126.9 (NIS 26.9 for the overcharge and NIS 100 for non-monetary damage). In the motion it is noted that at this stage the petitioner does not have the required data for assessing the damage of the class members, however, this damage is valued in the motion at over NIS 2.5 million. In November 2021, an application was filed with consent for the departure of the applicant with payment of compensation and expenses to the applicant.	over NIS 2.5 million.

5.17.2. Legal proceedings that ended during the reporting period or by the date of publication of the report

	Date of Filing of the Claim	Parties	Instance	Type of Proceeding	Details	Original Amount of the Claim (NIS millions)
.A	June 2015	Customer v. DBS	District (Central)	Financial claims together with motions to certify them as class actions	A claim of discrimination against new DBS customers over returning former DBS customers. This, according to the allegations, is contrary to the provisions of its license and by law. The petitioner requested non-monetary compensation for the members of the group represented and to allow every subscriber to receive the conditions received by returning subscribers ("**First Motion**"). After the parties to the proceedings submitted their summations to the court, in July 2018, a hearing was held on all the certification motions filed against all the communications companies, during which the court recommended that the plaintiffs consider withdrawing the certification motions with compensation, and ruled that, if the recommendation is not accepted by September 2018, the court will hand down its ruling on the certification motions. In November 2018, as no further notification was filed in the matter, the court ruled that the case would be passed on for a ruling on the certification motions. In December 2019, the Tel Aviv District Court handed down a judgment dismissing all the certification motions. In January 2020 the petitioners in the First Motion filed an appeal against the judgment with the Supreme Court. In February 2021, in a hearing on the appeal, the Supreme Court recommended the withdrawal of the appeal, with no costs order. Further to this, the First Petitioner gave notice of the withdrawal of her appeal. On February 16, 2021, the Supreme Court handed down a partial ruling, ordering the appeal of the First Petitioner to be struck out with no order for costs.	The amount of the claim is estimated to be NIS 13 million plus non-monetary damages as will be awarded by the court. The applicant in the other motion does not indicate the amount of the claim, but the amount of the damage is estimated to be tens of millions of shekels.
.B	October 2021	Customer v. DBS	Jerusalem District Court	Claim with a request for approval as a class action	The issue claimed in the motion concerns the claim that DBS is acting unlawfully in that when a customer orders a more advanced (new) converter, it provides the customer with the new converter without taking back the old converters and continues to charge the customer for the old converters left behind in their home at a monthly rental rate. The Applicant claims that DBS acts in this manner, among other things, in bad faith, by deception and while misleading representation in its invoices. The amount of individual damages claimed amounts to NIS 193 (NIS 183 for overcharging and NIS 10 for breach of autonomy). On January 19, 2022, the court approved a request with consent to withdraw from the request, from which it emerged that the applicant was convinced that a specific fault had occurred in his case which did not reflect the DBS policy, and ordered its deletion.	The Applicant notes that at this stage it is not possible to estimate the total damages to the members of the class.

5.18. Goals and business strategy

5.18.1. DBS's goals are to retain its market share, by maintaining DBS's business and competitive position in the market and the status of the yes brand as a leading media brand and to continue implementing the measures for streamlining and synergy with Pelephone and Bezeq International.

Beginning in 2019, DBS is implementing a plan for migration from satellite broadcasts to OTT broadcasts, in a long-term, gradual process that is expected to be spread until the beginning 2026, pursuant to a resolution of the boards of directors of DBS and the Company. This decision was made in light of trends in the television content market that include lower entry barriers, emergence of new players, establishment of OTT broadcasting technologies, changes in the value chain, and changes in consumer habits, together with the differences between the technology of the older satellite broadcasts and the technology of OTT broadcasts with all its inherent advantages (considering also aspects of equipment, commitments and content rights). In accordance with the resolution, DBS is closely monitoring market conditions, the competitive and the technological environment, and regularly assesses the feasibility of the plan and the need, if any, for making adjustments to the plan, the pace at which it is carried out or the manner of its implementation, also taking into account customer requirements as well as regulatory and other obligations of DBS.

As this concerns a plan for migration in a gradual, multi-annual process, with close monitoring, there can be no certainty at this stage regarding the actual time it will take to implement the process and/or that the process will be completed as stated. If the migration is completed, it is expected to lead to a savings in DBS costs and better compatibility with changing market conditions.

As of the date of approval of the financial statements, 40% of all DBS subscribers use yes+ and Sting TV services that are transmitted over the Internet (as stated in Sections 5.2.2.1 and 5.2.2.2)[84].

5.18.2. To achieve these goals, along with efforts to reduce costs, DBS invests considerable effort in marketing and sales, and in appropriate marketing strategies designed to continue to attract new subscribers and to retain existing customers; continually improve the array of services to subscribers; improve the added value offers to customers; create differentiation and innovation in its broadcasting content; offer diversified products (low cost and premium) to increase the amount of content purchased by each subscriber and expand DBS's value-added services; and to invest in the development and integration of advanced technologies and new services; and DBS's drive to implement the OTT services migration plan.

5.18.3. For the Structural Change Plan and for the establishment of ISP activity in DBS, see Section 1.1.5.

5.18.4. DBS’s foregoing goals, including with respect to the migration outline plan described above, are forward-looking information, as defined in the Securities Law, based among other things on assumptions, assessments and forecasts by DBS's management concerning the current trends in the broadcasting market, regarding the competition, business development, consumer behavior, technological environment and regulatory environment, and method of regulation (both on DBS and other entities) in the satellite TV

84 This rate also includes subscribes that also use satellite services in parallel.

broadcasting sector as well as the OTT market, taking into account the restrictions that apply and will apply to the Company, and which affect DBS. Nonetheless, the forecasts of DBS's management, its preparations and goals may not materialize, or may materialize in a significantly different manner, due to changes in demand in the broadcasting market, fiercer competition in this sector due to the entry of additional providers into the sector or alternative sectors due to technological developments and changes in viewing habits, and the regulatory restrictions which are or will be imposed on DBS or on its partnerships with the Company and other entities in the sector, as well as the way the sector is regulated with regard to license holders and operators that do not hold licenses.

5.19. Discussion of risk factors

Following is a list of the threats, weaknesses and other risk factors of DBS (hereinafter - the "**Risks**") attributable to the general environment, industry and special nature of its operations.

5.19.1. Macro risks

5.19.1.1 Financial risks

A material part of DBS's expenses and investments are in US dollar (particularly content, satellite segments, purchase of decoders and additional logistics equipment). Consequently, sharp fluctuations in the exchange rate will have an effect on DBS's business results.

5.19.1.2 Recession / economic downturn

An economic recession, increase in unemployment rates and a decrease in disposable income might bring about a decrease in the number of DBS' subscribers, a decrease in DBS' revenues and harm to its business results.

5.19.1.3 Security situation

An ongoing unstable security situation in large areas of Israel, which disrupts the day-to-day lives of the residents, could have an adverse effect on DBS's business results.

5.19.1.4 Pandemic

At the beginning of 2020 the coronavirus broke out and spread across the world. Further to which DBS is monitoring developments concerning the implications of the coronavirus pandemic and the resulting legislative restrictions that have affected and will continue to affects its business operations. These implications are and may potentially be reflected, among other things, in impairment of the supply chain (including streamers) and the customer service network. As at the Reporting Date, there is no expectation of a significant decline in DBS's revenues that can be attributed to the effects of this outbreak. Nonetheless, this is by nature an evolving event that is not within DBS's control, and therefore the continuation and increasing severity of the coronavirus pandemic and/or decisions by countries and the authorities in Israel and around the world, may affect DBS accordingly.

5.19.2. Sector-specific Risks

5.19.2.1 Dependence on licenses

DBS's satellite TV broadcasts are provided under a broadcasting license and other licenses, and are thus dependent on the existence of such licenses and their extension from time to time. Violation of the provisions of the licenses and of the law under which the licenses are issued could bring about, subject to the license conditions, revoking, amendment or suspension of the licenses and consequently material harm to DBS's ability to continue operating.

5.19.2.2 Regulation

The provision of satellite television broadcasts is subject to obligations and restrictions set out in legislation and to a system of licensing, oversight and approvals from various regulatory bodies, and consequently may be affected and restricted due to policy considerations dictated by these entities and by their decisions and changes in communications legislation (see Section 5.15). Regulatory changes could impact DBS operations and could have a material adverse effect on its financial results. OTT services, including those provided by DBS are not supervised as at the Reporting Date (for information regarding the possibility of the regulation of these services, see Section 5.15.2). Likewise, the continuing operations of online content providers (and the entry of additional providers), as set out in Section 5.1.1 above, without applicable regulation of their operations and/or without amending the regulations applicable to broadcasting licensees, may significantly affect DBS's financial results. In addition, as a provider of public services, DBS operations are subject, inter alia, to consumer and privacy protection regulation and information security laws (see Section 1.7.4.5).

5.19.2.3 Intense competition

The sector is fiercely competitive with diverse competitors (see Section 5.1.7), which are expected to grow in the future with the entry of additional local and international entities, and with the changing consumer preferences, requiring DBS to regularly and continuously invest in attracting and retaining customers, and dealing with high rates of subscriber migration between the companies and may even require a change in the business model of DBS. For details regarding competition, see Section 5.6.

DBS's assessment as set out in this paragraph in relation to the possibility of local and international entities entering is forward-looking information. This assessment is based on DBS' assessments of the state of the sector and possible changes therein. This assessment may not materialize or may be realized partially or otherwise considering the realization or non-realization of the plans of various entities to enter the sector, the manner in which they are actually implemented and the conditions of competition that will prevail.

5.19.2.4 Technological developments and improvements

Technological improvements and development of innovative technologies that render existing technology inferior, could force DBS to invest large amounts for retaining its competitive edge (see Section 5.1.1).

5.19.2.5 Alternative infrastructure for multi-channel broadcasts

The DTT system, and particularly its expansion and the expanding penetration of OTT operators, could have an adverse effect on the financial results of DBS (see Section 5.1.1).

5.19.2.6 Unlawful viewing

The broadcasting sector is exposed to viewers' pirate connections for receiving broadcasts without paying subscription fees and is exposed to public access to content to which the broadcasting providers have rights.

5.19.2.7 Exposure in legal proceedings

DBS is a party in legal proceedings, including petitions to approve class actions, which may result in it being liable for material amounts that cannot presently be estimated and no provision has been made in its financial statements for these proceedings. Class action suits may reach high amounts, since a substantial share of the residents of Israel are DBS subscribers, and a claim relating to a small amount of damage to a single subscriber could grow into a material claim against DBS if certified as a class action applicable to all or a large proportion of those subscribers.

5.19.3. DBS specific risks

5.19.3.1 Restrictions caused by ownership structure

DBS is restricted in joint ventures with the Company with respect to offering communications service bundles, resulting in a material impact on DBS's business status and competitive ability (see Section 5.15.3).

5.19.3.2 Restrictions due to eligibility conditions

"Cross-holdings", direct or indirect, of DBS shareholders, as well as a decrease in the rate of holdings in DBS held by Israeli citizens or residents may result in failure to comply with the eligibility conditions of its broadcast license (including in light of the minimum Israeli held holdings requirement, see Section 5.15.1.1).

5.19.3.3 Existence of sufficient cash flow

DBS is required to maintain a cash flow that is sufficient for compliance with its business plan. The absence of a sufficient cash flow, including through investment or financing from the Company, may adversely affect DBS' business and to make it more difficult for it to face the competitive threats in view of technological developments and consumption patterns in the field.

DBS believes that it is expected to continue accruing operating losses in the coming years, and therefore without the Company's support, it will be unable to meet its obligations and continue operating as a going concern. DBS believes that the sources of financing available to it, including, inter alia, the working capital deficit and the credit limits and capital investments from the Company as set out in Section 5.13, will be sufficient for the needs of DBS's operations for the coming year.

5.19.3.4 Satellite malfunction, damage, unavailability or termination of satellite services

DBS broadcasts via space segments on satellites stationed at identical points in space. Malfunction of one of the satellites, damage to one of them or unavailability of space segments on any of the satellites, including unavailability of the new satellite scheduled to replace a previous one that has ceased to broadcast or provide services to DBS, or termination of the leasing of space segments on any of the satellites, could disrupt and materially reduce the volume of DBS satellite broadcasts, unless an alternative is found for the foregoing unavailable space segments, taking into account the time involved until such alternative is implemented. Nonetheless, the duplication of the satellites via which broadcasts are transmitted to subscribers as of the Reporting Date, also in view of the partial backup mechanism prescribed in the Spacecom agreement (whose nature and scope will depend on the identity of the backup satellite), significantly reduces the risk entailed by damage, failure or unavailability of one of them, and improves the sustainability of the broadcast. In the event of a satellite being unavailable as aforesaid, it would be possible, through space segments made accessible for DBS on another satellite, to broadcast the channels broadcast by DBS (in full or almost in full) (for information concerning the Spacecom agreement, including the alternative mechanisms set out in it, see Section 5.16). However, in DBS's estimation, said duplication of satellites is expected to end in 2024, and as of that time, DBS will operate via a single satellite - see Section 5.16. DBS is not insured against loss of revenues caused by satellite malfunction.

Termination of the receipt of satellite services, for any reason (including due to the expiration of the agreement), prior to completion of the migration to OTT broadcasting with respect to a substantial number of DBS subscribers, may result in material impairment of DBS's revenues.

Progress in or acceleration of the process of migration to OTT broadcasting may reduce the aforementioned detrimental effects arising from malfunction, damage, unavailability or termination of the satellite services.

DBS’s assessment as set out in this paragraph is forward-looking information. DBS's estimate as aforesaid in this paragraph is forward-looking information. This assessment is based on Spacecom providing space segments and Spacecom's assessment with regard to the continuing life of the satellite, the new satellites starting to operate and the end of the operation of the existing satellites and exercising of the agreements with regard thereto, and termination of the option of leasing space segments from Spacecom. This estimate may not materialize or may materialize partially or differently if there will be changes in the life expectancy of the satellites or exercising the option of leasing them or if

Spacecom does not provide DBS with alternative segments due to unavailability or malfunction of the space segments or the satellites.

5.19.3.5 Dependence on the holder of rights in the space segments

DBS is materially dependent on Spacecom, as the exclusive holder of the rights and the sole provider of space segments used by DBS, which is also responsible for operation of the space segments. With regard to Amos 7, availability of space segments is dependent on a third party that owns the satellite and the organization responsible for operating it, and with which Spacecom has an agreement (see Section 5.16) and realization of its agreement with Spacecom regarding this satellite until the end of the period set in a manner that will enable the continued smooth leasing of space segments on this satellite.

5.19.3.6 Dependence on providers of software, equipment, content, infrastructure and services

DBS is dependent on certain vendors of software and equipment, and providers of certain content (see Section 5.8.2 and 5.10.2), including broadcast encryption services (see Section 5.8.5). Failure to receive the products or services they provide could harm DBS's ability to function and results. Furthermore, inability to purchase streamers or to receive support services from the current supplier, is expected to involve a period of preparation that will require alternative agreements and modifications in the supply chain and its support.

5.19.3.7 Damage to broadcasting centers and the logistic center

Damage to a broadcasting center's operations may cause a significant difficulty for continuing broadcasts, however, splitting of broadcasts into two broadcasting centers (Kfar Saba and the Ella Valley) reduces the risk involved if one sustains damage and improves the survivability of some of the broadcasts. In the event of damage to one of the broadcasting centers, DBS will be able to continue broadcasting only part of its channels via from the other broadcasting center in the satellite broadcasting format, as well as all VOD broadcasts. All the broadcasting centers have identical satellite encryption systems and therefore full backup is also available for the encryption system in the event of damage to one of the broadcasting centers. If the operations at the Kfar Saba site are discontinued, providing of the OTT services will not be possible at all, and if the operations only at the secondary site are discontinued, it will be possible to continue most of the OTT services through the Kfar Saba site, including the broadcasting of some channels and VOD service. Damage to DBS's logistics center could also be a cause of disruption of its operations and particularly the installation and maintenance of terminal equipment.

DBS's assessment as set out in this paragraph is forward-looking information. This estimate is based on the provision of services from the supplier that operates the secondary broadcasting site in the event of damage to the Kfar Saba broadcasting center. Malfunction of DBS's computer systems - A significant malfunction in DBS's central computer systems is liable to wreak havoc with its operational capability.

5.19.3.8 Malfunction of DBS's IT Systems

A significant malfunction in DBS's central computer systems is liable to significantly affect its operational capability. However, DBS has a remote backup site designated primarily for storing information and providing an internal computing service limited to failures, such that in the event of a failure in the IT systems of DBS's site in Kfar Saba, it will be possible to reactivate the central systems through the backup site.

DBS's estimate with respect to its backup capability, as aforesaid in this paragraph, is forward-looking information. This estimate is based on the functioning of the remote backup site. This estimate might not be realized or might be realized to some or other extent if this functioning is not enabled.

5.19.3.9 Cyber risks

DBS is exposed to the risk of actions that are intended to harm the use of computers or material stored on the computers ("**cyber attack**"). Such attacks may cause interruption of business, theft of information/money, damage to databases, violation of subscriber privacy, damage to reputation, damage to systems and information leakage, which may also be caused by an intentional or accidental internal entity. As a leader in the television broadcasting sector, DBS is the target of cyber attacks and experiences attacks that are handled by it.

DBS implements a protection policy that includes layers of protection from a layer of procedures and policies to a physical layer of security systems and protection from cyber attacks systems in a configuration that effectively integrates with DBS's operational needs in order to protect its infrastructures and systems and to reduce the possibility of illegal exploitation of its resources.

Notwithstanding DBS's investments in means for reducing such risks, it can not guarantee that these measures will succeed in preventing damage and/or disruption of the Systems and the information linked to them.

5.19.3.10 Technical limitation that prevents offering of integrated services

DBS's satellite infrastructure suffers from technical limitations compared to HOT's infrastructure. This technical inferiority prevents DBS from providing telephony and Internet services, and various interactive services, including VOD, via its satellite infrastructure; and therefore it depends on third parties for providing them.

5.19.3.11 Defects in or bypassing of the encryption system

DBS's satellite and OTT broadcasts are based on encryption of the broadcasts it transmits, including encoding of its satellite broadcasts via "smart cards" that are installed in the decoders in satellite subscribers' homes. Defects in the encryption system or its enforcement or a breach thereof could make it possible to view broadcasts without payment to DBS, thereby causing a reduction in revenues and a breach of the agreements between DBS and its content suppliers.

5.19.3.12 Lack of exclusivity of frequency spectrum

The spectrum of frequencies used by DBS to transmit its satellite broadcasts from the broadcasting satellites to the satellite dishes installed in subscriber homes, and which is allocated in accordance with the license from the Ministry of Communications, is defined as a frequency spectrum with a secondary allocation, such that an Israeli party that is allowed to make authorized primary use the frequency spectrum. If the foregoing owner of the primary allocation uses the frequency spectrum, this may cause adverse impact on the quality and/or availability of DBS broadcasts to its subscribers, which may adversely affect the financial results of DBS. At the date of this report, to the best of DBS's knowledge, the primary allocation holder has not made use of said frequencies in a manner that caused any real and/or lengthy disruptions to DBS broadcasts.

5.19.3.13 Disturbances in broadcasts

As DBS's broadcasts are wireless transmissions from broadcasting centers to broadcasting satellites and from them to the receiver dishes in subscriber homes, the broadcasting of the wireless signals over the same frequency ranges, whether they originate in Israel or outside of it, as well as extreme weather conditions such as heavy rains, hail or snow, could cause interference of the quality and/or availability of the broadcasts provided by DBS to its subscribers and may cause material harm to its financial results. Regarding OTT broadcasting, disruptions may occur in the quality and/or availability of the broadcasts due to disruptions in or unavailability of the Internet infrastructure.

5.19.3.14 Labor relations

DBS is party to a collective agreement with the New General Federation of Workers and the workers committee, which could limit its managerial flexibility (see Section 5.11.3). In addition, disruptions in labor relations at DBS, and possibly also in other subsidiaries of the Company, may result in damage to DBS' operating activities.

5.19.3.15 Loss of knowledge and information

The changes that are taking place in the labor market in Israel and around the world, along with organizational changes, entail risks of losing key employees, a loss of knowledge as a result of employee turnover, as well as difficulty in recruiting employees, and so on.

5.19.3.16 Delay in improving Internet speed

As the DBS's plans for migrate to OTT broadcasts (see Section 5.18.1) are also based on improving Internet speeds, with nationwide deployment, failure to improve Internet speeds by deploying optical fiber networks or by implementing another technological solution, by the Company or by other media operators, may delay or impair execution of the outline plan.

DBS estimates that the Internet speeds required to enable OTT broadcasts as planned, in a manner that enables the operation of multiple decoders in a customer's home, are forward-looking information. These estimates are based on the expected development of Internet speeds, taking into consideration, among other things, the anticipated requirements in the customers' homes and the expected mix of broadcasts. These estimates may not materialize or may materialize differently if there is a delay in improving Internet speeds or changes in the needs of the customers or of DBS's.

Breakdown of risk factors ranked according to their impact, in the opinion of DBS management. It should be noted that DBS's assessments of the extent of the impact of a risk factor reflect the scope of the effect on DBS of such risk factor, on the assumption that it the risk factor will be realized and the foregoing does not express an assessment or give weight to the chances of its realization as aforesaid. Likewise, the order of appearance of the risk factors above and below is not necessarily based on the risk involved in each risk factor, or the probability of its occurrence:[85]

85 See footnote 46.

Summary of risk factors - multi-channel television

	Extent of Impact		
	Major	Moderate	Minor
Macro risk			
Financial risks		X	
Recession / economic downturn			X
Security situation			X
Pandemic		X[86]	
Sector-specific risk			
Dependence on licenses	X		
Changes in regulation	X		
Intense competition	X		
Technological developments and changes		X	
Alternative infrastructures		X	
Unlawful viewing		X	
Exposure in legal proceedings		X	
Company-specific risk			
Restrictions caused by ownership structure		X	
Restrictions due to eligibility conditions	X		
Need for sufficient cash flow	X		
Satellite malfunction and damage	X		
Dependence on space segment supplier	X		
Dependence on suppliers of content, equipment and infrastructure	X		
Damage to broadcasting centers	X		
Malfunction of computer systems	X		
Cyber failures	X		
Technical limitation that prevents offering of integrated services		X	
Malfunction of encryption system	X		
Lack of exclusivity on frequencies		X	
Disturbances in broadcasts	X		
Labor relations			X
Loss of knowledge and information		X	
Delay in improving Internet browsing speeds	X		

The information included in this Section 5.19 and the assessments of DBS regarding the impact of the risk factors on DBS's operations and business constitute forward-looking information as defined in the Securities Law. The information and estimates are based on data published by regulatory agencies, DBS assessments of the market situation and the structure of competition, possible developments in the market and the Israeli economy, and the factors mentioned above in this Section. Actual results may differ significantly from these assessments if a change occurs in any of the factors taken into account in the assessments.

22.3.2022
Date

Bezeq – The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:
Gil Sharon, Chairman of the Board
Dudu Mizrahi, CEO

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

6. Appendix A - List of Terms

A. Names of laws appearing in the report

Communications Law	-	Communications (Telecommunications and Broadcasts) Law, 1982
Communications Rules	-	Communications (Broadcasting Licensee) Rules, 1987
Companies Law	-	Companies Law, 1999
Consumer Protection Law	-	Consumer Protection Law, 1981
Economic Competition Law	-	Economic Competition Law, 1988
Interconnect Regulations	-	Communications (Telecommunications and Broadcasts) (Payments for Interconnect) Regulations, 2000
Market Concentration Law	-	Law to Promote Competition and Reduce Concentration, 2013
Non-Ionizing Radiation Law	-	Non-Ionizing Radiation law, 2006
Planning & Building (Exempt from Permit) Regulations	-	Planning and Building (Works and Buildings Exempt from Permit), 2014
Planning and Construction Law	-	Planning and Construction Law, 1965
Prospectus Details Regulations	-	The Securities (Details of a Prospectus, Draft Prospectus - Structure and Form) (Amendment) Regulations, 1969
Satellite Broadcasting License Regulations	-	Communications (Telecommunications and Broadcasts) (Proceedings and Conditions for Grant of a Satellite Broadcasts License) Regulations, 1998
Second Authority Law	-	Second Authority for Television and Radio Law, 1990
Securities Law	-	Securities Law, 1968
The Communications Order	-	Communications (Telecommunications and Broadcasts) (Determination of an Essential Service Provided by Bezeq Israel Telecommunication Corp.) Order, 1997
The Telegraph Ordinance	-	Wireless Telegraph Ordinance [New Version], 1972
Use Regulations	-	Communications (Telecommunications and Broadcasts) (Use of a Domestic Carrier's Public Network) Regulations, 2014

B. Other principal technology terms appearing in the report[87]

B Communications	-	B Communications Ltd.
B.I.P.	-	B.I.P. Communications Solutions (Limited Partnership) which is controlled by Bezeq International
Bezeq International	-	Bezeq International Ltd.
Bezeq Online	-	Bezeq Online Ltd.
Bitstream Access (BSA)	-	Managed broadband access that enables service providers to connect to the network of the infrastructure's owner and offer broadband services to subscribers
Cellcom	-	Cellcom Israel Ltd. and corporations under its control
Cellular (MRT)	-	Mobile radio-telephone; cellular telephony
Cellular license		General license for providing mobile radio-telephone services by the cellular method

87 Please note that the definitions are for reader convenience only, and are not necessarily identical to the definitions in the Communications Law or its Regulations.

Consolidated general broadcasting license / consolidated license	-	A general license which is one of the following or a license that combines several of them: (1) Special general license; (2) General mobile radio telephone license on another network; (3) General license for providing international telecommunications services; (4) Special license for providing NEP services. (5) Special license for providing Internet services.
Data communication services	-	Network services for transferring data from point to point, transferring data between computers and between different communications networks, communications network connection services for the Internet, and remote access services for businesses
DBS	-	D.B.S. Satellite Services (1998) Ltd.
Domestic Carrier	-	An entity providing fixed-line domestic telephony services under a general or special domestic carrier license
Domestic carrier license	-	General license or special general license for providing fixed-line domestic telecommunications services
DTT	-	Digital Terrestrial Television – Wireless digital broadcast of television channels by means of terrestrial transmission stations
Eurocom Communications		Eurocom Communications Ltd.
Eurocom D.B.S.	-	Eurocom D.B.S. Ltd.
Golan Telecom	-	Golan Telecom Ltd.
GSM	-	Global System for Mobile Communications – International standard for cellular communications networks ("2nd Generation")
HD	-	High Definition TV - High resolution (separate) TV broadcasts
Histadrut	-	The New General Labor Federation
HOT	-	HOT Communications Systems Ltd. and corporations under its control which operates in broadcasting (multi-channel television)
Hot Mobile	-	Hot Mobile Ltd. (formerly Mirs Communications Ltd.) and corporations under its control
HOT-Net	-	HOT-Net Internet Services Ltd.
HOT Telecom	-	HOT Telecom Limited Partnership
HSPA	-	High Speed Packet Access - cellular technology succeeding the UMTS standard, enabling data transfer at high speeds ("3.5 Generation")
IBC	-	IBC Israel Broadband Company (2013) Ltd.
ILA	-	Israel Land Authority
Interconnect	-	Interconnect enables telecommunications messages to be transferred between subscribers of various license-holders or services to be provided by one license-holder to the subscribers of another license-holder; interconnect is made possible by means of a connection between a public telecommunications network of one license-holder (e.g. the Company) and a public network of another license-holder (e.g. a cellular operator). See also the definition of "interconnect fees".
Interconnect fees	-	Interconnect fees (also called "call completion fees") are paid by one carrier to another for interconnection (see definition below)
Internet Gold	-	Internet Gold Golden Lines
IP	-	Internet Protocol. The protocol enables unity between voice, data and video services using the same network
IPVPN	-	Virtual Private Network based on IP and located on the public network, through which it is possible to (a) enable end users to connect to the

		organizational network by remote access, and (b) connect between the organization's branches (intranet)
ISP	-	Internet Service Provider – Holder of a special license for providing Internet access services. The Internet access provider is the entity enabling the end user to connect to a TCP/IP protocol that links him and the global Internet
LTE		Long Term Evolution- a standard for wireless communication of high-speed data for mobile phones
Mbps	-	Megabits per second; a unit of measure for the speed of data transfer
MVNO	-	Mobile Virtual Network Operator – A virtual cellular operator that uses the existing communications infrastructures of the cellular carriers without need for its own infrastructures
NEP	-	Network End Point – an interface to which a public telecommunications network and terminal equipment or a private network are connected. NEP services include the supply and maintenance of equipment and services on the customer's premises
NGN	-	Next Generation Network – The Company's new communications network, based on IP architecture
Partner	-	Partner Communications Ltd. and corporations under its control
Pelephone	-	Pelephone Communications Ltd.
Public switching	-	In the context of a communications network - a telephony system supporting the connection of installations for passing calls between various end units
Rami Levy	-	Rami Levy Cellular Communications Ltd.
Roaming	-	Roaming services allow a customer of one communications network to receive services from another communications network which is not his home network, based on roaming agreements between the home network and the host network
Spacecom	-	Space Communications Ltd.
TASE	-	The Tel Aviv Stock Exchange Ltd. (TASE)
Telecommunication Services	-	Performing telecommunication activity (broadcast, transfer or reception of symbols, signs, writing, visual forms, sounds or information by means of wire, wireless, optical system or other electromagnetic systems) for others.
The Broadcasting License	-	License for satellite television broadcasts
The Council	-	The Cable and Satellite Broadcasting Council
The Fiber Project	-	The Fiber Project - The Company's plan for the deployment of a stationary ultra-broadband infrastructure that includes a massive deployment of fiber optics throughout the country on a large scale that will enable the offer of ultra-fast Internet services.
The Report Period	-	The twelve months ended December 31, 2019
The Second Authority	-	The Second Authority for Television and Radio
Transmission services	-	Transmission of electromagnetic signals or series of bits between the telecommunications facilities of a license-holder (excluding terminal equipment)
UMTS	-	Universal Mobile Telecommunications System - international standard for cellular communications developed from the GSM standard ("3G")
VoB	-	Voice over Broadband – Telephony and associated services in IP technology using fixed-line broadband access services
VoC	-	Voice over Cellular Broadband – Telephony services over a cellular data communications channel ("Mobile VoB Services")
VOD	-	Video on Demand – Television services per customer demand

VoIP	-	Voice over Internet Protocol – Technology enabling the transfer of voice messages (provision of telephony services) by means of IP protocol
Walla	-	Walla! Communications Ltd. and corporations under its control
Wi-Fi	-	Wireless Fidelity – Wireless access to the Internet within a local space
xDSL	-	Digital Subscriber Line Technology that uses the copper wires of telephone lines to transfer data (the Internet) at high speeds by using frequencies higher than the audible frequency and therefore enabling simultaneous call and data transfer
2021 Financials		The consolidatewd financial statements for the Company for the year ended December 31, 2021

6. Appendix B - Key Performance Indicators

7.1. General

The following indicators, which are noted in the chapters of the Company's periodic report are undefined financial indicators or set out in generally accepted accounting principles included in the financial statements. The definition and/or calculation method of the indicators may change from time to time, they do not replace indicators based on generally accepted accounting principles and may not be calculated in the same way as parallel indicators in other companies.

Following are details of these indicators, including according to the revised Israel Securities Authority Resolution 99-6 regarding the use of financial indicators that are not based on generally accepted accounting principles.

7.2. Financial indicators

7.2.1. EBITDA

EBITDA is defined as earnings (losses) before interest, taxes, depreciation and amortization. The EBITDA indicator is generally accepted in the Company's area of operations that counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. The Company's EBITDA is calculated as operating profit before depreciation, amortization and impairment (ongoing losses from the impairment of property, plant and equipment and intangible assets). As of January 1, 2019, and in order to enable the proper presentation of economic activity, the Company presents ongoing losses from the impairment of property, plant and equipment and intangible assets in DBS and Walla under Depreciation and Amortization, and ongoing losses from the impairment of broadcasting rights under Operating and General Expenses (in the Income Statement).

7.2.2. Free Cash Flow (FCF)

The Company's free cash flow is calculated as cash from operating activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net, and from 2018, with the application of IFRS 16, payments for leases are also deducted. This indicator is a generally accepted indicator in the Company's area of operation in general and presents the cash that the Company can generate after the investment required to maintain or expand its asset base.

7.3. Key performance indicators

7.3.1. ARPU (Average Revenue Per User)

The ARPU indicator reflects the average monthly revenue per line/subscriber/household and is calculated as a division of the relevant average total monthly revenues for a period by the average number of active lines/subscribers/households in the same period, as the case may be. It is clarified that the Group has four main areas of operation, which are parallel to the corporate division between the Group Companies and the definition of an active subscriber differs between areas of operation.

7.3.2. Churn rate

The churn rate reflects the ability of the Company to maintain its customer base and is calculated by dividing the number of lines/subscribes/ households disconnected from the Company's services in a period by the average number of active lines/subscribers/households in the same period, as the case may be. It is clarified that the Group has four main areas of operation, which are parallel to the corporate division between the Group Companies and the definition of an active subscriber differs between areas of operation.

Chapter B -

Board of Directors’ Report on the State of the Company’s Affairs for the Year Ended December 31, 2021

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

Board of Directors' Report on the State of the Company's Affairs for the Year Ended December 31, 2021

We hereby present the Board of Directors' report on the state of affairs of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company") and the consolidated Group companies (the Company and the consolidated companies, jointly - "the Group"), for the year ended December 31, 2021.

For information concerning the Israel Securities Authority and the Israel Police's investigation, see Note 1.3 to the financial statements.The auditors have drawn attention to the matter in their opinion on the financial statements.

For information on the **effects of the COVID-19 pandemic**, see Section 1.5 below.

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

1. **Domestic Fixed-Line Communications**
2. **Cellular Communications**
3. **ISP, International Communications, NEP Services and ICT Solutions** (hereinafter: "**Bezeq International Services**")
4. **Multi-Channel Television**

For further information, see Note 28 to the financial statements.

The Group's results were as follows:

	2021	2020	Increase (decrease)	
	NIS million		NIS million	%
Net profit	**1,183**	796	387	48.6
EBITDA *	**3,759**	3,292	467	14.2
Adjusted EBITDA*	**3,709**	3,659	50	1.4

* Regarding non-GAAP based financial measures, see below.

The increase in net profit was primarily due to an impairment loss recognized <u>in the previous year</u> in the Bezeq International Services segment, an increase in capital gains on the sale of assets in the Domestic Fixed-Line Communications segment and rising profit in the Cellular Communications segment.

For more information, see Section 1.2 below.

* Non-GAAP Based Financial Measures

As of the report date, the Group's management is aided by non-GAAP based financial performance measures for the evaluation and presentation of the Group's financial performance. These measures are not a substitute for the information included in the Company's financial statements.

These measures include:

Metric	Metric Calculation and Objectives
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Defined as earnings before financial expenses (income), taxes, depreciation and amortization. EBITDA is a generally accepted metric in the Group's area of operations, which offsets effects arising from the variance in capital structure, various tax aspects and the depreciation/amortization method and period for fixed and intangible assets. The Group's EBITDA is calculated as operating profit before "depreciation, amortization, and impairment" (including continuing losses from impairment of fixed and intangible assets, as described in Notes 3.10.2, 10.5 and 10.6 to the financial statements).
Adjusted EBITDA	This is calculated as EBITDA net of net other operating expenses/income, one-time losses/gains from impairment/appreciation, and equity compensation plan expenses. This metric enables comparisons of operating performance between different periods of time after adjustment for one-time effects of unusual expenses/income. It should be noted that adjusted EBITDA is not to be equated with other similarly designated metrics reported by other companies, due to a possible difference in calculating the metric.

The metrics were calculated as follows:

	1-12/2021	1-12/2020
	NIS million	
Operating profit	**1,870**	1,455
Net of depreciation, amortization and impairment	**1,889**	1,837
EBITDA	**3,759**	3,292
Net of other operating expenses (income), net	**(77)**	74
Net of impairment loss	**-**	293
Net of equity compensation plan expenses	**27**	-
Adjusted EBITDA	**3,709**	3,659

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

1.1. Financial position - Assets

	December 31, 2021	December 31, 2020	Increase (decrease)		Explanation
	NIS million			%	
Cash and current investments	**1,927**	1,564	363	23.2	The increase was attributable to increased cash reserves and current investments in the Domestic Fixed-Line Communications segment, due, inter alia, to the issuance of debentures in December of the present year (Series 13 and 14). For more information, see Section 1.4 below.
Current and non-current trade and other receivables	**2,571**	2,313	258	11.2	The increase was mainly due to growth in trade receivables in the Cellular Communications segment and in the Bezeq International Services segment, largely because of the impact of sanctions by workers during August-November 2021, which led to delayed customer billing and payment collection.
Inventory	**74**	73	1	-	
Held-for-sale assets	**-**	10	(10)	(100)	
Broadcasting rights	**60**	67	(7)	(10.4)	
Right-of-use assets	**1,828**	1,804	24	1.3	
Fixed assets	**6,312**	6,131	181	3.0	The increase was attributable to the Domestic Fixed-Line Communications segment, due, among other things, to the progress made by the fiber network deployment project. See Note 9.4 to the financial statements.
Intangible assets	**912**	929	(17)	(1.8)	
Deferred costs and non-current investments	**226**	242	(16)	(6.6)	
Deferred tax assets	**24**	108	(84)	(77.8)	A NIS 37 million deferred tax asset recognized in 2020 in respect of a tax loss from the sale of Walla, was utilized in 2021. See Note 7.5 to the financial statements.
Total assets	**13,934**	13,241	693	5.2	

1.1 Financial Position (cont.) – Liabilities and Equity

	December 31, 2021	December 31, 2020	Increase (decrease)		Explanation
	NIS million			%	
Debt to financial institutions and debenture holders	**8,062**	8,400	(338)	(4.0)	The decrease in debt was due to loan repayments (including early repayments) and debenture repayments, offset by the issuance of debenture Series 13 and 14 plus new loans in the Domestic Fixed-Line Communications segment. See Note 13 to the financial statements.
Lease liabilities	**1,977**	1,907	70	3.7	For more information, see Note 8 to the financial statements.
Trade and other payables	**1,748**	1,759	(11)	(0.6)	For more information, see Note 14 to the financial statements.
Employee benefits	**753**	817	(64)	(7.8)	The decrease was due to payments for employee retirement and efficiency plans across the Group, offset by an increased provision for termination of employment by way of early retirement. See Notes 16.5 and 24 to the financial statements.
Provisions	**118**	169	(51)	(30.2)	The decrease was mainly attributable to a reduction in provisions for claims in the Domestic Fixed-Line Communications segment. See Note 15 to the financial statements.
Deferred tax liabilities	**38**	32	6	18.8	
Other liabilities	**142**	307	(165)	(53.7)	The decrease stemmed mainly from reclassification of the liability for payment of the cost of 5G frequencies in the Cellular Communications segment as a current liability, as well as from a decrease in derivatives in the Domestic Fixed-Line Communications segment.
Total liabilities	**12,838**	13,391	(553)	(4.1)	
Total equity (equity deficit)	**1,096**	(150)	1,246	-	Equity comprises 7.9% of the balance sheet total, as compared with an equity deficit comprising 1.1% of the balance sheet total on December 31, 2020.
Total liabilities and equity	**13,934**	13,241	693	5.2	

1.2. Results of operations

1.2.1. Highlights

	2021	2020	Increase (decrease)		Explanation
	NIS million			%	
Revenues	**8,821**	8,723	98	1.1	The increase in revenues was mainly attributable to the Cellular Communications segment and Domestic Fixed-Line Communications segment, offset by lower revenues in the Bezeq International Services segment and Multi-Channel Television segment.
General operating expenses	**3,257**	3,173	84	2.6	The increase was primarily attributable to the Domestic Fixed-Line Communications segment and Cellular Communications segment, offset largely by a decrease in DBS expenses. The Group's expenses rose inter alia due to recognition of an expense for the Incentive Fund in connection with the fiber optic network deployment (see Notes 9.4 and 18.7 to the financial statements).
Salaries	**1,882**	1,891	(9)	(0.5)	An increase in salary expenses in the Domestic Fixed-Line Communications segment and "Others" segment was offset by a decrease in the Group's other main segments due to a reduction in the workforce. In the current year, the Group recognized salary expenses in respect of share-based payments - see Note 26.4 to the financial statements.
Depreciation, amortization and impairment	**1,889**	1,837	52	2.8	The increase was primarily attributable to the Domestic Fixed-Line Communications segment and Bezeq International Services segment, offset by a decrease in the Cellular Communications segment.
Impairment loss	**-**	293	(293)	(100)	In 2020, an impairment loss was recognized in the Bezeq International Services segment, offset by a reversal of an impairment loss in respect of Walla. See Note 10.2 to the financial statements.
Other operating expenses (income), net	**(77)**	74	(151)	-	The change was mainly attributable to higher capital gains in the Domestic Fixed Line Communications segment, offset by increased expenses in respect of employee termination under the Group's early retirement plan. See Notes 16.5 and 24 to the financial statements.
Operating profit	**1,870**	1,455	415	28.5	
Finance expenses, net	**305**	371	(66)	(17.8)	The decrease was mainly attributable to the Domestic Fixed-Line Communications segment. See Note 25 to the financial statements.
Income tax	**382**	288	94	32.6	For further information, see Note 7 to the financial statements.
Profit for the year	**1,183**	796	387	48.6	

1.2.2. Operating segments

A. Revenue and operating profit data presented by Group operating segments:

	2021		2020	
	NIS million	% of total revenues	NIS million	% of total revenues
Revenues by operating segment				
Domestic Fixed-Line Communications	**4,182**	**47.4**	4,159	47.7
Cellular Communications	**2,289**	**25.9**	2,186	25.1
Bezeq International Services	**1,237**	**14.0**	1,271	14.6
Multi-Channel Television	**1,270**	**14.4**	1,287	14.7
Others and adjustments	**(157)**	**(1.7)**	(180)	(2.1)
Total	**8,821**	**100**	8,723	100

	2021		2020	
	NIS million	% of segment revenues	NIS million	% of segment revenues
Operating profit (loss) by operating segment				
Domestic Fixed-Line Communications	**1,748**	**41.8**	1,705	41.0
Cellular Communications*	**42**	**1.8**	(84)	(3.8)
Bezeq International Services	**22**	**1.8**	(241)	(19.0)
Multi-Channel Television*	**(41)**	**(3.2)**	(42)	(3.3)
Others and adjustments	**99**	**-**	117	-
Consolidated operating profit/ % of Group revenues	**1,870**	**21.2**	1,455	16.7

* **The results of Multi-Channel Television operations are presented net of the overall effect of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. In addition, see Note 31.3 for a summary of selected data from DBS's financial statements.**

1.2.2. Operating segments

B. Domestic Fixed-Line Communications segment

	2021	2020	Increase (decrease)		Explanation
	NIS million			%	
Internet infrastructure	**1,624**	1,622	2	0.1	Retail ARPU increased primarily due to supplementary terminal equipment, coupled with the launch of customer services on the fiber network beginning in March 2021, and a rise in the number of retail internet lines. The increase was offset by a reduction in wholesale internet service rates and a decrease in the number of wholesale internet lines.
Fixed-line telephony	**913**	1,008	(95)	(9.4)	The decrease was attributable to lower average revenue per telephone line (ARPL), owing primarily to a lessening of the impact of the COVID-19 pandemic on telephone use, as well as a decrease in the number of lines.
Transmission, data communications and others	**1,327**	1,241	86	6.9	The increase was due, among other things, to growth in revenues from transmission services for ISPs and businesses, and from work done for payment.
Digital and cloud services	**318**	288	30	10.4	The increase was primarily attributable to IP Centrex services as well as B144 Business Directory and business services.
Total revenues	**4,182**	4,159	23	0.6	
General operating expenses	**667**	590	77	13.0	The increase was mainly due to a rise in subcontractor expenses and in the cost of terminal equipment and materials, due to, among other things, the fiber network deployment and development work, as well as recognition of an expense for the Incentive Fund in connection with the amendment to the Company's license concerning the fiber optic network deployment (see Notes 9.4 and 18.7 to the financial statements), offset by a decrease in costs of interconnectivity with telecommunications operators, along with a decrease in telephony revenues.
Salaries	**934**	919	15	1.6	The increase was mainly due to the hiring of employees, higher salaries and recognition of expenses for share-based payments (see Note 26 to the financial statements), offset by the retirement of employees and by an increase in salaries attributable to investment.
Depreciation and amortization	**938**	877	61	7.0	
Other operating expenses (income), net	**(105)**	68	(173)	-	The change in net other operating income was due to higher capital gains on real estate sales, adjustment of the provision for legal claims, as well as one-time employee bonus expenses recognized in the previous year. On the other hand, there was an increase in expenses recognized for termination of employment by way of early retirement, and a capital gain on the sale of Walla recognized in the previous year. See Note 8 to separate financial information.
Operating profit	**1,748**	1,705	43	2.5	
Finance expenses, net	**342**	403	(61)	(15.1)	The decrease in net finance expenses was mainly attributable to lower costs for early repayment of loans coupled with reduced interest expenses following repayment of loans and debentures, offset by higher linkage differentials on debentures due to an increase in the index. See Note 25 to the financial statements.
Income tax	**343**	262	81	30.9	A deferred tax asset recognized in the previous year, for a tax loss from the sale of Walla, was utilized in the current year (see Note 4 to separate financial information).
Segment profit	**1,063**	1,040	23	2.2	

1.2.2 Operating segments

C. **Cellular Communications segment**

	2021	2020	Increase (decrease)		Explanation
	NIS million			%	
Services	**1,642**	1,591	51	3.2	The increase was primarily due to a degree of recovery from the effects of the COVID-19 pandemic, reflected in higher revenues from roaming services, partially offset by lower revenues from incoming air time. In addition, there was growth in the post-paid subscriber base, including subscribers to 5G bundles.
Sales of terminal equipment	**647**	595	52	8.7	The increase was mainly attributable to higher sales resulting from the timing of launches of new models of devices.
Total revenues	**2,289**	2,186	103	4.7	
General operating expenses	**1,346**	1,329	17	1.3	The increase was mainly the result of an increase in the costs of terminal equipment sales in parallel with revenues, recognition of cloud computing system implementation costs, and first-time recognition of expenses for the Incentive Fund in connection with fiber optic network deployment. This increase was partially offset by lower call completion fees due to a degree of recovery from the COVID-19 pandemic, which led to reduced consumption, and also by the continued reduction and streamlining of operating expenses.
Salaries	**315**	324	(9)	(2.8)	The decrease was mainly attributable to continued reduction in the workforce as part of a streamlining plan, offset by the placing of employees on unpaid leave last year due to the COVID-19 pandemic.
Depreciation and amortization	**577**	599	(22)	(3.7)	
Other operating expenses, net	**9**	18	(9)	(50)	
Operating profit(loss)	**42**	(84)	126	-	
Finance income, net	**42**	48	(6)	(12.5)	
Income tax expenses (income)	**20**	(11)	31	-	
Segment profit (loss)	**64**	(25)	89	-	

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1.2.2 Operating segments

D. ISP, International Communications, NEP Services, and ICT Solutions ("Bezeq International Services")

	2021	2020	Increase (decrease)		Explanation
	NIS million			%	
Revenues	**1,237**	1,271	(34)	(2.7)	The decrease was mainly due to lower ISP revenues coupled with reduced revenues from sales of equipment and licenses to businesses, as a result of global supply chain delays and the impact of the COVID-19 pandemic, plus the effects of sanctions by employees during the months August-November 2021. Additionally, there was a decline in revenues from international calls. The decrease was partially offset by higher revenues from business services.
General operating expenses and impairments	**799**	802	(3)	(0.4)	The decrease stemmed mainly from lower expenses on sales of equipment and licenses to businesses coupled with reduced revenues, and also from a decline in doubtful debt expenses. The decrease was offset by an increase in expenses on communication and computerization services to businesses, local bandwidth capacity expenses and professional consulting expenses. In addition, there were increased expenses in respect of the Incentive Fund for the fiber optic network deployment starting from the current year.
Salaries	**237**	248	(11)	(4.4)	The decrease was largely due to continued workforce downsizing as part of the streamlining plan.
Depreciation, amortization and impairments	**173**	149	24	16.1	The increase stemmed primarily from asset impairments in 2021 (an asset impairment loss recognized in 2020 was classified in the segment to the item "other operating expenses"), as well as from an increase in the subscriber acquisition asset amortization expenses. The increase was partially offset by a decrease in current depreciation expenses due to asset impairment recognized last year.
Other operating expenses, net	**6**	313	(307)	(98.1)	An impairment loss of NIS 307 million was recognized in 2020. See Note 10.2 to the financial statements.
Operating profit (loss)	**22**	(241)	263	-	
Finance expenses, net	**2**	2	-	-	
Income tax	**12**	32	(20)	(62.5)	In 2021, tax expenses were recorded in respect of previous years following an assessment agreement. In 2020, a tax asset was written off due to no expectation of future tax profits in the coming years.
Segment profit(loss)	**8**	(275)	283	-	

1.2.2. Operating segments

E. **Multi-Channel Television ***

	2021	2020	Increase (decrease)		Explanation
	NIS million			%	
Revenues	**1,270**	1,287	(17)	(1.3)	The decrease was primarily due to a decline in ARPU, as a result of a change in subscriber mix from "Premium" to "Discount," as well as a decrease in revenues from the sale of content to external bodies.
General operating expenses	**825**	838	(13)	(1.6)	The decrease was mainly due to lower content costs.
Salaries	**182**	195	(13)	(6.7)	The decrease was mainly attributable to continued reduction of the workforce as part of the efficiency plan.
Depreciation and amortization	**292**	310	(18)	(5.8)	The decrease was mainly due to declining investments in fixed assets.
Other operating expenses (income)	**12**	(14)	26	-	An expense in respect of a new collective agreement was recognized in 2021, while income resulting from a settlement agreement with a supplier, and an adjusted estimate of the provision for an early retirement arrangement were recorded in 2020.
Operating (loss)	**(41)**	(42)	1	(2.4)	
Finance expenses, net	**1**	13	(12)	(92.3)	The decrease largely stemmed from the effect of the change in the dollar exchange rate on hedging transactions.
Income tax	**1**	2	(1)	(50)	
Segment loss	**(43)**	(57)	14	(24.6)	

* **The results of Multi-Channel Television operations are presented net of the overall effect of impairment recognized since 2018. See below for "proforma" profit & loss. This is in accordance with the way the Group's chief operating decision maker assesses the segment's performance and decides on resource allocations for the segment. For more information, see Notes 10.5 and 28 to the financial statements. In addition, see Note 31.3 for a summary of selected data from DBS's financial statements.**

DBS Results – A Comparison between Accounting Profit & Loss and Proforma Profit & Loss

	2021		2020	
	Accounting Profit and Loss	Proforma Profit and Loss	Accounting Profit and Loss	Proforma Profit and Loss
	NIS million			
Revenues	**1,270**	**1,270**	1,287	1,287
General operating expenses	**835**	**825**	857	838
Salaries	**188**	**182**	203	195
Depreciation and amortization	**203**	**292**	203	310
Other operating expenses (income)	**12**	**12**	(15)	(14)
Operating profit (loss)	**32**	**(41)**	39	(42)
Finance expenses, net	**1**	**1**	13	13
Income tax	**1**	**1**	2	2
Profit (loss)	**30**	**(43)**	24	(57)

1.3. Highlights from the Group's consolidated quarterly statements of income (NIS million)

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	2021	Explanation
Revenues	2,221	2,200	2,142	2,258	**8,821**	The fourth quarter includes revenues from the launch of a new iPhone model in the Cellular Communications segment.
Operating expenses	1,635	1,731	1,683	1,902	**6,951**	The first quarter includes a NIS 125 million capital gain on the sale of a land asset, and a decrease in the provision for claims in the Domestic Fixed-Line Communications segment. The fourth quarter includes expenses from termination of employment by way of early retirement, including an expense of NIS 67.5 million in the Domestic Fixed-Line Communications segment. See Note 16.5 to the financial statements.
Operating profit	586	469	459	356	**1,870**	
Finance expenses, net	51	84	100	70	**305**	The third quarter includes early loan repayment costs totaling NIS 15 million in the Domestic Fixed-Line Communications segment.
Profit after finance expenses, net	535	385	359	286	**1,565**	
Income tax	127	91	75	89	**382**	
Profit for the period	408	294	284	197	**1,183**	

1.4. Cash Flow

	2021	2020	Change		Explanation
	NIS million			%	
Net cash from operating activities	**2,839**	3,220	(381)	(11.8)	The decrease in net cash from operating activities stemmed from changes in working capital, mainly due to increased trade receivables resulting from delayed customer billing and payment collection, owing to sanctions by employees in the Cellular Communications segment and the Bezeq International Services segment, offset by a change in employee benefits and higher taxes paid in the Domestic Fixed-Line Communications segment.
Net cash used in investing activities	**(1,646)**	(839)	(807)	96.2	The increase in net cash used in investing activities stemmed primarily from a decrease in net proceeds from the redemption of bank and other deposits in the Domestic Fixed-Line Communications segment, and also from increased investments in fixed assets.
Net cash used in financing activities	**(1,060)**	(1,941)	881	(45.4)	The decrease in net cash used in financing activities stemmed mainly from a decrease in loan repayments, in interest paid, and in early repayment costs in the Domestic Fixed-Line Communications segment.
Net increase (decrease) in cash	**133**	440	(307)	(69.8)	

<u>Average volume in the reporting year:</u>
Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 8,241 million.
Supplier credit: NIS 905 million. Short-term credit to customers: NIS 1,680 million. Long-term credit to customers: NIS 252 million.

<u>Working capital</u>
The Group's surplus working capital as of December 31, 2021 amounted to NIS 366 million, compared with deficit working capital of NIS 113 million at December 31, 2020.
The Company has surplus working capital (according to the separate financial statements) as of December 31, 2021, amounting to NIS 161 million, compared with deficit working capital of NIS 82 million at December 31, 2020.
The change in the Company's working capital stemmed mainly from an increase in cash and current investment reserves, offset by an increase in current maturities of debentures.
In addition, there is an increase in working capital in the other Group companies.

1.5 Outbreak of the COVID-19 pandemic

The global outbreak of the coronavirus (COVID-19) at the beginning of 2020 has had numerous implications, including in the macroeconomic sphere. In light of the pandemic, many countries, Israel among them, have taken significant measures in an attempt to prevent the spread of the virus, such as restrictions on movement in public spaces and on public gatherings, restrictions on the transport of passengers and goods, the closing of borders between countries, etc. As an outcome, the virus as well as the measures taken have had significant repercussions on many economies and on the global capital market.

The effects of the COVID-19 pandemic on the Group's operations in 2021have been mainly reflected in a decline in revenue from Pelephone's roaming services, due to the impact of the pandemic on the aviation and international tourism sectors, with no significant negative effects in other operating segments. Although the rollout of vaccines and easing of restrictions on travel abroad have led to a certain recovery in Pelephone's revenues from roaming services during the year, they have yet to return to their pre-pandemic levels. In addition, the global chip shortage and supply chain disruptions, among other factors,have resulted in shortages, supply issues, and, at times, higher prices for equipment from the major suppliers of the Group companies. In view of the foregoing, the Group companies are taking various steps toreduce the damage to their operations.

Analyses performed by the Company indicate that at this stage, the COVID-19 pandemic has not had a material effect on the ability of the Group's companies to meet their obligations or on the measurement of assets and liabilities, impairment of assets and recognition of expected credit losses. Likewise, there has been no material effect on the critical estimates and judgments.

As of the date of approval of the financial statements, the Bezeq Group's working assumption regarding the continued spread of the COVID-19 pandemic is that there will be a gradual abatement of the pandemic, possibly accompanied by recurrent outbreaks and the emergence of virus mutations and variants.Accordingly, and subject to the above assumptions, the Group expects that the main effect of the COVID-19 pandemic on its operations will be a decline in Pelephone revenues from roaming services, due to the pandemic's effects on the aviation and international tourism sectors, with no material adverse effects in other operating segments. The Group further expects that the global chip shortage and supply chain disruptions will affect the prices of goods in the short term, and increase the need for the Group companies to stock up inventories.Additionally, the pandemic may cause the prolongation of projects that require technological or other equipment.

It should be emphasized that the COVID-19 pandemic is an unfolding event that is not within the Company's control, thus a continuation or worsening of the pandemic beyond the Group's assumptions, as detailed above, may have a material adverse effect on the Group's results. These effects may be reflected, among other things, in a greater-than-projected decrease in revenues from roaming services, and may also affect revenues from the business sector, revenues from sales of cellular terminal equipment, employee availability, customer service and technician service systems, supply chain operations, as well as the amounts and times of payments collected from the Group's customers.

The Company's above assessments may change depending on the developments of the COVID-19 pandemic and its effects, namely, the duration and scope of the pandemic, the nature and extent of the economic and other related restrictions, and the intensity and duration of the resulting economic slowdown.

For more information, see an analysis of the results of operationsof the Cellular Communications segment,the Domestic Fixed-Line Communications segment, and the Bezeq International Services segment in section 1.2.2, subsections B, C and D.

2. Aspects of Corporate Governance

2.1. Community involvement and donations by Group companies

According to the social responsibility policy approved by the Board of Directors, Bezeq contributes to the community out if its profound commitment to social responsibility, through cash donations, by donating services and telecom infrastructure, and encouraging employees to volunteer in a range of community projects.

The bulk of Bezeq's monetary donations focus on education, and on bridging the digital gap in Israel.

In 2021, the Group donated a total of NIS 3.6 million.

Bezeq has also aided non-profit organizations and under-privileged individuals in the amount of NIS 2 million through telecom services.

2.2. Disclosure concerning an independent auditor's fees

Below are the fees paid to the independent auditors of the principal consolidated companies in the Group for auditing and audit-related services (in NIS thousands):

<table>
<tr><th>Company</th><th>Auditor</th><th>Details</th><th>2021</th><th>2020</th></tr>
<tr><td rowspan="2">Bezeq - The Israel Telecommunications Corp. Ltd.</td><td rowspan="2">Somekh Chaikin</td><td>Audit and audit-related services, including audit-related tax services</td><td>1,530</td><td>1,700</td></tr>
<tr><td>Other services[1]</td><td>684</td><td>951</td></tr>
<tr><td rowspan="2">Pelephone Communications Ltd.</td><td rowspan="2">Somekh Chaikin</td><td>Audit and audit-related services, including audit-related tax services</td><td>642</td><td>670</td></tr>
<tr><td>Other services[1]</td><td>366</td><td>520</td></tr>
<tr><td rowspan="2">Bezeq International Ltd.</td><td rowspan="2">Somekh Chaikin</td><td>Audit and audit-related services, including audit-related tax services</td><td>1,483</td><td>1,166</td></tr>
<tr><td>Other services[1]</td><td>519</td><td>122</td></tr>
<tr><td rowspan="2">D.B.S. Satellite Services (1998) Ltd.</td><td rowspan="2">Somekh Chaikin</td><td>Audit and audit-related services, including audit-related tax services</td><td>671</td><td>680</td></tr>
<tr><td>Other services[1]</td><td>83</td><td>52</td></tr>
<tr><td>Total</td><td></td><td></td><td>5,978</td><td>5,861</td></tr>
</table>

The independent auditors' fees were discussed by the Board of Directors' Financial Statements Examination Committee, and approved by the Company's Board of Directors and the boards of each of the Group companies. The fees were determined on the basis of the hours worked and the hourly rate in the previous year, adjusted for changes and events which occurred in the reporting year.

2.3. Directors with accounting and financial expertise and independent directors

Information concerning directors with accounting and financial expertise and independent directors is included in Sections 2 and 9 of the corporate governance questionnaire and in Section 14 of Chapter D in the periodic report.

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[1] "Other services" rendered to key companies in the Group in 2021 and 2020 included, among other things, non-audit related tax and accounting consultancy services and special certifications.

2.4. Disclosure concerning the internal auditor in a reporting company

Details	
Internal auditor	Lior Segal
Start of tenure date	January 24, 2011
Compliance with statutory requirements	The internal auditor complies with the conditions set forth in Section 3(a) and 8 of the Internal Audit Law, and the provisions in Section 146(b) of the Companies Law.
Employment method	Company employee.
Method of appointment	**<u>Manner of appointment and summary of reasons for approving the appointment:</u>** The appointment was approved by the Board of Directors on January 24, 2011, following the Audit Committee's recommendation. Prior to his appointment, the internal auditor served as manager of internal processes and controls and as corporate governance compliance officer. The appointment was based on his qualifications and professional experience. **<u>Duties, powers, and tasks of the internal auditor:</u>** The powers and responsibilities of the Company's internal auditor are set forth in the Company's internal audit procedure, approved by the Company's Audit Committee. According to the procedure, the internal auditor's responsibilities and powers are as follows: Examining propriety of actions carried out by the Company, its officers and personnel, examining the integrity of financial and operating information, examining financial and liability management, and examining the Company's IT systems and its information security set-up. The internal auditor is also charged with investigating employee complaints according to the arrangements set forth by the Audit Committee pursuant to Section 117(6) to the Companies Law, 1999. The internal auditor is authorized to receive any information, explanation, and document required for the performance of his duties; he has right of access to all regular or computerized data bank, database, and automated or non-automated data processing workplan of the Company and its units; and to be granted entry to all Company property. The internal auditor is also entitled to be invited to all Management, Board of Directors and Board committee meetings.
The internal auditor's organizational supervisor	Chairman of the Board of Directors.
Work plan	In 2021, an annual workplan was formulated, which was derived from the work plan for the period 2021-2023. **<u>Considerations in determining the internal audit work plan</u>** The guiding principle underlying the internal audit workplan is the risk inherent in the Company's processes and operations. To assess these risks, the internal audit referred to the risk survey conducted by the Company, and to other sources which affected the risk assessment in those processes, such as meetings with Management, findings from previous audits, and other relevant activities. The main considerations taken into account in formulating the workplan are: reasonable coverage of most of the Company's operating activities based on exposure to material risks, considering existing controls in the Company's operations and previous audit findings. **<u>Parties involved in formulating the work plan</u>** The internal auditor, Management, the CEO, the Board of Directors' Audit Committee, and the Chairman of the Board.

2.4 Disclosure concerning the internal auditor in a reporting company (cont.)

Details	
Work plan	**<u>The party accepting and approving the work plan</u>** The Board of Directors' Audit Committee, after the matter has been discussed with the Chairman of the Board. **<u>The auditor's discretion to deviate from the work plan</u>** The Chairman of the Board or the chairman of the Audit Committee may propose topics which urgently require auditing, and may also recommend narrowing the scope of or halting an audit approved in the work plan. The internal auditor has the discretion to deviate from the work plan. **<u>Examination of material transactions</u>** The internal auditor attends discussions at Board meetings where material transactions are approved and reviews the relevant material sent in preparation for these discussions.
Internal audit's review of material investees	The work plan for the Company's internal audit unit does not include an audit of material investees. One internal auditor oversees the material investees (as an employee of Pelephone also serving "yes" and Bezeq International), as part of the efforts to consolidate internal auditing activities in these investees. Investee audit reports are discussed by the boards of these companies, which include directors also serving as Company directors. The internal auditor may, under the Company's internal audit procedure and at his discretion, obtain the audit reports of these subsidiaries and he is obligated to meet with each of the subsidiaries' internal auditors at least once a year, to discuss the audit plan and its implementation in the subsidiary. The internal auditor routinely conducts these meetings and receives audit reports from the subsidiaries' auditor.
Scope of employment	In 2021, the scope of employment was 7,000 hours, which includes the hours worked by the internal audit unit employees, including the internal auditor, and by external third parties. In 2021, the internal audit team comprised three full-time internal auditors, in addition to the internal auditor. The scope of employment is set according to the audit work plan, formulated in accordance with the scope and complexity of the various Company activities. Towards the end of 2020, the Audit Committee decided to reduce the number of employees in the internal audit unit from four to three full-time auditors, in addition to the internal auditor, in line with the downsizing across the Company. The Committee also decided that the work plan would undergo an adjustment, and where necessary the internal auditor would be assisted by outsourcing. <u>Scope of internal audit activities in material investees in 2021:</u> Pelephone–2,600 hours; Bezeq International - 2,600 hours; DBS - 2,600 hours.

2.4 Disclosure concerning the internal auditor in a reporting company (cont.)

Details	
Preparation of the audit	The internal audit is conducted in accordance with the Companies Law, 1999, and the Internal Audit Law, 1992, and complies with generally accepted auditing standards set by the international Institute of Internal Auditors (IIA). The internal auditor is certified as an Internal Audit Quality Assessment Reviewer (QAR), as a Certified Internal Auditor (CIA), and as a Certified Risk Management Assurance (CRMA) Professional by the international Institute of Internal Auditors (IIA), and has an in-depth familiarity with internal audit standards. Internal audit activities are also subject to periodic reviews. The internal auditor has updated the Audit Committee and the Board of Directors on the standards used in internal audit activities.
Access to information	The internal auditor was provided with documents and information as stipulated in Section 9 of the Internal Audit Law, and was granted ongoing and direct access to the Company's information systems, including financial data.
Internal auditor's report	The internal auditor regularly submits written audit reports during the reporting year to the Chairman of the board, the CEO, and to the chairman and members of the Audit Committee. Reports are submitted near the date of discussion by the Committee (usually three days before the said date). The Audit Committee discussed audit reports on the following dates: January 10, 2021; January 19, 2021; February 11, 2021; April 18, 2021; May 3, 2021; June 20, 2021; July 7, 2021; August 9, 2021; September 9, 2021; December 5, 2021; and December 28, 2021. In addition to the audit reports, the auditor submitted reviews and reports to the Audit Committee on various matters as requested by the Committee, and briefed the Committee on the implementation of the decisions in the audit reports that were discussed by the Committee (some, in meetings held in addition to the ones noted above). For information concerning the main audit topics, see the corporate governance questionnaire.
The Board of Directors' assessment of the internal auditor's work	The Board of Directors believes that the scope of the Company's audits, the nature and continuity of the internal auditor's activities as well as the audit work plan, are reasonable under the circumstances and can achieve the goals of the audit.
Compensation	The terms of the internal auditor's employment were discussed and approved by the Company's Audit Committee and Board of Directors on March 20, 2017, and March 29, 2017, respectively, and were updated as follows: Total monthly salary of NIS 50,000 and an annual bonus based on targets predetermined by the Audit Committee and approved by the Board of Directors, of up to 62.5% of the annual salary excluding ancillary costs. Likewise, on February 14, 2021, the internal auditor was allotted 300,000 warrants. On March 22, 2022, the Company's Board of Directors approved the 2021 bonus for the Company's internal auditor in the amount of NIS 332 thousand (55.37% of his annual salary). The Board of Directors believes that the compensation paid to the internal auditor did not affect his professional judgment.

3. Disclosure Concerning the Company's Financial Reporting

3.1. Disclosure of valuations

Below are details of very material valuations and of a material valuation pursuant to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports), 1970.

A very material valuation of the Company as of December 31, 2021, is not attached to the report since the Company is satisfied that there are no indications of impairment of the cash-generating unit.

	Pelephone **Material valuation as of December 31, 2021** **See Section 3.1.3 below.**	**The Company (Bezeq)** **Very material valuation as of December 31, 2021**	**DBS** **Very material valuation as of December 31, 2021 - attached to the financial statements as of December 31, 2021.** **See Sections 3.1.1 and 3.1.3 below.**	**Bezeq International** **Very material valuation as of December 31, 2021 - attached to the financial statements as of December 31, 2021.** **See Section 3.1.3 below.**
Subject of valuation	Value in use of Pelephone to test for impairment of goodwill recognized in the Company's financial statements pursuant to IAS 36.	Value in use of Bezeq Fixed-Line to test for impairment of goodwill recognized in the Company's financial statements in accordance with IAS 36.	Recoverable amount of DBS Satellite Services (1988) Ltd. to test for impairment of non-current assets.	Recoverable amount of Bezeq International to test for impairment of non-current assets.
Date of valuation	December 31, 2021 The valuation was signed on March 10, 2022.	December 31, 2021 The valuation was signed on March 22, 2022.	December 31, 2021 The valuation was signed on March 22, 2022.	December 31, 2021 The valuation was signed on March 22, 2022.
Value prior to the valuation	NIS 1,139 million carrying amount of Pelephone's net operating assets(*) (NIS 76 million - goodwill).	NIS 5,764 million carrying amount of Bezeq's net operating assets (NIS 265 million - goodwill).	Negative amount of NIS (16) million.	NIS 95 million.

(*) Pelephone's net operating assets do not include trade receivable balances from installment-based handset sales presented at present value.

<table>
<tr><th></th><th>Pelephone

Material valuation
as of December 31, 2021

See Section 3.1.3 below.</th><th>The Company (Bezeq)

Very material valuation
as of December 31, 2021</th><th>DBS

Very material valuation
as of December 31, 2021 -
attached to the financial statements as of December 31, 2021.

See Sections 3.1.1 and 3.1.3 below.</th><th>Bezeq International

Very material valuation
as of December 31, 2021 -
attached to the financial statements as of December 31, 2021.

See Section 3.1.3 below.</th></tr>
<tr><td>Value set in the valuation</td><td>NIS 2,798 million.

The Company concluded that there is no impairment requiring a write-down of the goodwill recognized in the Company's books.</td><td>NIS 19,186 million.

The Company concluded that there is no impairment requiring a write-down of the goodwill recognized in the Company's books.</td><td>Negative amount of NIS (109) million.</td><td>NIS 70 million.</td></tr>
<tr><td>Appraiser's identity and profile</td><td colspan="4">The valuation was prepared by Prof. Hadas Gelander, Partner and Head of Valuations and Economic Modeling in the Economic Department at Ernst Young (Israel) Ltd. Prof. Gelander holds a Bachelor's Degree in Accounting from the College of Management – Academic Studies, Rishon Lezion; an MBA from the Hebrew University of Jerusalem, and a PhD (with honors) from Ben-Gurion University, Beer Sheva, and is a Certified Public Accountant in Israel.

In her position, Prof. Gelander oversees projects of leading companies in Israel and worldwide, in various sectors such as: technology, finance, pharmaceuticals, energy, infrastructures, real estate and industry. As part of her duties, she assists and advises companies in the preparation of valuations for business purposes (fair value valuations and opinions) and for accounting purposes (purchase price allocation, valuation of intangible assets, valuation of employee options, etc.), and has provided professional financial opinions as an expert court witness.

The appraiser is not dependent on the Company. The Company has undertaken to indemnify the appraiser for damages exceeding three times the fee paid, unless the appraiser has acted with malicious intent or gross negligence.</td></tr>
<tr><td>Valuation model</td><td>Discounted Cash Flow method (DCF)</td><td>Discounted Cash Flow method (DCF).</td><td>Initially - Discounted Cash Flow method (DCF).
Subsequently - fair value was established for DBS's non-current assets.</td><td>Initially - Discounted Cash Flow method (DCF).
Subsequently - fair value was established for Bezeq International's non-current assets.</td></tr>
<tr><td>Assumptions used in the valuation</td><td>Discount rate - 9% (post-tax).
Terminal growth rate - 1.5%
Scrap value percentage of total value set in valuation –77.1%.</td><td>Discount rate - 7% (post-tax).
Terminal growth rate - 1%.
Scrap value percentage of total value set in valuation – 76.9%.</td><td>Discount rate - 8.5% (post-tax).
Terminal growth rate - 1%.
Scrap value percentage of total value set in valuation - N/A.

In addition, assumptions were used concerning fair value less costs to sell of DBS assets.</td><td>Discount rate –8.5% (post-tax).
Terminal growth rate - 1%.
Scrap value percentage of total value set in valuation –N/A

In addition, assumptions were used concerning fair value less costs to sell of Bezeq International assets.</td></tr>
</table>

3.1. Disclosure of valuations (cont.)

3.1.1. Despite the negative value of DBS's operations, the Company supports DBS by approving credit facilities or investing in DBS's equity (see Note 12.2.2 to the financial statements). The Company's support of DBS as aforesaid is due, among other things, to the Multi-Channel Television segment's current and expected contribution to the Bezeq Group's overall operations.

3.1.2. In the Company's consolidated financial statements as of December 31, 2021, the value of the Bezeq - The Israel Telecommunications Corporation Ltd. segment, the Pelephone Communications Ltd. segment, the DBS Satellite Services (1998) Ltd. segment, and the Bezeq International segment exceeded 25% of the Company's assets. The appraiser thus constitutes a very material appraiser under the Israel Securities Authority's Staff Legal Position 105-30 ("the Staff Legal Position"). For disclosure concerning the appraiser in accordance with the Staff Legal Position, see the valuations attached to the financial statements.

3.1.3. Information under Regulation 10(b)(8) of the Securities Regulations (Periodic and Immediate Reports), 1970

A. As concerns Pelephone's valuation as of December 31, 2020, which was attached to the annual report for 2020, the Company studied Pelephone's actual free cash flow data for 2021[2] as compared to the forecast for 2021 included in the aforesaid valuation. This review found that Pelephone's free cash flows, according to its financial statements for 2021, were lower than forecast. This difference was due to an increase in the Company's trade receivables as a result of organizational sanctions which caused a delay in the amounts and times of customer payment collection. Said effect was partially offset by higher-than-forecast revenues (a positive deviation in subscriber base and ARPU), greater-than-planned streamlining of salary expenses, and timing differences in investment flows.

B. As concerns DBS's valuation as of December 31, 2020, which was attached to the financial statements for 2020, the Company studied DBS's actual free cash flow data for 2021 as compared to the forecast for 2021 included in the aforesaid valuation. This review found that DBS's free cash flows, according to its financial statements for 2021, were significantly higher than forecast. This difference was due to higher-than-forecast revenues (a Premium subscriber mix and higher-than-projected ARPU), lower-than-planned operating expenses (mainly salary and content expenses), and working capital changes. For more information, see Appendix H to the attached DBS valuation as at December 31, 2021.

C. As concerns Bezeq International's valuation as of September 30, 2020, which was attached to the quarterly report as of September 30, 2020, the Company studied Bezeq International's actual free cash flow data for 2021 as compared to the forecast for 2021 included in the aforesaid valuation. This review found that Bezeq International's free cash flows, according to its financial statements for 2021, were similar to the forecast. It is noted that an increase in the Company's trade receivables as a result of organizational sanctions, which caused a delay in the amounts and times of customer payment collection, was offset mainly by a lower-than-projected investment flow (increased streamlining and timing differences).

3.1.4. For more information, see Note 10 to the financial statements.

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2 Free cash flow s for these purposes are cash flow s from operating activities, less capital investments and less changes in interest-bearing trade receivables from installment-based handset sales (financial instrument).

3.2. Due to the materiality of the legal actions brought against the Group, which cannot yet be assessed or for which the Group cannot yet estimate its exposure, the auditors drew attention to these actions in their opinion concerning the financial statements.

3.3. Material events subsequent to the financial statements' date

As regards **Material events subsequent to the financial statements' date** – see Note 32 to the financial statements.

4. Details of debt certificate series

Data on the Company's debentures in circulation, as of December 31, 2021:

		Debentures (Series 6)	**Debentures (Series 7)**	**Debentures (Series 9)**	**Debentures (Series 10)**	**Debentures (Series 11)**	**Debentures (Series 12)**	**Debentures (Series 13)**	**Debentures (Series 14)**
a	Issue date (excluding expansions)	July 3, 2011	July 3, 2011	October 15, 2015	October 15, 2015	July 10, 2019	July 10, 2019	December 23, 2021	December 23, 2021
b	Total par value upon issue (including expansions) in NIS	2,999,981,609	733,759,000	2,144,968,000	881,683,808	834,766,000	1,269,240,000	200,000,000	200,000,000
c	Par value in NIS	499,996,322	35,707,897	2,144,968,000	881,683,808	834,766,000	1,269,240,000	200,000,000	200,000,000
d	Par value revalued to the reporting date (CPI-linked) in NIS	530,783,255	35,707,897	2,144,968,000	904,568,793	834,766,000	1,280,558,321	200,000,000	200,000,000
e	Accrued interest revalued to the reporting date in NIS	1,584,423	41,005	6,524,278	1,660,886	2,226,043	1,816,870	137,589	28,646
f	Fair value as included in the financial statements in NIS	558,345,893	36,064,976	2,308,200,065	1,003,444,342	906,806,306	1,487,803,128	199,560,000	199,960,000
g	Stock exchange value in NIS	558,345,893	36,064,976	2,308,200,065	1,003,444,342	906,806,306	1,487,803,128	199,560,000	199,960,000
h	Type of interest	Fixed, 3.7%	Variable - STL for one year plus 1.4% margin	Fixed, 3.65%	Fixed, 2.2%	Fixed, 3.2%	Fixed, 1.7%	Fixed, 2.79%	Fixed, 0.58%
i	Principal repayment dates	December 1 every year from 2018 through 2022	December 1 every year from 2018 through 2022	December 1 every year from 2022 through 2025	December 1 every year from 2022 through 2025	June 1 every year from 2026 through 2030	June 1 every year from 2026 through 2030	December 1 every year from 2031 through 2035	June 1 every year from 2031 through 2035
j	Interest repayment dates	June 1 and December 1 every year, from Dec. 1, 2011 through Dec. 1, 2022	March 1, June 1, September 1, and December 1 every year, from Sept. 1, 2011 through Dec. 1, 2022	June 1 and December 1 every year, from Dec. 1, 2015 through Dec. 1, 2025	June 1 and December 1 every year, from Dec. 1, 2015 through Dec. 1, 2025	June 1 and December 1 every year, from Dec. 1, 2019 through June 1, 2030	June 1 and December 1 every year, from Dec. 1, 2019 through June 1, 2030	June 1 and December 1 every year, from June 1, 2022 through Dec. 1, 2035	June 1 and December 1 every year, from June 1, 2022 through June 1, 2035
k	Linkage	Principal and interest linked to increases in the CPI (base index – May 2011)	Unlinked	Unlinked	Principal and interest linked to increases in the CPI (base index - August 2015)	Unlinked	Principal and interest linked to increases in the CPI (base index – May 2019)	Unlinked	Principal and interest linked to increases in the CPI (base index – November 2021)

4. Details of debt certificate series (cont.)

		Debentures (Series 6)	Debentures (Series 7)	Debentures (Series 9)	Debentures (Series 10)	Debentures (Series 11)	Debentures (Series 12)	Debentures (Series 13)	Debentures (Series 14)
l	Liability in relation to Company's total liabilities	Immaterial	Immaterial	Material	Material	Material	Material	Immaterial	Immaterial
m	Trustee	Reznik Paz Nevo Trusts Ltd. Contact - Yossi Reznik, CPA Email - yossi@rpn.co.il, Phone: 03-6389200, Fax: 03-6389222 Address - 14 Yad Harutzim St., Tel Aviv							
n	Rating	Debentures are rated **il/AA-/Stable** by Standard & Poor's Maalot Ltd., and **Aa3.il/Stable** by Midroog Ltd. On May 2, 2021, Midroog removed the debentures' rating from review (which was with negative implications) and confirmed the rating of Aa3.il/Stable for the Company's debentures (see Immediate Report).Likewise, on December 1, 2021, Midroog announced that it was assigning the same rating to Debenture Series 13-14 to be issued by the Company in the amount of up to NIS 400 million par value (see Immediate Report). On May 12, 2021, Maalot ratified the ilAA-/Stable rating of the Company and its debentures (see Immediate Report). Likewise, on November 30, 2021, Maalot announced that it was assigning the same rating to the issuance of debentures in the amount of up to NIS 400 million par value, through the issuance of two new series, 13 and 14 (see Immediate Report).							
o	Compliance with the deeds of trust	On December 31, 2021, the Company issued to the trustees of Debentures (Series 6, 7, 9, 10, 11, 12, 13 and 14) confirmations of its compliance with the deeds of trust for 2021.							
p	Pledges	As concerns Debentures (Series 6, 7, 9, 10, 11, 12, 13 and 14), the Company has undertaken not to create additional pledges on its assets unless the Company simultaneously creates pledges in favor of the debenture holders and the lending banks (negative pledges), subject to such exceptions as detailed in Note 13.3 to the financial statements.							

5. Miscellaneous

For information concerning the liabilities balances of the reporting corporation and those companies consolidated in its financial statements as of December 31, 2021, see the Company's reporting form on the MAGNA system, dated March 23, 2022.

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

Gil Sharon	Dudu Mizrahi
Chairman of the Board	CEO

Signed: March 22, 2022

Part C:

Consolidated Financial Statements for the Year Ended December 31, 2021

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

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+972 3 684 8000

Auditors' Report to the Shareholders of
"Bezeq" – The Israeli Telecommunication Corporation Ltd.

We have audited the accompanying consolidated statements of financial position of Bezeq – The Israel Telecommunication Corporation Ltd. ("the Company") as of December 31, 2021 and 2020 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2021. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor's Mode of Performance) - 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2021 and 2020 and results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2021, 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", the Company's components of internal control over financial reporting as of December 31, 2021, and our report dated March 22, 2022 included an unqualified opinion on the effective maintenance of those components.

Without qualifying our aforementioned opinion, we draw attention to Note 1.3 in the financial statements regarding the Israel Securities Authority's (ISA) and the Israel Police investigation of suspected offenses under the Securities Law and Penal Law, involving inter alia transactions related to the former controlling shareholder, and the announcement by the Tel Aviv District Attorney's Office (Taxation and Economics Division) that it was considering prosecuting the Company and holding a hearing on suspicions of bribery and reporting with intent to mislead a reasonable investor, as well as that stated in said note regarding the filing of an indictment against the Company's former controlling shareholder on various offenses, among others, bribery and causing a misleading particular to be included in an immediate report, and regarding the filing of an indictment against the Company's former controlling shareholder and former senior officers in the Bezeq Group, charging the defendants with receiving something fraudulently under aggravating circumstances, fraud and breach of trust in a corporation, and reporting violations under the Securities Law. Additionally, further to the institution of the above investigation, several civil actions were filed against the Company, against former officers of the Company, and against companies from the group of the Company's former controlling shareholder, including motions to certify class action lawsuits. As noted in the aforementioned note, the Company is unable to assess the effects of the investigations, their findings and their results on the Company, as well as on the financial statements and on the estimates used in their preparation, if any.

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In addition, without qualifying our abovementioned opinion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 17.

Somekh Chaikin

Certified Public Accountants (Isr.)

March 22, 2022

Somekh Chaikin
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Auditors' Report to the Shareholders of Bezeq – The Israel Telecommunication Corporation Ltd. regarding the Audit of Components of Internal Control over Financial Reporting in accordance with paragraph 9B(c) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Bezeq – The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter "the Company") as of December 31, 2021. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company's internal control components over financial reporting accompanying the periodic report as of the above date. Our responsibility is to express an opinion on the Company's internal control components over financial reporting based on our audit.

Audited Internal control components over financial reporting were determined in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel: "Audit of Internal Control Components over Financial Reporting", and its amendments (hereinafter "Auditing Standard (Israel) 911"). These components are:

(1) Entity level controls, including controls over the financial reporting preparation and closing financial reporting process and general information technology controls;

(2) Controls over the revenue process;

(3) Controls over the salary process;

(4) Controls over the fixed assets process;

(5) Controls over the procurement process;

We conducted our audit in accordance with Auditing Standard (Israel) 911. This standard requires us to plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting, therefore our opinion refers to the audited control components only. Our audit also did not refer to mutual effects between audited control components and non-audited control components, therefore our opinion refers to the audited control components only. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2021.

As described in the report on the effectiveness of internal controls over financial reporting and disclosure for the year ended December 31, 2021 of Bezeq – The Israel Telecommunication Corporation Ltd. ("the Company"), regarding investigations conducted by the Israel Securities Authority and the Israel Police as detailed in section 1.1.6 of Chapter A, Description of the Company Operations of this report, the Company does not have complete information concerning these investigations, their content, the materials and evidence in the possession of the legal authorities on this matter. Accordingly, the Company is unable to assess the impact of the investigations, their

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findings and their results on the Company, and on the financial statements of the Company and the estimates used in preparing these statements, if at all.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, and our report, dated March 22, 2022, expressed an unqualified opinion on those financial statements, Said report also drew attention to Note 1.3 in the financial statements regarding the Israel Securities Authority's (ISA) and the Israel Police investigation of suspected offenses under the Securities Law and Penal Law, involving inter alia transactions related to the former controlling shareholder, and the announcement by the Tel Aviv District Attorney's Office (Taxation and Economics Division) that it was considering prosecuting the Company and holding a hearing on suspicions of bribery and reporting with intent to mislead a reasonable investor, as well as that stated in said note regarding the filing of an indictment against the Company's former controlling shareholder on various offenses, among others, bribery and causing a misleading particular to be included in an immediate report, and regarding the filing of an indictment against the Company's former controlling shareholder and former senior officers in the Bezeq Group, charging the defendants with receiving something fraudulently under aggravating circumstances, fraud and breach of trust in a corporation, and reporting violations under the Securities Law. Additionally, further to the institution of the above investigation, several civil actions were filed against the Company, against former officers of the Company, and against companies from the group of the Company's former controlling shareholder, including motions to certify class action lawsuits. Attention was also drawn to that stated in Note 17 regarding lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated.

Somekh Chaikin

Certified Public Accountants (Isr.)

March 22, 2022

Consolidated Statements of Financial Position as at December 31

		2021	2020
Assets	**Note**	**NIS million**	**NIS million**
Cash and cash equivalents	3.3, 4	**973**	840
Investments	3.3, 5	**954**	724
Trade receivables	3.3, 6	**1,859**	1,621
Other receivables	3.3, 6	**279**	178
Inventory	3.9	**74**	73
Assets held for sale		**-**	10
Total current assets		**4,139**	3,446
Trade and other receivables	3.3, 6	**433**	514
Broadcasting rights	3.4	**60**	67
Right-of-use assets	3.7, 8	**1,828**	1,804
Fixed assets	3.5, 9	**6,312**	6,131
Intangible assets	3.6, 10	**912**	929
Deferred expenses and non-current investments	11	**226**	242
Deferred tax assets	3.16, 7	**24**	108
Total non-current assets		**9,795**	9,795
Total assets		**13,934**	13,241

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statements of Financial Position as at December 31 (Cont.)

		2021	2020
	Note	NIS million	NIS million
Debentures, loans and borrowings	3.3, 13	**980**	786
Current maturities of lease liabilities	3.7, 8	**466**	415
Trade and other payables	14	**1,748**	1,759
Employee benefits	3.11, 16	**510**	482
Provisions	3.12, 15	**69**	117
Total current liabilities		**3,773**	3,559
Loans and debentures	3.3, 13	**7,082**	7,614
Lease liabilities	3.7, 8	**1,511**	1,492
Employee benefits	3.11, 16	**243**	335
Derivatives and other liabilities	14	**142**	307
Deferred tax liabilities	3.16, 7	**38**	32
Provisions	3.12, 15	**49**	52
Total non-current liabilities		**9,065**	9,832
Total liabilities		**12,838**	13,391
Total equity (equity deficit)	20	**1,096**	(150)
Total liabilities and equity		**13,934**	13,241

Gil Sharon	**Dudu Mizrahi**	**Tobi Fischbein**
Chairman of the Board of Directors	CEO	CFO Bezeq Group

Date of approval of the financial statements: March 22, 2022

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The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statements of Income for the Year Ended December 31

		2021	2020	2019
	Note	NIS million	NIS million	NIS million
Revenues	3.13, 21	**8,821**	8,723	8,929
Operating expenses				
General operating expenses	22	**3,257**	3,173	3,308
Salaries	23	**1,882**	1,891	1,933
Depreciation, amortization and impairment	8, 9,10,11	**1,889**	1,837	1,912
Impairment loss	10	**-**	293	1,147
Other operating expenses (income), net	24	**(77)**	74	(221)
Total operating expenses		**6,951**	7,268	8,079
Operating profit		**1,870**	1,455	850
Financial expenses	3.15, 25			
Financial expenses		**349**	416	624
Financial income		**(44)**	(45)	(75)
Financial expenses, net		**305**	371	549
Profit after financial expenses, net		**1,565**	1,084	301
Share in losses of equity-accounted investees		**-**	-	(2)
Profit before income tax		**1,565**	1,084	299
Income tax	3.16, 7	**382**	288	1,493
Profit (loss) for the year attributable to the shareholders of the Company		**1,183**	796	(1,194)
Earnings (loss) per share (NIS)	27			
Basic and diluted earnings (loss) per share (NIS)		**0.43**	0.29	(0.43)

Consolidated Statements of Comprehensive Income for the Year Ended December 31

	2021	2020	2019
	NIS million	NIS million	NIS million
Profit (loss) for the year	**1,183**	796	(1,194)
Remeasurement of a defined benefit plan, net of tax	**(1)**	(9)	(33)
Additional items of other comprehensive income (loss), net of tax	**37**	(5)	1
Total comprehensive income (loss) for the year attributable to shareholders of the Company	**1,219**	782	(1,226)

The accompanying notes are an integral part of the consolidated financial statements

Comprehensive Statements of Changes in Equity for the Year Ended December 31

	Share capital	Share premium	Capital reserve for transactions between a corporation and a controlling shareholder	Capital reserve for employee options	Other reserves	Accumulated deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2019	3,878	384	390	-	(59)	(4,299)	294
Loss for 2019	-	-	-	-	-	(1,194)	(1,194)
Other comprehensive income (loss) for the year, net of tax	-	-	-	-	1	(33)	(32)
Total comprehensive loss for 2019	-	-	-	-	1	(1,227)	(1,226)
Balance as at December 31, 2019	3,878	384	390	-	(58)	(5,526)	(932)
Profit for 2020	-	-	-	-	-	796	796
Other comprehensive loss for the year, net of tax	-	-	-	-	(5)	(9)	(14)
Total comprehensive income for 2020	-	-	-	-	(5)	787	782
Balance as at December 31, 2020	3,878	384	390	-	(63)	(4,739)	(150)
Profit for 2021	**-**	**-**	**-**	**-**	**-**	**1,183**	**1,183**
Other comprehensive income (loss) for the year, net of tax	-	-	-	-	**37**	**(1)**	**36**
Total comprehensive income for 2021	**-**	**-**	**-**	**-**	**37**	**1,182**	**1,219**
Transactions with shareholders recognized directly in equity							
Share-based payment (Note 26)	**-**	**-**	**-**	**27**	**-**	**-**	**27**
Balance as at December 31, 2021	**3,878**	**384**	**390**	**27**	**(26)**	**(3,557)**	**1,096**

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statements of Cash Flows for the Year Ended December 31

		2021	2020	2019
	Note	NIS million	NIS million	NIS million
Cash flow from operating activities				
Profit (loss) for the year		**1,183**	796	(1,194)
Adjustments:				
Depreciation and amortization	8,9,10,11	**1,889**	1,837	1,912
Impairment loss of assets	10	**-**	293	1,147
Capital gain, net	24	**(175)**	**(40)**	(508)
Share in losses of equity-accounted investees		**-**	-	2
Financial expenses, net	25	**324**	403	497
Share-based payment	26	**27**	-	-
Income tax expenses	7	**382**	288	1,493
Change in trade and other receivables	6	(**229**)	57	103
Change in inventory		**(19)**	13	(19)
Change in trade and other payables	14	**(41)**	17	(77)
Change in provisions	15	**(47)**	(8)	(49)
Change in employee benefits	16	**(65)**	(192)	(50)
Change in other liabilities		**(5)**	(1)	(8)
Net income tax paid		**(385)**	(243)	(325)
Net cash provided by operating activities		**2,839**	3,220	2,924
Cash flow for investing activities				
Purchase of fixed assets	9	**(1,328)**	(1,133)	(1,095)
Investment in intangible assets and deferred expenses	10,11	**(363)**	(366)	(382)
Investment in deposits with banks and others		**(1,031)**	(1,335)	(2,067)
Proceeds from repayment of deposits with banks and others		**800**	1,786	2,297
Proceeds from the sale of fixed assets		**278**	148	76
Sale of Walla, net		**-**	44	-
Receipts from the sale of the Sakia property		**-**	-	328
Payment of permit fees and taxes to government authorities for the sale of the Sakia property		**-**	-	(69)
Miscellaneous		**(2)**	17	29
Net cash used in investing activities		**(1,646)**	(839)	(883)

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statements of Cash Flows for the Year Ended December 31

		2021	2020	2019
	Note	NIS million	NIS million	NIS million
Cash flow for financing activities				
Issue of debentures and receipt of loans	13	**695**	718	1,865
Repayment of debentures and loans	13	**(1,067)**	(1,828)	(3,447)
Payments of principal and interest for leases	8	**(387)**	(391)	(414)
Interest paid	13	**(254)**	(314)	(392)
Costs for early repayment of loans and debentures	13	**(15)**	(65)	(93)
Payment for expired hedging transactions		**(30)**	(57)	(46)
Miscellaneous		**(2)**	(4)	(4)
Net cash used in financing activities		**(1,060)**	(1,941)	(2,531)
Net increase (decrease) in cash and cash equivalents		**133**	440	(490)
Cash and cash equivalents as at January 1		**840**	400	890
Cash and cash equivalents as at the end of the year		**973**	840	400

The accompanying notes are an integral part of the consolidated financial statements

1. <u>General</u>

1.1 Reporting entity

Bezeq – The Israel Telecommunication Corporation Limited ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Group as at December 31, 2021 include the statements of the Company and its subsidiaries ("the Group") and the Group's interests in associates. The Group is a principal provider of communication services in Israel (see also Note 28 – Segment Reporting).

1.2 Control of the Company

As from April 14, 2010, the holder of the control permit for the Company is B Communications Ltd. ("B Communications") which was under the indirect control of Eurocom Communications Ltd. until 2019.

On December 2, 2019, the Company received notice from B Communications regarding the completion of a transaction with Searchlight II BZQ LP and a company controlled by the Fuhrer family (TNR Investments Ltd.), in which control of B Communications and the Company was transferred to these entities, following the liquidation of Eurocom Communications Ltd, in the framework of which the holdings of its subsidiary Internet Gold – Golden Lines in B Communications were sold.

B Communications is an Israeli public company whose shares are traded on the Tel Aviv Stock Exchange Ltd.

1.3 Investigation by the Israel Securities Authority and the Israel Police

1.3.1 In the course of 2017 and 2018, the Israel Securities Authority ("ISA") and the Israel Police conducted investigations into suspected offenses under the Securities Law and the Penal Law, 1977 ("the Penal Law"), with respect to transactions related to the Company's former controlling shareholder and former Chairman of its Board of Directors, Shaul Elovitch ("Elovitch"), involving the purchase of shares of DBS Satellite Services 1998 Ltd. ("DBS") and provision of satellite communication services to DBS, the conduct of the Ministry of Communications vis-à-vis the Company ("the DBS case"), as well as suspicions of the exercise of authority by the former Prime Minister, Benjamin Netanyahu, to promote matters related to the business of Elovitch and to his economic interests and those of the Bezeq Group ("Case 4000"). Further to the investigations, indictments were filed and notices were received as follows:

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

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

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

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

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

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

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

Further to the above, on July 8, 2021, the Company and Walla submitted written pleadings for a hearing, and on August 12, 2021, a hearing was held for the companies before the Deputy State Prosecutor (Criminal Enforcement) and the team of prosecutors handling the case. As of the report publication date, the state prosecution and the Attorney General had not decided regarding the filing of an indictment in light of the arguments presented in the hearing, and the companies have not been informed of an expected date for the decision.

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

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

B. The Taxation and Economics Division had entered into a conditional stay of proceedings arrangement, upon terms in accordance with the Securities Law, with Stella Handler, in the framework of which Handler admitted that she was involved in the inclusion of a misleading particular in the Company's reports. As stated in the arrangement, the DBS case was closed with respect to Stella Handler.

C. The investigation files against other suspects who were investigated in the aforementioned cases, including against the former VP of Regulation of the Company and against Or Elovitch and Amikam Shorer, had been closed (with respect to the latter two – except as regards the DBS case, as noted at the beginning of this section).

1.3.1.4 As regards DBS, which on November 20, 2017 received a "notice to suspect," according to which the Investigation file in which it was being investigated as a suspect had been sent to the Tel Aviv District Attorney's Office for review – according to a notice received by DBS from the Tel Aviv District Attorney's Office, following a review of the ISA file in which it was investigated as a suspect, it was decided on January 11, 2021 to close the case against it, without filing an indictment.

1.3.2 It should be noted that following the opening of the aforementioned investigations, several civil legal proceedings were instituted against the Company and DBS, officers of the Company in the relevant period, and companies in the group of the former controlling shareholder of the Company, including motions to certify class action lawsuits and motions for disclosure of documents prior to filing a motion to certify a derivative claim. For further information on these proceedings, see Note 17.

1.3.3 The Company does not yet have complete information about the investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter (although in January 2021 the Company received the core of the investigation material in connection with Case 4000, further to the invitation of the Company to a hearing in this matter, as set out in section 1.3.1.2 above). Accordingly, the Company is not able to assess the effects of the investigations, their findings and their outcome on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

1.4 Outbreak of the COVID-19 pandemic

The global outbreak of the coronavirus at the beginning of 2020 has had numerous implications, including in the macroeconomic sphere. In light of the pandemic, many countries, Israel among them, have taken significant measures in an attempt to prevent the spread of the virus, such as restrictions on movement in public spaces and on public gatherings, restrictions on the transport of passengers and goods, the closing of borders between countries, etc. As an outcome, the virus as well as the measures taken have had significant repercussions on many economies and on the global capital market.

The effects of the COVID-19 pandemic on the Group's operations in 2021 were mainly reflected in a decline in revenue from Pelephone's roaming services due to the impact of the pandemic on the aviation and international tourism sectors, with no significant negative effects in other operating segments. Although the rollout of vaccines and easing of restrictions on travel abroad led to a certain recovery in Pelephone's revenues from roaming services in the course of the year, they have yet to return to their pre-pandemic levels. Moreover, the global chip shortage and supply chain disruptions have caused shortages and supply problems and sometimes also price increases in equipment of the main suppliers of the Group companies. In view of the foregoing, the Group companies are taking various steps to limit the damage to their operations.

Analyses performed by the Company indicate that at this stage, the COVID-19 pandemic has not had a material effect on the ability of the Group companies to meet their obligations or on the measurement of assets and liabilities, impairment of assets and recognition of expected credit losses. Likewise, there has been no material effect on the critical estimates and judgments.

As of the date of approval of these financial statements, the Bezeq Group's working assumption regarding the continued spread of the COVID-19 pandemic is that the pandemic will gradually abate, although there may be renewed waves of infection and new variants may appear. Accordingly, and subject to the above assumptions, the Group expects that the main effect of the COVID-19 pandemic on its operations will be a decline in Pelephone revenues from roaming services, due to the pandemic's effects on the aviation and international tourism sectors, with no material adverse effects in other operating segments. The Group likewise expects the global chip shortage and supply chain disruptions to affect the prices of goods in the short term and to increase the need of the Group companies to stock up on inventory. The effects of the pandemic may also lead to the prolongation of projects that require technological or other equipment.

At the same time, this is an unfolding event that is not within the Company's control, thus the possible continuation or worsening of the pandemic beyond the Group's assumptions, as detailed above, may have a material adverse effect on the Group's results. These effects may be reflected, among others, in a greater-than-projected decrease in revenues from roaming services, and may also affect revenues from the business sector, revenues from sales of cellular terminal equipment, employee availability, customer service and technician service systems, supply chain operations, as well as the amounts and times of payments collected from the Group's customers.

The Company's above assessments may change according to various developments in the COVID-19 pandemic and its effects, particularly the duration and scope of this event, the nature and scope of economic and other pandemic-related restrictions, and the intensity and duration of the ensuing economic downturn.

1.5 Definitions

In these financial statements:

The Company: Bezeq – The Israel Telecommunication Corporation Limited.

The Group: Bezeq – The Israel Telecommunication Corporation Limited and its subsidiaries, as follows:

Subsidiaries: Companies the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company, as set out in Note 12.

Associates: Companies in which the Group's investment is included, directly or indirectly, in the consolidated financial statements on equity basis.

Investees: Subsidiaries or associates.

Related parties: As defined in IAS 24, Related Party Disclosures.

Interested parties: As defined in paragraph (1) of the definition of an "interested party" in a corporation in section 1 of the Securities Law, 1968

2. Basis of Preparation

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the Securities Regulations (Annual Financial Statements), 2010.

The consolidated financial statements were approved by the Board of Directors on March 22, 2022.

2.2 Functional currency and presentation currency

The consolidated financial statements are presented in NIS, which is the Group's functional currency, and have been rounded to the nearest million. NIS is the currency that represents the principal economic environment in which the Group operates.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

* Derivative financial instruments, including financial derivatives, at fair value through profit or loss
* Inventories measured at the lower of cost and net realizable value
* Deferred tax assets and liabilities
* Provisions
* Assets and liabilities for employee benefits

For further information about the measurement of these assets and liabilities see Note 3, Significant Accounting Policies.

2.4 Operating cycle

The Group's operating cycle is up to one year. As a result, current assets and current liabilities include items the realization of which is intended and anticipated to take place within one year from the date of the financial statements.

2.5 Classification of expenses recognized in the statement of income

Costs and expenses in the statement of income are presented and analyzed on the basis of the function of the expenses. The classification is compatible with the understanding of the Group's businesses, which include a wide range of services using common infrastructure. All of the costs and expenses are used to provide services.

2.6 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the Group's management to make judgments and use estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant estimates and judgments, for which changes in the assessments and assumptions could potentially have a material effect on the financial statements of the next fiscal year:

Subject	Key assumptions	Possible effects	Reference
Measurement of recoverable amounts of cash-generating units	Assumption of expected cash flows from cash-generating units	Recognition of impairment loss or impairment reversal	Note 10
Useful life of fixed assets, intangible assets, and other long-term assets	Assumptions of the useful life of groups of fixed assets, intangible assets, and additional assets	Change in the value of fixed assets, intangible assets, additional assets, and depreciation and amortization expenses	Notes 9, 10, 11
Determination of lease period	In determining the lease period, the Group takes into account the period in which the lease may not be cancelled, including extension options which it is reasonably certain will be exercised or cancellation options which it is reasonably certain will not be exercised	An Increase or decrease in the measurement of a right-of-use asset and lease liability and in the depreciation and financial expenses in subsequent periods.	Note 8
Uncertain tax positions	The extent of the certainty that the Group's tax positions will be accepted (uncertain tax positions) and the risk of it incurring any additional tax and interest expenses. This is based on an analysis of a number of matters including interpretations of tax laws and the Group's past experience	Recognition or reversal of income tax expenses	Note 7
Provisions and contingent liabilities, including levies	Assessment of the likelihood of claims against Group companies and measuring potential liabilities attributable to claims	Reversal or creation of a provision for a claim, recognition of income/expenses and recognition of profit or loss for such change, respectively	Note 15 and Note 17
	The Company's assessments of the estimated payment to the authorities for the levies on the real estate asset in the Sakia property	Change in capital gain for the sale of a real estate asset in the Sakia property.	Note 6.6

Subject	Key assumptions	Possible effects	Reference
Employee benefits	Actuarial assumptions such as discount rate, future salary increases and churn rate	An increase or decrease in liabilities for employee benefits and a liability for early retirement	Note 16
Deferred taxes	Assumption of anticipated future realization of the tax benefit, including assumption that it is more likely than not that the carryforward tax losses in DBS will not be utilized.	Recognition of a deferred tax asset	Note 7

2.7 Determining fair value

When preparing the financial statements, the Group is required to determine the fair value of certain assets and liabilities. Further information about the assumptions made in determining fair values is disclosed in Note 30.7 regarding fair value.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

In this Note, where the Group has chosen accounting alternatives permitted in accounting standards and/or in accounting policy where there is no explicit provision in accounting standards, such disclosure is presented in ***bold and italics***. This does not attribute greater importance compared to other accounting policies that are not presented in bold and italics.

3.1 Consolidation of the financial statements

3.1.1 Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date of loss of control.

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

3.1.2 Transactions eliminated on consolidation

Intra-group balances and income and expenses arising from intra-group transactions, are eliminated in the consolidated statements.

3.1.3 Contingent consideration for business combinations

Subsequent to the acquisition date, the Group recognizes changes in fair value of contingent consideration recognized under business combinations, classified as a financial liability ***in the statement of income under financial expenses***.

3.2 Foreign currency transactions

Transactions in foreign currency are translated into the functional currency of the Group at the exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate at that date.

3.3 Financial instruments

3.3.1 Non-derivative financial assets

Non-derivative financial assets comprise mainly investments in deposits, trade and other receivables, and cash and cash equivalents.

The Group initially recognizes financial assets at the date at which the Group becomes a party to contractual provisions of the instrument, meaning the date that the Group undertakes to buy or sell the asset.

A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Classification of financial assets into categories and the accounting treatment in each category

Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost; or fair value through profit or loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

A. It is held within a business model whose objective is to hold assets so as to collect contractual cash flows.

B. The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

All financial assets of the Group that are not classified as measured at amortized cost are measured at fair value through profit or loss.

The Group classifies its financial assets as follows:

Cash and cash equivalents

Cash comprises cash balances available for immediate use and call deposits. Cash equivalents comprise short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

Trade and other receivables and deposits

The Group has balances of trade and other receivables and deposits that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Subsequent measurement and gains and losses

Financial assets at amortized cost are measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss.

3.3.2 Non-derivative financial liabilities

Non-derivative financial liabilities include debentures issued by the Group, loans and borrowings from banks and other credit providers, and trade and other payables.

The Group initially recognizes debt instruments as they are incurred. Other financial liabilities are recognized at the time of the transaction. Financial liabilities are recognized initially at fair value less any attributable transactions costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Modification in terms of debt instruments

An exchange of debt instruments having substantially different terms, between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. The difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financial income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative criterion, the Group examines, among other things, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments.

In a non-substantial modification in terms (or exchange) of a debt instruments at fixed interest, the new cash flows are discounted using the original effective interest rate, and the difference between the present value of the new financial liability and the present value of the original financial liability is recognized in profit or loss under ***financial expenses (income)***.

According to the accounting policy applied by the Group, when the portfolio of the financial liabilities with similar characteristics is repaid/exchanged, the profit/loss from the derecognition/exchange is based on the FIFO method.

3.3.3 CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is revaluated in each period according to the actual increase in the CPI.

3.3.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.3.5 A. Hedge accounting

The Group holds derivative financial instruments to hedge cash flows for risks to future changes in the CPI in respect of the debentures issued by the Group.

At the inception of the hedging relationship, the Group documents its risk management objective and its hedging strategy. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and the hedging instrument are expected to offset each other.

Derivatives are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and the effective portion of changes in fair value of the hedging instrument is recognized in a hedge reserve under other comprehensive income. The effective portion of changes in fair value of a derivative, recognized in other comprehensive income, is limited to the cumulative change in fair value of the hedged item (based on present value), from inception of the hedge. The change in fair value in respect of the ineffective portion is recognized immediately in profit or loss.

B. Economic hedges

In addition, the Group holds derivative financial instruments to hedge cash flows for foreign currency risks. Hedge accounting is not applied for these instruments. The derivative instruments are recognized at fair value; changes in fair value are recognized in profit and loss as incurred, ***as a financial income or expense***.

3.4 Broadcasting rights

Broadcasting rights are stated at cost, net of rights exercised and impairment losses.

The costs of broadcasting rights acquired for the broadcasting of content include the amounts paid to the rights provider, plus direct costs for adjusting the rights to the broadcast, as well as the costs of locally produced content. Broadcasting rights are amortized on a straight-line basis over the shorter of the period of the rights agreement and the estimated economic life.

Broadcasting rights are assessed for impairment as part of the cash-generating unit to which the broadcasting rights are attributed (see Note 10).

The net adjustment of the broadcasting rights is presented as an adjustment of earnings as part of the ongoing operations in the statements of cash flows.

3.5 Fixed assets

3.5.1 Recognition and measurement

The Group elected to measure items of fixed assets at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor and financing costs as well as any other cost directly attributable to bringing the asset to the condition for its use intended by the management, and the estimated costs of dismantling and removing the items and restoring the site on which they are located when the Group has an obligation to vacate and restore the site. The cost of purchased software that is integral to the functionality of the related equipment is recognized as part of the cost of the equipment.

Spare parts, servicing equipment and stand-by equipment are classified as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise to be classified as inventory.

When major parts of the fixed assets have different useful lives, they are accounted for as separate items (major components) of the fixed assets.

Gain or loss from the disposal of a fixed asset item is determined by comparing the proceeds from disposal of the asset with its carrying amount. ***Gain or loss from the sale of fixed assets is recognized under other income or other expenses, as the case may be, in the statement of income.***

3.5.2 Subsequent expenditure

The cost of replacing part of a fixed asset item is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied in the new item will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing are recognized in the statement of income as incurred.

3.5.3 Depreciation

Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful life of each part of a fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

An asset is depreciated when it is ready for use, meaning when it reaches the location and condition necessary for it to be capable of operating in the manner intended by management.

Leasehold improvements are generally depreciated over the shorter of the lease term (including the extension option held by the Group, which the Group assesses as more likely than not to be exercised) and the useful life of the leasehold improvements.

The estimated useful lives for the current period are as follows:

	Years
Fixed-line and international network equipment (switches, transmission, power)	2-10
Fixed-line network	12-33
Equipment and infrastructure for multichannel television	1-7
Subscriber equipment and installations	2-8
Vehicles	6-7
Office and general equipment	5-10
Electronic equipment, computers and internal communication systems	3-7
Cellular network	4-10
Passive radio equipment at cellular network sites	Up to December 31, 2037
Buildings	25
Seabed cable	10-25

Depreciation methods, useful lives and residual values are reviewed at least in each reporting year and adjusted as required.

3.6 Intangible assets

3.6.1 Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is measured at least once a year to assess impairment. See also Note 10.

3.6.2 Software development costs

Software development costs are recognized as an intangible asset only if the development costs can be measured reliably; the software is technically and commercially applicable; and the Group has sufficient resources to complete the development and intends to use the software. The costs recognized as an intangible asset include the cost of the materials, direct labor and overhead expenses directly attributable to preparation of the asset for its intended use. Other development costs are recognized in the statement of income as incurred.

Capitalized development costs are measured at cost less amortization and accumulated impairment losses.

3.6.3 Software

Software that is an integral part of the hardware, which cannot function without the programs installed on it, is classified as fixed assets. However, licenses for stand-alone software which add functionality to the hardware are classified as intangible assets.

3.6.4 Rights to frequencies

Rights to frequencies refer to frequencies assigned to Pelephone for cellular activities, after it won the dedicated tenders of the Ministry of Communications. Depreciation of the asset is recognized in the statement of income based on the **"*straight line*"** method over the term of the allocation of frequencies, starting from use of the frequencies. 3G frequencies (UMTS/HSEA) are amortized until the end of 2030. 4G frequencies (LTE) and 5G frequencies will be amortized until September 2032.

The amortization of rights in frequencies is recognized under depreciation and amortization in the statement of income.

3.6.5 Other intangible assets

Other intangible assets acquired by the Group, which have a definite useful life, are measured at cost less amortization and accumulated impairment losses.

3.6.6 Subsequent expenditure

Subsequent expenditure is recognized as an intangible asset only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure relating to generated goodwill and brands, is recognized in the statement of income as incurred.

3.6.7 Amortization

Amortization of intangible assets is recognized in the statement of income on a straight-line basis (other than as set out below regarding amortization of customer relations), over the estimated useful life of the intangible assets, from the date on which the assets are available for use. Goodwill is not systematically amortized but is tested for impairment at least once a year.

Estimated useful lives for the current period are as follows:

Type of asset	Amortization period
Frequency usage right	3G frequencies – until December 2030. 4G frequencies and 5G frequencies – until August 2032.
Computer programs and software licenses	1-7 years depending on the term of the license or over the estimated time of use of the software

Amortization methods and useful lives are reviewed at least at each reporting year and adjusted if appropriate.

3.7 Leases

3.7.1 **Determining whether an arrangement contains a lease**

At the inception of the arrangement, the Group determines whether the arrangement is or contains a lease, and examines whether the arrangement transfers the right to control the use of an identifiable asset for a period of time in return for payment. When assessing whether the arrangement transfers control over the use of an identifiable asset, the Group estimates, over the lease term, whether it has both rights set out below:

A. The right to essentially obtain all the economic rewards associated with the use of the identifiable asset

B. The right to direct the use of the identifiable asset

For lease contracts that include non-lease components, such as services or maintenance, which are related to a lease component, ***the Group elected to account for the contract as a single lease component without separating the components***.

3.7.2 **Leased assets and lease liability**

Contracts that award the Group the right to control the use of an identifiable asset over a period of time for a consideration are accounted for as leases. At initial recognition, the Group recognizes a liability at the present value of the future minimum lease payments (these payments do not include variable lease payments that are not linked to the CPI, or to any change in the rate of interest, or any change in the exchange rate), and concurrently, the Group recognizes a right-of-use asset at the amount of the liability, adjusted for lease payments paid in advance or accrued, plus direct costs incurred in the lease.

Since the interest rate implicit in the lease is not readily determinable, the incremental borrowing rate of the Group is used (the borrowing rate that the Group would be required to pay to borrow the amounts required to obtain an asset at a similar value to the right-of-use asset in a similar economic environment, in a similar period and with similar collateral).

Subsequent to initial recognition, the asset is accounted for using the cost model and it is amortized over the lease term or the useful life of the asset (whichever is earlier).

3.7.3 **The lease term**

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the Group will exercise or not exercise the option.

3.7.4 **Variable lease payments**

Variable lease payments that are linked to the CPI are initially measured using the index or currency rate at the inception of the lease and are included in the measurement of the lease liability. When there is a change in the cash flows of the future lease payments arising from the change in the index, the liability is adjusted against the right-of-use asset.

3.7.5 **Depreciation of a right-of-use asset**

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

Type of asset	Weighted average of the agreement period as at December 31, 2021 (years)
Cellular communications sites	6
Buildings	15
Vehicles	2

3.7.6 **Subleases**

In leases in which the Group sublets the underlying asset, the Company assesses the classification of the sublease as a finance or operating lease, for the right-of-use received in the primary lease. The Group assessed the existing subleases on the initial application date, in accordance with the balance of their contractual terms as at that date.

3.8 Rights of use of capacities

Transactions for acquiring an indefeasible right of use (IRU) of seabed cable capacities are accounted for as service transactions. The prepaid expense is amortized on a straight-line basis as stated in the agreement including an extension option the Company expects to exercise, and no more than the expected estimated useful life of those capacities.

Identifiable capacities which serve the Group exclusively were recognized under fixed assets. The asset is depreciated on a straight-line basis as stated in the agreement and no more than the expected estimated useful life of those capacities. Rights of use of capacities are presented net of accumulated impairment losses.

3.9 Inventory

The cost of inventories includes the cost of purchase and cost incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost or net realizable value. ***The Group elected to base the cost of inventories on the moving average principle***.

The inventories include terminal equipment and accessories intended for sale and service, as well as spare parts used for repairs in the repair service provided to its customers.

Slow-moving inventory of terminal equipment, accessories and spare parts are stated net of the provision for impairment.

3.10 Impairment

3.10.1 Non-derivative financial assets

The Group has elected to measure the provision for expected credit losses in respect of trade receivables at an amount equal to the full lifetime credit losses of the instrument.

Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial instrument.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive and are discounted at the effective interest rate of the financial asset.

Expected credit losses for receivables in significant amounts are tested individually. Other financial assets are assessed for expected credit losses collectively in groups that share similar credit risk characteristics, taking into account past experience.

The provision for expected credit losses is recognized net of the gross carrying amount of the receivables.

For bank deposits, for which the credit risk did not increase significantly from the date of initial recognition, the Group measures the provision for expected credit losses in an amount equal to the expected credit losses for an event of default in a 12 month period.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available with no undue cost or effort. Such information includes quantitative and qualitative information, and an analysis, based on the Group's past experience and informed credit assessment, and it includes forward looking information.

3.10.2 Non-financial assets (see also Note 10)

Timing of impairment testing

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated.

The Group assesses the recoverable amount of goodwill once a year, or more frequently if there are indications of impairment.

Determining cash-generating units

For the purpose of impairment testing, the assets are grouped together into the smallest group of assets that generates cash from continuing use that are largely independent of other assets or groups of assets (cash-generating unit).

Measurement of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the cash generating unit (for which future cash flows were not adjusted).

Allocation of goodwill to cash-generating units

For purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes, but in any event is not larger than an operating segment. Goodwill acquired in a business combination is allocated for the purpose of impairment testing to cash-generating units that are expected to generate benefits from the synergies of the combination.

Recognition of impairment loss

An impairment loss of cash generating units is recognized when the carrying amount of the cash generating unit, including goodwill, where relevant, exceeds its recoverable amount and is recognized in the statement of income. An impairment loss recognized in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amounts of the other assets in the cash-generating unit. To allocate an impairment loss, the assets are not impaired below the higher of their fair value less costs of disposal and their value in use (if determinable) or zero.

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

Accordingly, in the statement of income, the continuing impairment of the broadcasting rights is presented under "general operating expenses", while the continuing impairment of fixed assets, intangible assets and rights of use of capacities is presented under "depreciation, amortization and impairment."

3.11 Employee benefits

3.11.1 Post-employment benefits

The Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies and they are classified as defined contribution plans and defined benefit plans.

A. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

The Group’s obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of income in the periods during which services are rendered by employees.

B. Defined benefit plans

The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is presented at its present value, and the fair value of any plan assets is deducted. The calculation is performed annually by a qualified actuary. The discount rate is the yield on high-quality corporate debentures at the reporting date, denominated in or linked to the currency of the paid benefit, with maturity dates approximating the terms of the Group’s obligations.

Net interest costs on a defined benefit plan are calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability.

The Group elected to recognize the interest costs that were recognized in profit or loss under financial expenses.

Remeasurement of the net defined benefit liability comprises actuarial gains and losses and the return on plan assets (excluding interest). Remeasurements are recognized immediately directly in ***retained earnings*** through other comprehensive income.

When the benefits of a plan are improved or curtailed, the portion of the increased or curtailed benefit relating to past service by employees is recognized immediately in profit or loss when the plan improvement or curtailment occurs.

3.11.2 Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits (such as an obligation for accumulated vacation days and sick leave) other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The amount of these benefits is stated at its present value. The discount rate is the yield at the reporting date on high-quality linked corporate debentures denominated in NIS, with maturity dates approximating the terms of the Group's obligations. Actuarial changes are recognized in the statement of income in the period in which they arise***. Any actuarial changes arising from a change in the discount rate are recognized in the financial expenses item, while the other differences are recognized in salary expenses.***

3.11.3 Early retirement and termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy and the offer has been accepted or the Company is no longer able to withdraw the offer.

Expenses for early retirement and termination recognized in the statement of income are presented under other operating expenses (income). The actuarial changes arising from a change in the discount rate, long-term benefits for early retirement and termination, are recognized under financial expenses, while the other actuarial changes are recognized under other operating expenses (income).

3.11.4 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on the date when the benefits are expected to be to be wholly settled,

In the statement of financial position, the employee benefits are classified as current benefits or as non-current benefits according to the time the liability is due to be settled.

3.11.5 Share-based payment transactions

The fair value at the grant date of options for Company shares granted to employees is recognized as a salary expense with a corresponding increase in equity over the period during which the employee becomes entitled to the options. The Group elected to recognize the increase in equity under a capital reserve for employee options.

For share-based payment awards that are conditional upon meeting market-performance conditions, the fair value of the equity instruments granted is estimated taking into account such conditions, and therefore the Group recognizes an expense in respect of these awards whether or not the conditions have been met.

The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

3.12 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.12.1 Legal claims

Contingent liabilities are accounted for according to IAS 37 and its related provisions. Accordingly, the claims are classified by likelihood of realization of the exposure to risk, as follows:

A. More likely than not – more than 50% probability

B. Likely – probability higher than unlikely and less than 50%

C. Unlikely – probability of 10% or less

For claims which the Group has a legal or constructive obligation as a result of a past event, which are more likely than not to be realized, the financial statements include provisions which, in the opinion of the Group, based, among other things, on the opinions of its legal advisers retained in respect of those claims, are appropriate to the circumstances of each case, despite the claims being denied by the Group companies. There are also a small number of legal proceedings, most of which were received recently, for which the risks cannot be assessed at this stage, therefore no provisions have been made.

Note 17 describes the amount of additional exposure due to contingent liabilities that are likely to be realized.

3.12.2 Site dismantling and clearing costs

The provision in respect of an obligation to dismantle and clear sites is recognized for those rental agreements where Pelephone has an undertaking to restore the rental property to its original state at the end of the rental period, after dismantling and transferring the site, and restoring the site when required. The provision is measured by discounting the future cash flows by risk-free discounted interest reflecting the time until the expected termination of the contract for dismantling of the site by Pelephone. The carrying amount of the provision is adjusted in each period to reflect the time that has passed and is recognized as a financial expense.

3.12.3 Onerous contracts

A provision for onerous contracts is recognized when the unavoidable costs of a contract exceed the benefits expected to be received from the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the unavoidable costs (net of the revenues) of continuing with the contract. ***Unavoidable costs are costs that the Group cannot avoid as they are subject to a contract (such as incremental costs)***.

3.13 Revenues

3.13.1 The Group recognizes revenues when the customer gains control over the goods or services. The income is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the transfer of goods or services promised to the customer, other than amounts collected in favor of third parties.

The model for recognizing revenues from contracts with customers includes five steps for analyzing transactions so as to determine when to recognize revenues and in what amount:

A. Identifying the contract with the customer.

B. Identifying separate performance obligations in the contract.

C. Determining the transaction price.

D. Allocating the transaction price to separate performance obligations.

E. Recognizing revenues when the performance obligations are satisfied.

3.13.2 Identifying the contract

The Group accounts for a contract with a customer only when the following conditions are met:

1. The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them.
2. The Group can identify the rights of each party in relation to the goods or services that will be transferred.
3. The Group can identify the payment terms for the goods or services that will be transferred.
4. The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract).
5. It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

3.13.3 Identifying performance obligations

On the inception date of the contract, the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

(1) Goods or services (or a bundle of goods or services) that are distinct; or

(2) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

3.13.4 Determining the transaction price.

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the transfer of goods or services promised to the customer, other than amounts collected in favor of third parties. When determining the transaction price, the Group takes into account the effects of all the following: variable consideration, the existence of a significant financing component in the contract, non-cash consideration and consideration to be paid to the customer.

3.13.5 Existence of a significant financing component

In order to measure the transaction price, the Group adjusts the amount of the promised consideration in respect of the effects of the time value of money if the timing of the payments agreed between the parties provides to the customer or the Group a significant financing benefit. In these cases, the contract contains a significant financing component. When assessing whether a contract includes a significant financing component, the Group examines, among other things, the expected length of time between the date the Group transfers the promised goods or services to the customer and the date the customer pays for these goods or services, as well as the difference, if any, between the amount of the consideration promised and the cash selling price of the promised goods or services.

When the contract contains a significant financing component, ***the Group recognizes the amount of the consideration using the discount rate that would be reflected in a separate financing transaction between it and the customer on the inception date of the contract***. The financing component is recognized as interest income or expenses over the period, which are calculated according to the effective interest method.

In cases where the difference between the time of receiving payment and the time of transferring the goods or services to the customer is one year or less***, the Group applies the practical expedient included in the standard and does not separate a significant financing component***.

3.13.6 Existence of performance obligations

Revenues are recognized when the Group satisfies a performance obligation by transferring to the customer control over promised goods or services.

3.13.7 Contract costs

Incremental costs of obtaining a contract with a customer such as sales fees to agents, are recognized as an asset when the Group is likely to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognized as an expense as incurred, unless the customer can be billed for those costs.

Capitalized costs are amortized in the income statement on a systematic basis that is consistent with the expected average duration of subscribers and with their average projected churn rate based on the type of subscriber and the service received (mainly over a period of one to four years).

In each reporting period the Group assesses whether the carrying amount of the asset recognized as aforesaid exceeds the consideration the Group expects to receive in exchange for the goods or services to which the asset relates, less the costs directly attributable to the provision of these goods or services that were not recognized as expenses, and if necessary an impairment loss is recognized in profit or loss

3.13.8 Principal supplier or agent

When another party is involved in providing goods or services to the customer, the Group examines whether the nature of its promise is a performance obligation to provide the defined goods or services itself, which means the Group is a principal and therefore recognizes revenues in the gross amount of the consideration, or to arrange that another party provide the goods or services which means the Group is an agent and therefore recognizes revenue in the amount of the net commission.

The Group is a principal when it controls the promised goods or services before their transfer to the customer. Indicators that the Group controls the goods or services before their transfer to the customer include the following: the Group is the primary obligor for fulfilling the promises in the contract; the Group has inventory risk before the goods or services are transferred to the customer; and the Group has discretion in setting the prices of the goods or services.

3.14 Government grants

A government grant for a frequency tender is initially recognized at fair value when it is more likely than not that it will be received and that the Group will meet the eligibility conditions for the grant. Government grants received for the purpose of purchasing an asset ***are presented as deferred income in the statement of financial position and released to the statement of income over the useful life of the asset. The released income is recognized in the item "other operating income" in the statement of income.***

3.15 Financial income and expenses

Financial income comprises mainly interest income accrued using the effective interest method in respect of the sale of terminal equipment in installments, interest income from deposits and changes in the fair value of financial assets at fair value through profit or loss.

Financial expenses include mainly interest and linkage expenses on borrowings received and debentures issued, expenses for early repayment of the debt, and financial expenses for employee benefits.

In the statements of cash flows, ***interest received is presented as part of cash flows from investing activities. The Group elected to present interest and linkage differences paid for loans and debentures under cash flows used for financing activities.***

3.16 Income tax expenses

Income tax expenses include current and deferred taxes and are recognized in the statement of income or in other comprehensive income to the extent that the expenses relate to items recognized in other comprehensive income.

Current taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years.

Uncertain tax positions

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more likely than not that the Group will have to use its economic resources to pay the obligation

Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group does not recognize deferred taxes for the following temporary differences:

1. Initial recognition of goodwill
2. Differences arising from investment in subsidiaries and associates, if it is probable that they will not reverse in the foreseeable future and if the Group controls the date of reversal.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for carryforward losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized (see also Note 7).

Offsetting tax assets and liabilities

The Group offsets deferred tax assets and liabilities and current taxes if there is a legally enforceable right to offset deferred tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, and they intend to settle deferred tax liabilities and assets on a net basis or their deferred tax assets and liabilities will be realized simultaneously.

Presentation of tax expenses in the statement of cash flows

Cash flows arising from taxes on income are classified in the statement of cash flows as cash flows from operating activities, unless they can be specifically identified with investing and financing activities.

3.17 Dividends

An obligation relating to a dividend proposed or declared subsequent to the reporting date is recognized only in the period in which the declaration was made (approval of the general meeting). In the statements of cash flows, ***a dividend that has been paid is recognized under financing activities***.

3.18 New standards not yet adopted

3.18.1 Amendment to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current"

The amendment replaces certain classification requirements of liabilities as current or non-current. The amendment is effective for reporting periods beginning on January 1, 2023. Earlier application is permitted. The amendment is effective retrospectively, including reconciliation of comparative information. The Group is examining the effects of the application of the standard, including an additional proposal for amending the standard that was published in November 2021, on the financial statements.

3.18.2 Amendment to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" with respect to onerous contracts ("the Amendment")

The Amendment specifies that in assessing whether a contract is onerous, the costs of fulfilling a contract that should be taken into account are the costs that relate directly to the contract, including the following:

- Incremental costs, and also
- Allocation of other costs that relate directly to fulfilling a contract (such as the depreciation charge for fixed assets used in fulfilling that contract among others).

The date of initial application of the Amendment is set for January 1, 2022, and it will be applied by adjusting the opening balance of retained earnings for the cumulative effect of contracts in respect of which the Company has not yet fulfilled all its obligations as of that date.

In accordance with the provisions of the standard, the reporting entity is required to test for onerous contracts in each reporting period. As of the date of approval of the financial statements, according to a test performed by the Company and the Group companies to locate onerous contracts taking into account the provisions of the Amendment, and based on the profitability forecasts of the Group companies known as of that date, no material effect is expected on the retained balances as a result of the initial application of the Amendment to the standard on January 1, 2022.

4. Cash and Cash Equivalents

As at December 31, 2021, cash and cash equivalents include mainly bank deposits for an average period of 90 days and current account balances.

5. Investments

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Bank deposits in shekels(1)	**934**	665
Bank deposits in foreign currency (2)	**20**	59
	954	724

(1) Bank deposits in shekels are repayable until December 2022.

(2) Bank deposits in US dollars are repayable until November 2022.

6. Trade and Other Receivables

6.1 Composition of trade and other receivables

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Trade receivables*		
Open accounts and checks receivable	**849**	656
Credit cards	**473**	405
Revenues receivable	**238**	224
Current maturities of long-term receivables	**297**	332
Related parties and interested parties	**2**	4
	1,859	1,621
Other receivables and current tax assets*		
Current tax assets	**56**	42
Frequencies grant receivable (see Note 10.1)	**74**	-
Other receivables and government authorities (mainly in respect of real estate sales)	**114**	105
Prepaid expenses	**35**	31
	279	178
Long-term trade and other receivables*		
Trade receivables – open accounts	**256**	256
Long-term other receivables and government authorities (in respect of real estate sales)**	**177**	185
Frequencies grant receivable (see Note 10.1)	**-**	73
	433	514
	2,571	2,313

* The amounts of trade and other receivables are stated net of the provision for forecast credit losses.

** See Note 6.6.

6.2 Discount rates for long-term trade receivables are based the estimated credit risk of the trade receivables. The discount rates used by the Group in 2021 are 2.49%-4.38% (in 2020: 3.26%-8.5%).

6.3 Expected payment dates for long-term trade and other receivables:

Expected payment dates	December 31, 2021
	NIS million
2023	**230**
2024	**73**
2025 onwards	**130**
	433

6.4 Aging of trade receivables at the reporting date:

	December 31, 2021		December 31, 2020	
	Trade receivables, gross	Provision for forecast credit losses	Trade receivables, gross	Provision for forecast credit losses
	NIS million	NIS million	NIS million	NIS million
Not past due	**1,922**	**(4)**	1,732	(5)
Past due up to one year	**175**	**(21)**	165	(37)
Past due one to two years	**56**	**(20)**	30	(15)
Past due more than two years	**30**	**(23)**	30	(23)
	2,183	**(68)**	1,957	(80)

6.5 Change in provision for forecast credit losses in the year:

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Balance as at January 1	**80**	80
Impairment loss recognized	**6**	26
Bad debts	**(18)**	(22)
Exclusion from consolidation	**-**	(4)
Balance as at December 31	**68**	80

6.6 Long-term other receivables and authorities include receivables of NIS 106 million in respect of permit fees and betterment tax paid by the Company to the Israel Land Authority and the Or Yehuda local authority for the sale of the Sakia property in 2019. In addition, the Company provided guarantees for a total of NIS 120 million pursuant to demands by the Israel Land Authority and the Or Yehuda Local Authority for payment of the balance of permit fees and betterment tax.

The Company recognized in its financial statements for 2019 a capital gain before tax of NIS 403 million on the sale of the Sakia property. Recognition of the capital gain is based on the Company's estimates of the final amount that will be paid to the authorities. It should be noted that if the Company's estimates are not realized, the final amount of the capital gain will be between NIS 250 million and NIS 450 million.

A legal proceeding is underway between the parties since 2021.

7. Income Tax

7.1 Corporate tax rate

Current taxes for the reported periods and the balances of deferred taxes as of December 31, 2021 are calculated at the tax rate applicable to the Group, which is 23%.

7.2 Final tax assessments

7.2.1 The Company has final tax assessments up to and including 2018.

On September 15, 2016, parallel to signing the assessment agreement ending the dispute between the Company and the tax assessor regarding the financial income from the shareholder loans to DBS, the Tax Authority granted approval for tax purposes for the merger of DBS with and into the Company, in accordance with section 103(B) of the Income Tax Ordinance. According to the approval, the losses of DBS as at the merger date may be offset against the profits of the absorbing company, provided that in each tax year, it will not be permissible to offset an amount exceeding 12.5% (spread over eight years) of the total losses of the transferring company and the absorbing company, or 50% of the taxable income of the absorbing company in that tax year prior to offsetting the loss from previous years, whichever is lower.

The approval was granted in accordance with the applicable tax laws at the time it was issued. Without detracting from the amount of the losses determined in the assessment agreement, should there be any change in the applicable tax laws, the Income Tax Authority will review the tax ruling in light of the tax laws applicable at the merger date. However, it was made clear that the approval is effective until December 31, 2019. The Tax Authority will extend the validity of the approval each year by an additional year, subject to the declaration of the Company and DBS that there has been no material change in their business affairs and in the terms of the tax ruling, and subject to the interpretation given to the tax laws, provided that such interpretation is published in writing. Any change in the tax laws that does not require a change in the approval will not result in any such change. The tax ruling has been extended twice since then, the first time until December 31, 2020, and the second time until December 31, 2021.

On December 26, 2021, the Company received a letter from the Tax Authority which, at the Company's request, extends the validity of the tax ruling by one year, that is, until December 31, 2022. It should be noted that the Tax Authority's letter states that since no material developments had occurred with respect to the cancellation of the structural separation between the Company and DBS from the date of issue of the tax ruling until the date of grant of this extension, and in view of the length of time since the tax ruling was issued, and following an examination of all the Company's arguments on this issue, the Tax Authority would consider not extending the validity of the tax ruling beyond December 31, 2022, insofar as there would not be any material developments in 2022 in connection with the cancellation of the structural separation between the Company and DBS.

The tax losses of DBS as at December 31, 2021 amount to NIS 5.2 billion. See Note 7.6 below regarding deferred taxes not recognized in respect of carryforward losses.

7.2.2 Pelephone has received final tax assessments up to and including 2018.

7.2.3 Bezeq International has received final tax assessments up to and including 2019.

7.2.4 DBS has received final tax assessments up to and including 2016.

7.2.5 Bezeq Online has received final tax assessments up to and including 2017.

7.3 Components of income tax expenses

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Current tax expenses			
Expenses for the current year	**289**	273	391
Adjustments for prior years	**14**	57	(11)
Total current tax expenses	**303**	330	380
Deferred tax expenses			
Creation and reversal of temporary differences	**42**	(5)	(53)
Use (creation) of deferred taxes for tax losses from the sale of a subsidiary	**37**	(37)	-
Write-off of a deferred tax asset for carryforward losses in DBS	**-**	-	1,166
Total deferred tax expenses (income)	**79**	(42)	1,113
Income tax expenses	**382**	288	1,493

7.4 Reconciliation between theoretical tax on pre-tax profit and tax expenses

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Profit before income tax	**1,565**	1,084	299
Statutory tax rate	**23%**	23%	23%
Income tax at the statutory tax rate	**360**	249	69
Expenses not recognized for tax purposes and other expenses and losses for which no deferred taxes were created, net	**22**	(9)	42
Creation of deferred taxes for tax losses from the sale of a subsidiary	**-**	(37)	-
Temporary differences for impairment of assets for which no deferred tax assets were created	**-**	54	-
Write-off of a tax asset due to no expectation of future profits	**-**	31	-
Write-off of a deferred tax asset for carryforward losses in DBS (see Note 7.6)	**-**	-	1,166
Impairment of cellular communications goodwill for which no deferred taxes were created	**-**	-	219
Creation of deferred taxes for losses and benefits from prior years for which deferred taxes were not recorded in the past	**-**	-	(3)
Income tax expenses	**382**	288	1,493

7.5 Recognized deferred tax assets and tax liabilities and changes therein

	Deferred tax assets for employee benefit plans	Deferred tax liabilities for fixed assets and intangible assets	Tax asset for tax loss from the sale of a subsidiary	Other deferred taxes	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2020	298	(277)	-	17	38
Changes recognized in the statement of income:					
Creation and reversal of temporary differences	(36)	(3)	37	44	42
Changes recognized in equity	(1)	-	-	(3)	(4)
Balance as at December 31, 2020	261	(280)	37	58	76
Changes recognized in the statement of income:					
Creation and reversal of temporary differences	**(11)**	**(9)**	**(37)**	**(22)**	**(79)**
Changes recognized in equity	**1**	**-**	**-**	**(12)**	**(11)**
Balance as at December 31, 2021	**251**	**(289)**	**-**	**24**	**(14)**

Carrying amount	December 31	December 31
	2021	2020
	NIS million	NIS million
Deferred tax assets	**24**	108
Deferred tax liabilities	**(38)**	(32)
Balance as at December 31	**(14)**	76

7.6 Unrecognized deferred tax assets and liabilities

Following the acquisition of control in DBS by the Company in 2015 (as set out in Note 12.2.1 below), the Company recognized a deferred tax asset for carryforward losses for tax purposes in DBS, amounting to NIS 1,166 as at December 31, 2018. The Company has an approval from the Tax Authority for the utilization of the carryforward tax losses, which is subject to the receipt of approval from the Ministry of Communications for the cancellation of the structural separation between the two companies, and which requires an extension from the Tax Authority for an additional year every year until the actual merger, as described in Note 7.2.1 above.

In 2019, the Company wrote off the tax asset by way of a change of estimate and recognized tax expenses in the amount of NIS 1,166 million in the income statement, after the Company's assessment of the probability of using the tax asset was no longer more likely than not.

As at the date of the financial statements, deferred taxes for carryforward tax losses of DBS in the amount of NIS 5.2 billion were not recognized, and deferred taxes for an impairment loss of assets in DBS and in Bezeq International were not recognized (see Note 10), since they are not expected to be utilized, according to the Company's assessment as at the date of the financial statements.

In addition, in the calculation of deferred taxes, the taxes that would be applicable in the case of disposal of investments in subsidiaries were not recognized, since the Group intends and is able to retain these investments. Likewise, deferred taxes in respect of a profit distribution in subsidiaries were not recognized, since inter-company dividends are not taxable.

8. Leases

Under the lease agreements, the Group leases mainly cellular communications sites, structures (including offices, warehouses, communication rooms, and points of sale), and vehicles.

8.1 Right-of-use assets

	Communic-ations sites	Buildings	Vehicles	Total
	NIS million	NIS million	NIS million	NIS million
Cost				
Balance as at January 1, 2020	1,041	646	287	1,974
Additions*	200	609	118	927
Derecognition for expired or terminated agreements	(51)	(146)	(80)	(277)
Exclusion from consolidation	-	(14)	-	(14)
Balance as at December 31, 2020	1,190	1,095	325	2,610
Additions*	**155**	**149**	**126**	**430**
Derecognition for expired or terminated agreements	**(83)**	**(50)**	**(120)**	**(253)**
Balance as at December 31, 2021	**1,262**	**1,194**	**331**	**2,787**
Amortization and impairment losses				
Balance as at January 1, 2020	285	228	153	666
Amortization for the year	179	116	102	397
Derecognition for expired or terminated agreements	(45)	(121)	(83)	(249)
Changes in agreements and other	(4)	(2)	(2)	(8)
Impairment	-	-	3	3
Exclusion from consolidation	-	(3)	-	(3)
Balance as at December 31, 2020	415	218	173	806
Amortization for the year	**168**	**106**	**118**	**392**
Derecognition for expired or terminated agreements	**(68)**	**(27)**	**(118)**	**(213)**
Changes in agreements and other	**(5)**	**1**	**(23)**	**(27)**
Impairment	**-**	**-**	**1**	**1**
Balance as at December 31, 2021	**510**	**298**	**151**	**959**
Carrying amount				
Balance as at January 1, 2020	756	418	134	1,308
Balance as at December 31, 2020	775	877	152	1,804
Balance as at December 31, 2021	**752**	**896**	**180**	**1,828**

* Additions for new agreements and changes to existing agreements

8.2 Lease liabilities

	Communic-ations sites	Buildings	Vehicles	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2020	790	428	167	1,385
Additions*	203	607	117	927
Disposals	(9)	(23)	(2)	(34)
Financial expenses for lease liabilities	18	10	2	30
Lease payments	(169)	(117)	(105)	(391)
Exclusion from consolidation	-	(10)	-	(10)
Balance as at December 31, 2020	833	895	179	1,907
Additions*	**162**	**145**	**150**	**457**
Disposals	**(14)**	**(24)**	**(2)**	**(40)**
Financial expenses for lease liabilities	**17**	**21**	**2**	**40**
Lease payments	**(164)**	**(102)**	**(121)**	**(387)**
Balance as at December 31, 2021	**834**	**935**	**208**	**1,977**
Carrying amount as at December 31, 2020				
Current maturities of a lease liability	230	97	88	415
Long-term lease liabilities	603	798	91	1,492
Total balance as at December 31, 2020	833	895	179	1,907
Carrying amount as at December 31, 2021				
Current maturities of a lease liability	**250**	**113**	**103**	**466**
Long-term lease liabilities	**584**	**822**	**105**	**1,511**
Total balance as at December 31, 2021	**834**	**935**	**208**	**1,977**

* Additions for new agreements and changes to existing agreements

8.3 Analysis of payment dates of Group's lease liabilities (including principal and interest to be paid)

Expected payment dates	December 31, 2021
	NIS million
Up to one year	**485**
1-5 years	**928**
More than 5 years	**816**
Total	**2,229**

8.4 Options to terminate or extend a lease

In most of its leases, the Group assumed that it is more likely than not that the extension option in the agreements will be exercised, therefore there are no material liabilities in respect of leases that were not presented in the financial statements. Most of the lease agreements include an option to cancel the agreement with notice and/or payment of a penalty as set out in the agreements. The Group assumed that it is more likely than not that the cancellation options will not be exercised.

8.5 Information about material lease agreements not yet included in the measurement of lease assets and liabilities

On October 7, 2021, Bezeq International signed a hosting services agreement with ServerFarm IIF Bnei Zion Limited Partnership ("ServerFarm"), according to which ServerFarm is to provide Bezeq International with hosting services in a data center that is being built by it. The delivery will be in two phases, with the first phase due to be delivered in March 2023 and the second in March 2024. The agreement is for a period of 15 years with extension options until 2047. The cost of the agreement for the first period (without exercising the extension options) is NIS 250 million equally for both phases (except for the period between the delivery date for the first phase and the delivery date for the second phase). The data center is expected to be used for the provision of hosting services to business customers.

9. Fixed Assets

	Land and buildings	Fixed-line and international network equipment (switches, transmission, power)	Cables and communications infrastructure for fixed-line and international network	Cellular network	Equipment and infrastructure for multichannel television	Subscriber equipment	Office equipment, computers and vehicles	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost								
Balance as at January 1, 2020	1,280	2,817	11,842	3,096	1,534	1,575	809	22,953
Additions	35	233	222	181	120	360	97	1,248
Disposals	(31)	(174)	(119)	(2)	(61)	(67)	(40)	(494)
Exclusion from consolidation	(20)	-	-	-	-	-	(53)	(73)
Reclassification from assets held for sale	47	-	-	-	-	-	-	47
Balance as at December 31, 2020	1,311	2,876	11,945	3,275	1,593	1,868	813	23,681
Additions	**76**	**248**	**426**	**136**	**115**	**332**	**71**	**1,404**
Disposals	**(126)**	**(185)**	**(29)**	**(2)**	**(301)**	**(336)**	**(66)**	**(1,045)**
Reclassification from assets held for sale	**21**	**-**	**-**	**-**	**-**	**-**	**-**	**21**
Balance as at December 31, 2021	**1,282**	**2,939**	**12,342**	**3,409**	**1,407**	**1,864**	**818**	**24,061**
Depreciation and impairment losses								
Balance as at January 1, 2020	1,021	1,546	9,065	2,410	1,407	846	619	16,914
Depreciation for the year	25	230	180	185	36	258	69	983
Disposals	(32)	(174)	(119)	(1)	(54)	(51)	(38)	(469)
Impairment (reversal of impairment)	(5)	9	19	-	101	33	18	175
Exclusion from consolidation	(15)	-	-	-	-	-	(51)	(66)
Reclassification from assets held for sale	13	-	-	-	-	-	-	13
Balance as at December 31, 2020	1,007	1,611	9,145	2,594	1,490	1,086	617	17,550
Depreciation for the year	**22**	**229**	**182**	**177**	**45**	**278**	**60**	**993**
Disposals	**(39)**	**(185)**	**(29)**	**(1)**	**(301)**	**(317)**	**(65)**	**(937)**
Impairment (reversal of impairment) (see Note 10)	**13**	**9**	**(1)**	**-**	**77**	**8**	**17**	**123**
Reclassification from assets held for sale	**20**	**-**	**-**	**-**	**-**	**-**	**-**	**20**
Balance as at December 31, 2021	**1,023**	**1,664**	**9,297**	**2,770**	**1,311**	**1,055**	**629**	**17,749**
Carrying amount								
January 1, 2020	259	1,271	2,777	686	127	729	190	6/039
December 31, 2020	304	1,265	2,800	681	103	782	196	6,131
December 31, 2021	**259**	**1,275**	**3,045**	**639**	96	**809**	**189**	**6,312**

9.1 The residual value of the Group's copper cables is assessed at the end of each quarter. The residual value amounted to NIS 237 million as at December 31, 2021 and NIS 191 million as at December 31, 2020.

9.2 The Group companies reviewed the useful life of the fixed assets through depreciation committees, in order to determine the estimated useful life of their equipment. Following the findings of the depreciation committees, minor changes were made in the estimated useful life of certain assets. Said change had no material effect on the depreciation expenses of the Group.

9.3 Most of the real estate assets used by the Company are leased under a capitalized lease from the Israel Lands Administration as from 1993 for 49 years, with an option for an extension of another 49 years. Lease rights are amortized over the term of the lease period.

9.4 In 2013, the Company started to deploy a fiber optic network that will reach the subscriber's home, as a basis for future supply of advanced communications and broader bandwidths than those currently provided. In 2017, deployment of the fibers reached the state required for operation when a decision is made on the technology to be used, and the Company began to amortize the network. On September 14, 2020, the Company's Board of Directors approved the launch of the Company's plan for deployment of the fiber optic network. Further to the Board of Directors' decision, the Company began deploying optic fibers to buildings, including the deployment of vertical equipment in buildings, and on March 14, 2021, it announced the rollout of services to its customers on the fiber optic network. On May 25, 2021, the Company's Board of Directors approved the Company's plan for fiber deployment and the plan's submission to the Ministry of Communications in accordance with the Communications Law. As part of the plan, the Company is expected to deploy and operate an ultra-fast fiber network that will cover 76% of the country's population (the Company estimates that this is approximately 80% of Israeli households). On May 31, 2021, the Company submitted to the Ministry of Communications a list of the statistical areas where it has chosen to deploy a fiber network, and on June 15, 2021, the Company received an amendment to its license concerning the establishment of advanced network deployment obligations ("the License Amendment"). The License Amendment includes, *inter alia*, the milestones for completing the network's deployment within six years of the Determining Date (March 14, 2021). In this regard, see also Note 18.7 regarding the commitment of the Group companies to pay into the Incentive Fund.

9.5 In accordance with the Telecommunications Order (Telecommunications and Broadcasts) (Determination of Essential Service Provided by Bezeq The Israel Telecommunication Corp. Ltd.), 1997, approval from the Prime Minister and Minister of Communications is required to confer rights in some of the Company's assets (including switches, cable network, transmission network, and information and databases).

9.6 For information about liens for loans and borrowings, see Note 13. For information about other liens, see Note 19.

9.7 For information about agreements for the purchase of fixed assets, see Note 18.

10. Intangible Assets

	Goodwill	Software and licenses	Right of use of cellular communic-ations frequencies (see 11.1 below)	Customer relations and brand – multi-channel television	Other	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost						
Balance as at January 1, 2020	1,431	2,255	480	1,137	119	5,422
Acquisitions or additions from in-house development	-	220	86	-	-	306
Exclusion from consolidation	(10)	(11)	-	-	(119)	(140)
Disposals	-	(36)	-	-	-	(36)
Balance as at December 31, 2020	1,421	2,428	566	1,137	-	5,552
Acquisitions or additions from in-house development	**-**	**237**	**-**	**-**	**-**	**237**
Disposals	**-**	**(40)**	**-**	**-**	**-**	**(40)**
Balance as at December 31, 2021	**1,421**	**2,625**	**566**	**1,137**	**-**	**5,749**
Amortization and impairment losses						
Balance as at January 1, 2020	1,090	1,852	310	1,137	117	4,506
Amortization for the year	-	153	21	-	2	176
Impairment	-	112	-	-	-	112
Exclusion from consolidation	(10)	(6)	-	-	(119)	(135)
Disposals	-	(36)	-	-	-	(36)
Balance as at December 31, 2020	1,080	2,075	331	1,137	-	4,623
Amortization for the year	**-**	**141**	**22**	**-**	**-**	**163**
Impairment (see below)	**-**	**91**	**-**	**-**	**-**	**91**
Disposals	**-**	**(40)**	**-**	**-**	**-**	**(40)**
Balance as at December 31, 2021	**1,080**	**2,267**	**353**	**1,137**	**-**	**4,837**
Carrying amount						
January 1, 2020	341	403	170	-	2	916
December 31, 2020	341	353	235	-	-	929
December 31, 2021	**341**	**358**	**213**	**-**	**-**	**912**

10.1 Right of use of cellular communications frequencies

In 2020, Pelephone won a cluster of frequencies pursuant to the tender for advanced bandwidth cellular services, at a total cost of NIS 88.2 million (capitalized amount as of the balance sheet date NIS 87 million), with the payment date set for September 2022.

In September 2020, upon receipt of the frequencies, Pelephone began operating them. In addition, Pelephone was awarded, in accordance with the terms of the tender, a 5G deployment grant of NIS 74 million. The actual grant is expected to be received in the fourth quarter of 2022, following payment of the 5G license fee at the time specified in the license. The amount of the grant is recognized in the statement of financial position in the item "other receivables."

10.2 Assessment of impairment of cash-generating units

10.2.1 To assess impairment, goodwill was attributed to the Group's operating segments as follows:

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Cellular communications (Pelephone) (10.3)	**76**	76
Domestic fixed-line communications (Bezeq) (10.4)	**265**	265
	341	341

10.2.2 Composition of impairment loss recognized by the Group in 2019-2021:

In 2019 and 2020, an impairment loss of assets of Pelephone and Bezeq International, due to a one-time revision of forecasts for the coming years, was recognized in the statement of income under the item "impairment loss." An impairment loss of assets resulting from a continuing adjustment of non-current assets (DBS in 2019-2021 and Bezeq International in 2021) to their fair value net of costs to sell, was recognized in the statement of income under the same items in which the current expenses in respect of those assets were recognized, as set out in Notes 10.5 and 10.6 below.

	2021	2020	2019
	NIS million	NIS million	NIS million
Impairment loss in the Bezeq International services segment (see Note 10.6 below)	**-**	307	196
Reversal of impairment loss in respect of Walla	**-**	(14)	-
Impairment loss in the cellular communications segment	**-**	-	951
	-	293	1,147

10.3 Assessment of goodwill impairment in cellular communications (Pelephone)

The balance of goodwill attributable to the cash-generating cellular communications unit is NIS 76 million. Accordingly, the Company assessed the recoverable amount of the cash-generating cellular communications unit as at December 31, 2021.

The value in use of the cellular communications cash-generating unit for Bezeq Group as at December 31, 2021 was calculated by discounting future cash flows (DCF method) based on a five year cash flow forecast as at the end of the current period with the addition of the salvage value (representative year). The cash flow forecast is based, among other things, on Pelephone's performance in recent years and assessments regarding the expected trends in the cellular market in the coming years (the level of competition, price level, regulation, and technological developments).

A key assumption underlying the forecast is that competition in the market will continue with high intensity in the short term and that stability and a certain increase will occur in the medium to long term. The revenues forecast is based on assumptions regarding the number of Pelephone subscribers, average revenue per user, and sales of terminal equipment. The forecast of expenses and investments is based, among other things, on assumptions regarding the number of Pelephone employees and the resulting salary expenses, while the other operating expenses and investments were adjusted to the projected volume of operations of Pelephone.

The forecast also assesses the effect of the coronavirus pandemic on Pelephone's performance in forthcoming years, and estimates that the pandemic will have a material adverse effect on Pelephone's roaming services in 2022. The forecast likewise assumes a certain impairment of revenues from roaming services in subsequent years and a return to "pre-COVID-19" levels in 2026, in light of expectations of prolonged and gradual recovery of the aviation and international tourism sectors.

The nominal cost of capital taken into account for the valuation is 9% (after tax) (2020 – 10.3%). In addition, a terminal growth rate of 1.5% was assumed (2020 – 2.5%).

The valuation is sensitive to changes in the terminal growth rate and the discount rate. In addition, the valuation is sensitive to the net cash flow in the representative year in general, and to the average revenue per user (ARPU) and number of users at the end of the range of the forecast (and in the terminal year) in particular (a change of NIS 1 in ARPU throughout the forecast years results in a change in the value of operations amounting to NIS 345 million; a change of 100,000 users throughout the forecast years (and in the terminal year) results in a change in the value of operations amounting to NIS 580 million).

The valuation was prepared by an external appraiser. Based on the valuation as explained above, the value of operations of Pelephone amounted to NIS 2,798 million, compared with a carrying amount of NIS 1,139 million. Therefore, the Group was not required to record amortization for impairment of a cellular communications cash-generating unit.

10.4 Assessment of goodwill impairment in domestic fixed-line communications (Bezeq)

The balance of goodwill attributable to the domestic fixed line cash-generating unit is NIS 265 million. Accordingly, the Company assessed the recoverable amount of the domestic fixed-line cash-generating unit as at December 31, 2021.

The value in use of the domestic fixed line cash-generating unit for Bezeq Group was calculated by discounting future cash flows (DCF) based on a five year cash flow forecast as at the end of the current period with the addition of the salvage value (representative year).

The cash flow forecast is based, among other things, on the Company's performance in recent years and assessments regarding the expected trends in the fixed-line market in the coming years (the level of competition, retail and wholesale price levels, regulation aspects, and technological developments).

Main assumptions underlying the forecast: decrease in revenues from telephony (due to a decrease in the number of lines, decrease in call minutes used per line, and the effect of the Ministry of Communication's decision regarding the setting of maximum rates for the Company's retail telephony services); growth in Internet revenues (supported by market growth, penetration of Internet services over the fiber network, and the cancellation of the separation between broadband infrastructure service and Internet access service); decrease in revenues from data communication and transmission (due to an expected decline in transmission revenues from ISPs, and despite expectations for consistent growth in revenues from data communication services), and moderate growth in cloud and digital revenues. Operating expenses, selling and marketing expenses and investments were adjusted to the scope of activity in the segment, with the forecasts including assumptions regarding the Company's workforce and the resulting salary and retirement expenses and assumptions regarding the deployment rate of the fiber infrastructure.

The nominal cost of capital taken into account for the valuation is 7% (after tax) (2020 – 7.5%). In addition, a terminal growth rate of 1% was assumed (2020 – 0%).

The valuation was prepared by an external appraiser. Based on the valuation as explained above, the Group was not required to record amortization for impairment of a domestic fixed-line communications cash-generating unit.

10.5 Goodwill impairment in the multichannel television segment (DBS)

The value in use of the multichannel television cash-generating unit for Bezeq Group as at December 31, 2021 was calculated by discounting future cash flows (DCF) up to and including 2026 with the addition of the salvage value (representative year). The nominal cost of capital taken into account for the valuation is 8.5% (after tax) (2020 – 8.5%). In addition, a terminal growth rate of 1% was assumed (2020 – 0%).

The cash flow forecast was based, among other things, on the performance of DBS in recent years and assessments of the expected trends in the television market for the years ahead, including technology development, consumer preferences, competitors and the level of competition, price levels and regulatory obligations. The cash flow forecast used to prepare the valuation did not take into account changes that could result from the decision regarding the implementation of the Alternative Outline described in Note 12.1.2 below.

A key assumption underlying the forecast is that the relevant future technology will be interactive and two-way, and that the satellite product will be replaced by the IP product (television broadcasts over the Internet) over time, due to the technological gap between satellite and IP, the gap in customer experience and the lower IP operation and maintenance costs. As a result, the multi-year forecast reflects a plan for gradual migration (from satellite broadcasts to OTT Internet streaming), and accordingly, assumptions include a gradual replacement of satellite converters with IP converters, upgrade of the broadcasting infrastructure, construction of a support system for customer service, and adaptation of content contracts for OTT (Over the Top) broadcasts. As set out above, the forecast period reflects the period of migration from satellite broadcasts to OTT broadcasts, until complete discontinuation of satellite broadcasts. These circumstances, together with expectations for the continuation of intense competition throughout the forecast period and the relatively rigid expenditure structure, resulted in a forecast of operational losses and negative cash flow in some of the forecast years. It should be noted that the plan is being and will be implemented together with an ongoing assessment of market conditions, competition, and the technological environment, and the adjustments that will be required as a result.

The valuation was prepared by an external appraiser. Based on the valuation as explained above, the total value of operations of DBS as at December 31, 2021 was a negative NIS 271 million (as at December 31, 2020, the total value of operations was a negative NIS 145 million).

The valuation is sensitive to the net cash flow in the representative year in general, and to the average revenue per user (ARPU) and number of users at the end of the range of the forecast in particular (a change of NIS 1 in ARPU throughout the forecast years (and in the terminal year) results in a change in the value of operations amounting to NIS 106 million; a change of 5,000 users throughout the forecast years (and in the terminal year) results in a change in the value of operations amounting to NIS 79 million).

In light of the negative value of operations, as at December 31, 2021, the value of the non-current assets of DBS was set at the higher of their fair value and zero, similar to the end of 2020 and end of 2019. The fair value of the assets of DBS net of costs to sell as at December 31, 2021 is a negative NIS 109 million.

Accordingly, the Group recognized an impairment loss of NIS 288 million in 2021. The impairment loss was attributed to the assets of DBS, as set out below, and was included in depreciation, amortization, and impairment expenses and in general operating expenses in the statement of income, as set out in Note 3.10.2 above.

Allocation of impairment loss to Group assets:

	2021	2020	2019
	NIS million	**NIS million**	**NIS million**
Broadcasting rights – less rights utilized *	**146**	170	202
Fixed assets **	**91**	112	117
Intangible assets **	**48**	42	44
Other receivables (prepaid expenses) *	**4**	-	-
Rights of use of leased assets **	**(1)**	-	(1)
Total impairment recognized	**288**	324	362

* The expense was presented under general operating expenses.

** The expense was presented under depreciation and impairment expenses.

Below is information about DBS's method for measuring the fair value (at Level 3) of the assets which were impaired as set out above:

Broadcasting rights: Measurement of the fair value of broadcasting rights took into account legal restrictions on their sale and based on the production stage, the probability of sale, and the expected rate of return on the investment in them.

Fixed assets: The fair value of fixed asset items that are available for sale to a market participant (mainly converters) is based on their estimated selling value on the valuation date less selling costs.

Intangible assets: Material fair value was not attributed to the intangible assets of DBS, since most of the software and licenses of DBS were specially adapted to DBS, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

Rights of use of leased assets: The fair value of right-of-use assets is affected by the ability to lease the asset underlying the lease to a third party, the lease fees of the property on the market, and the exit penalties in the lease contract.

Other receivables (prepaid expenses) – Material fair value was not attributed to prepaid expenses of DBS for maintenance of its systems, since most of the maintenance agreements were uniquely adapted to DBS, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

10.6 Impairment in the Bezeq International services segment (ISP, international communications and NEP services and ICT solutions)

At the end of 2021, Bezeq International revised its forecasts for the coming years, taking into account trends and changes in its operating environment. The value in use for the Bezeq Group of the Bezeq International services cash-generating unit was calculated as at December 31, 2021 by discounting future cash flows (DCF method) based on a five-year forecast of cash flows from operations from the end of 2021 with the addition of the salvage value (representative year).

The cash flow forecast was based, inter alia, on Bezeq International's performance in recent years and assessments regarding future trends in the markets in which it operates (competition, price levels, regulation and technological developments). The cash flow forecast used to prepare the valuation did not take into account changes that could result from the decision regarding the implementation of the Alternative Outline described in Note 12.1.2 below.

The revenue forecast is based on assumptions that Bezeq International's Internet subscriber base, and its revenues from these subscribers, would be significantly adversely affected by the Ministry of Communication's decision to cancel the separation between broadband Internet service and ISP service, as detailed in Note 12.3 below, including assumptions regarding subscribers that do not use ISP services, assumptions regarding Bezeq International's activity in the international communications market, and assessments regarding the development of its activity in the business communications services market.

Operating, selling, marketing and investment costs were adjusted for the scope of operations in the segment, and the forecasts included in this respect assumptions regarding the decrease in the number of employees of Bezeq International and the associated salary expenses, as well as assumptions regarding the development of Internet traffic costs (retail and wholesale rates and the development of Internet television broadcasts, in general, and the expected migration of DBS from satellite television broadcasting to Internet television broadcasting, in particular).

These assumptions, and mainly the profound changes foreseen in Bezeq International's Internet operations, lead to expectations of operating losses and negative cash flows in the coming years. The nominal cost of capital taken into account for the valuation is 8.5% (after tax) (2020 – 9.7%). In addition, a terminal growth rate of 1% was assumed (2020 – 0%).

The valuation is sensitive to the net cash flow in the representative year in general, and to the intensity of changes in Internet activity in particular (users, ARPU, and traffic costs).

The valuation was prepared by an external appraiser. Based on the valuation as described above, the value of Bezeq Internationals' operations as at December 31, 2021 amounted to a negative NIS 196 million (as at December 31, 2020, the total value of operations was a negative NIS 145 million). Given the negative value of operations, the value of Bezeq International's non-current assets as at December 31, 2021 was set at the higher of their fair value net of costs to sell and zero. The fair value of Bezeq International's assets net of costs to sell as at December 31, 2021 is NIS 70 million. Accordingly, the Group recognized in 2021 an impairment loss amounting to NIS 122 million.

Allocation of impairment loss to assets of Bezeq International:

	2021	2020
	NIS million	NIS million
Fixed assets and intangible assets	**75	154
Short-term and long-term prepaid expenses	*28	21
Rights of use of leased vehicle assets	**2	3
Long-term prepaid expenses for capacities	*17	129
Total impairment recognized	**122**	***307

* The expense was presented under general operating expenses.

** The expense was presented under depreciation and impairment expenses.

*** Presented under the item "impairment loss" in the statement of income for 2020.

Below is information on Bezeq International's method for measuring the fair value (at Level 3) of the assets less costs to sell:

Fixed assets – The fair value of fixed assets that are available for sale to a market participant was based on the cost approach, which takes into account the cost of replacement with new equipment less costs of physical wear and tear and technological obsolescence less costs required for making the sale.

Intangible assets – Material fair value was not attributed to intangible assets, since most of the software and licenses of Bezeq International were specially adapted to Bezeq International, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

International capacity – In light of the nature of the agreements that were signed, which allow the assignment of these rights only to the Company or to a fellow subsidiary of Bezeq International, which are not considered a market participant (third party) for the purpose of calculating fair value according to IFRS 13, these right have no fair value.

Short- and long-term prepaid expenses – Material fair value was not attributed to prepaid expenses for maintenance of Bezeq International's systems, as the majority of the maintenance agreements were specially adapted to Bezeq International, and therefore they have no material value in a transaction between a willing buyer and a willing seller.

Rights of use of leased assets – The fair value of right-of-use assets is affected by the ability to lease the asset underlying the lease to a third party, the lease fees of the asset on the market, and the exit penalties in the lease contract.

11. Deferred Expenses and Non-current Investments

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Net subscriber acquisition asset (see 11.1 below)	**151**	165
Deferred expenses (see 11.2 below)	**18**	37
Bank deposit for loans to Company employees (see 11.3 below)	**36**	36
Derivatives	**16**	-
Investments in equity-accounted investees	**5**	4
Rights of use of capacities (see 11.4 below)	**-**	-
	226	242

11.1 Subscriber acquisition assets

	Subscriber acquisition assets
	NIS million
Cost	
Balance as at January 1, 2020	438
Additions	137
Disposals	(98)
Balance as at December 31, 2020	477
Additions	**131**
Disposals	**(129)**
Balance as at December 31, 2021	**479**
Amortization and impairment losses	
Balance as at January 1, 2020	278
Depreciation	132
Disposals	(98)
Balance as at December 31, 2020	312
Depreciation	**145**
Disposals	**(129)**
Balance as at December 31, 2021	**328**
Carrying amount	
January 1, 2020	160
December 31, 2020	165
December 31, 2021	**151**

11.2 The balance of deferred expenses is presented net of impairment loss. For information on impairment of assets of Bezeq International see Note 10.6).

11.3 Bank deposit for loans to Company employees with no maturity date.

11.4 Transactions for the acquisition of an indefeasible right of use (IRU) of seabed cable capacities by Bezeq International were accounted for as ongoing service transactions. The balance of rights of use of capacities is presented net of impairment loss of assets. For information on impairment of assets of Bezeq International see Note 10.6.

12. Investees

12.1 Subsidiaries

12.1.1 The place of incorporation of the companies held directly by the Company is Israel. Information about companies held directly by the Company:

Pelephone Communications Ltd.

DBS Satellite Services (1998) Ltd. (see Note 12.2 below)

Bezeq International Ltd. (see Note 12.3 below)

Bezeq Online Ltd.

As at December 31, 2021 and December 31, 2020, the Company holds 100% of the interests in the capital of the subsidiaries listed above. The Company's subsidiaries have investments in other subsidiaries that are not material.

12.1.2 Structural change in the subsidiaries

Pursuant to previous resolutions passed by the Company and by the subsidiaries Bezeq International and DBS ("the Subsidiaries") regarding the structural change plan, according to which Bezeq International’s consumer activity was to be merged with DBS and Bezeq International’s ICT activity was to be spun off into a new wholly owned subsidiary of the Company ("the Merger/Spin-off Plan”), on March 16, 2022 the Company's Board of Directors decided, pursuant to resolutions passed on that day by the Subsidiaries' boards of directors, to approve the cancellation of the Merger/Spin-off Plan, and to approve an alternative outline, for which an implementation plan would be presented within 60 days to the Subsidiaries’ boards of directors, whereby Bezeq International’s ISP activity in the consumer sector would be reduced following the cancellation of the separation of broadband infrastructure service and Internet access (ISP) service (as described in Note 12.3 below), and ISP activity would be established at ‘yes’ for the sale of “Triple Play” packages to customers ("the Alternative Outline"), with a view to attaining, as far as possible, the strategic, business and financial objectives that formed the basis for the decision to promote the structural change, namely, adapting the activity to the structure of the industry and to evolving regulation, focusing on increasing revenues and growth, and enhancing operational synergy and efficiency.

Under the Alternative Outline, the business objectives that underlay the Merger/Spin-off Plan will be achieved, since DBS is set to become a sales arm for the “Triple Play” package, which combines fiber-optics and television, while Bezeq International will become at the conclusion of the process a growth-focused ICT company. Moreover, the Alternative Outline has the potential to substantially reduce Bezeq International's ISP costs and investments, in parallel with an accelerated reduction in this activity.

The Company and the Subsidiaries are currently unable to estimate whether, and if so, when, all the requisite conditions for implementing the Alternative Outline will be in place. Accordingly, there can be no certainty as to whether the Alternative Outline will be realized in the manner described above or at all.

12.2 DBS Satellite Services (1998) Ltd.

12.2.1 Up to March 25, 2015, the Company held 49.78% of the share capital of DBS and it held options that confer the right to 8.6% in DBS shares, which the Company was prohibited to exercise. The balance of DBS shares was held by Eurocom DBS Ltd. (a company that was controlled (indirectly) by the controlling shareholder in the company at that time). On March 25, 2015, the Company exercised the options that were allotted, for no consideration, and on June 24, 2015, the Company completed a transaction for the acquisition of the entire holdings of Eurocom DBS in DBS, and all of the owners loans provided by Eurocom to DBS ("the Acquisition Transaction").

On the completion date, the Company transferred the cash consideration of NIS 680 million to Eurocom DBS for the Acquisition Transaction.

Under the terms of the Acquisition Transaction, in addition to the cash consideration of NIS 680 million, the consideration included two additional contingent considerations, as follows: one additional consideration of up to NIS 200 million, which will be paid in accordance with the tax synergy according to the terms defined in the acquisition agreement ("the First Contingent Consideration"); and another additional consideration of up to NIS 170 million, which will be paid in accordance with the business results of DBS in the 2015-2017 ("the Second Contingent Consideration").

On completion of the Acquisition Transaction, DBS became a wholly owned subsidiary (100%) of the Company. The Company consolidates the financial statements of DBS as from March 23, 2015.

Most of the First Contingent Consideration was paid after the Company signed an assessment agreement and the taxation decision of the Tax Authority regarding financial income, shareholder loans, the losses of DBS, and its merger (see also Note 7.2).

The Company paid an advance of NIS 119 million on account of the second contingent consideration. In accordance with the financial results of DBS for 2017, and since the final amount of the Second Contingent Consideration was lower than the amount of advances that the Company paid Eurocom DBS for the consideration, Eurocom DBS is required to return the difference to the Company. In this context, the Company joined the proceedings as creditor for liquidation of Eurocom Communications. In addition, following the Company's demand for Eurocom DBS to pay the Company the amount of the down payment on account of the Second Contingent Consideration plus interest as set out in the agreement, after the goals entitling Eurocom DBS to this consideration were not achieved, on April 22, 2018, the Tel Aviv District Court, at the Company's request, handed down a liquidation order for Eurocom DBS and the Company's legal counsel was appointed as the liquidator for Eurocom DBS. According to the Company's estimate of December 31, 2021, taking into consideration the solvency of Eurocom DBS, no repayment of the advances is expected.

12.2.2 As at December 31, 2021, DBS has accumulated since its establishment a loss of NIS 8,251 million, an equity deficit of NIS 48 million and a working capital deficit of NIS 198 million. In addition, as at December 31, 2021, DBS has off-balance sheet liabilities amounting to a cumulative NIS 1,058 million for the purchase of space segments, content, fixed assets and other assets, up to and including 2026 (see elaboration in Note 18).

Based on the valuation performed as at December 31, 2021, DBS's total value of operations is a negative NIS 271 million (compared with a negative value of operations of NIS 145 million as at December 31, 2020) (see elaboration in Note 10.5), due, among other things, to DBS forecasts of the continuing accumulation of operational losses in 2023 and onwards.

On November 29, 2021, the Company's Board of Directors approved an irrevocable undertaking of the Company to DBS to provide a credit facility or capital investment, for NIS 40 million until December 31, 2022 (which had not been utilized as of the date of approval of these financial statements).

The management of DBS believes that the financial resources at its disposal, which include, among others, the continuation of the existing policy of a working capital deficit and the credit facility and the capital investments by the Company, will be adequate for the operational needs of DBS until December 31, 2022.

12.2.3 See Note 10.5 regarding an impairment of assets recognized by DBS in the financial statements as at December 31, 2021.

12.3 Bezeq International Ltd.

12.3.1 <u>Cancellation of the separation of broadband infrastructure services and Internet access (ISP) services</u>

On June 20, 2021, the Company received the ruling of the Minister of Communications regarding the separation of broadband infrastructure service and Internet access (ISP) service, including with respect to private customers. According to the ruling, as of the determining date, the prohibition on infrastructure owners offering ISP service to private customers will be revoked. In addition, it will be prohibited to sell services in a split configuration, but customers who currently receive service in a split/semi-split configuration may continue using Internet services in this way. It should be noted that the cancellation of the separation as aforesaid is expected to lead to a reduction in the phenomenon of subscribers who do not use ISP services, as also noted in the Ministry of Communication's publication.

The process, which is expected to adversely affect Bezeq International's results, was taken into account in the cash flow forecast used for the impairment assessment as described in Note 10.6 above.

12.3.2 See Note 10.6 regarding an impairment of assets recognized by Bezeq International in the financial statements as at December 31, 2021.

13. <u>Debentures, Loans and Borrowings</u>

13.1 Composition:

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Current liabilities		
Current maturities of debentures	**897**	584
Current maturities of loans	**83**	202
	980	786
Non-current liabilities		
Debentures	**5,259**	5,707
Loans	**1,823**	1,907
	7,082	7,614
Total debentures, loans and borrowings	**8,062**	8,400

13.2 Debenture and loan terms

	December 31, 2021		December 31, 2020		
	Carrying amount	Nominal value	Carrying amount	Nominal value	Interest rate range
	NIS million	NIS million	NIS million	NIS million	
Bank loans:					
Unlinked loans at fixed interest	**712**	**711**	1,062	1,057	3.2% - 4.3%
Unlinked loans at variable interest	**300**	**300**	-	-	Prime + 0.53%
Unlinked loans at fixed interest	**-**	**-**	56	56	5% - 6.85%
Total bank loans	**1,012**	**1,011**	1,118	1,113	
Loan from financial institutions:					
Unlinked loans at fixed interest	**894**	**894**	974	975	3.22% - 4%
Unlinked loans at fixed interest	**-**	**-**	17	17	5.25%
Total loans from financial institutions	**894**	**894**	991	992	
Total loans	**1,906**	**1,905**	2,109	2,105	
Debentures issued to the public					
Series 6 – linked to the CPI, at fixed interest	**540**	**500**	1,055	1,000	3.7%
Series 7 – unlinked, at variable interest	**36**	**36**	71	71	MAKAM (T-bill) for one year +1.4%
Series 9 – unlinked, at fixed interest*	**2,176**	**2,145**	2,186	2,145	3.65%
Series 10 – linked to the CPI, at fixed interest	**912**	**882**	894	882	2.2%
Series 11 – unlinked, at fixed interest	**839**	**835**	841	835	3.2%
Series 12 – linked to the CPI, at fixed interest	**1,257**	**1,269**	1,244	1,269	1.7%
Series 13 – unlinked, at fixed interest	**198**	**200**	-	-	2.79%
Series 14– linked to the CPI, at fixed interest	**198**	**200**	-	-	0.58%
Total debentures issued to the public	**6,156**	**6,067**	6,291	6,202	
Total loans and debentures	**8,062**	**7,972**	8,400	8,307	

* Subsequent to the date of the financial statements, on January 23, 2022, the Company made, at its initiative, partial early repayment of approximately NIS 370 million par value of Debentures (Series 9) of the Company.

13.3 Loans and debentures issued by the Company

Below are details of the terms undertaken by the Company for the loans that were received and the debentures that were issued:

13.3.1 For the Company's overall debt, standard grounds were included for immediate repayment of the debentures and loans, including events of breach, default, dissolution or receivership proceedings, etc. In addition, a right was established to call for immediate repayment if a third party lender calls for immediate repayment of the Company's debts to it in an amount exceeding the amount determined.

In addition, the Company has undertaken not to create additional liens on its assets unless the debenture holders give their prior consent, in a special resolution, permitting the Company to create the lien in favor of the third party, or the Company creates at the same time liens in favor of all the lenders (negative lien). The lien includes exceptions, inter alia regarding a lien on assets that will be purchased or expanded by the Company, if the undertakings underlying the lien are created for the purchase or expansion of those assets, and regarding a token lien.

13.3.2 For the Company's public debentures, for bank loans with an outstanding balance of NIS 1 billion as at December 31, 2021, and for loans from financial institutions with an outstanding balance of NIS 0.9 billion as at December 31, 2021, the Company has undertaken that if the Company makes an undertaking towards any entity in respect of compliance with financial covenants, the Company will also provide the same undertaking to these lenders (subject to certain exceptions).

13.3.3 For the Company's public debentures, and for loans from financial institutions amounting to NIS 0.9 billion, grounds were included for immediate repayment if telecommunications ceases to be the Group's core activity.

13.3.4 For the Company's public debentures, and for loans from financial institutions amounting to NIS 0.9 billion, the Company has undertaken towards the lenders to act so that, to the extent under its control, the rating of the debentures will be monitored by at least one rating agency, so long as there are outstanding debentures of the relevant series or an outstanding balance of loans, as the case may be.

13.3.5 For Debentures (Series 9-14), and for loans from financial institutions amounting to NIS 0.9 billion, grounds were included for immediate repayment in the event of a change in control, following which the Company's Controlling Shareholders (as defined in the agreements) will cease to be its controlling shareholders and control will be transferred to a third party ("the Transferee"), with the exception of: (1) transfer of control to a Transferee that received approval for control of the Company in accordance with the provisions of the Communications Law and/or the Communications Order; or (2) transfer of control where the Transferee holds control together with the Company's Controlling Shareholders, provided that the holding rate of the Company's Controlling Shareholders in shares of the Company does not fall below 50.01% of the total shares of the Company held by the controlling shareholders together; or (3) a change in control to be approved by a meeting of the debenture holders/the lenders.

13.3.6 In addition, for Debentures (Series 9-14), and for loans from financial institutions amounting to NIS 0.9 billion, grounds were included for immediate repayment of the debentures in the event that a going concern qualification is included in the Company's financial statements for two consecutive quarters, due to a material deterioration in the Company's business compared with its situation at the time of the issue, where there is real concern that the Company will not be able to repay the debentures/loans on time (as set out in section 35I1(a)(1) of the Securities Law).

As at December 31, 2021 and the date of approval of the financial statements, the Company was in compliance with all its obligations, there were no grounds for calling for immediate repayment, and financial covenants were not set as detailed above.

13.4 Reportable credit

Below is information about the Group's reportable credit, in accordance with Legal Bulletin No. 104-15: Reportable Credit Events, issued by the ISA on December 30, 2011, as amended on March 19, 2017 (according to the Group's data, debentures series and loans amount to more than NIS 800 million). The debentures were issued by the Group without a specific purpose. The debenture principal is repayable in equal installments in the number specified in the table, with the interest payable on the outstanding loan principal.

	Debentures Series 9	Debentures Series 10	Debentures Series 11	Debentures Series 12
Debenture issue date	15.10.2015	15.10.2015	10.7.2019	10.7.2019
Final repayment date	1.12.2025	1.12.2025	1.6.2030	1.6.2030
Type of loan	Unlinked shekel, at fixed interest	CPI-linked shekel, at fixed interest	Unlinked shekel, at fixed interest	CPI-linked shekel, at fixed interest
Original amount of the loan or par value (NIS million)	2,145	882	835	1,269
Balance of revalued principal (plus interest payable) as at December 31, 2021 (NIS million)	2,151	906	837	1,282
Number of principal payments per year	1	1	1	1
Principal payments as from	2022	2022	2026	2026
Number of interest payments per year	2	2	2	2
Interest rate as at December 31, 2021	3.65%	2.20%	3.20%	1.70%
Fair value of the liability as at December 31, 2021 (NIS million)	2,308	1,003	907	1,488
Effective interest rate in fair value as at December 31, 2021	0.92%	-1.63%	1.82%	-0.73%
Effective interest rate in fair value as at December 31, 2020	1.19%	0.04%	1.93%	0.83%
Special conditions	See Note 13.3	See Note 13.3	See Note 13.3	See Note 13.3
Right to early repayment	Yes	Yes	Yes	Yes

13.5 Change in liabilities arising from financing activities

	Debentures (including accrued interest)	Loans (including accrued interest)	Total
	NIS million	NIS million	NIS million
Balance as at January 1, 2020	6,187	3,401	9,588
Changes due to cash flows from financing activities			
Proceeds from the issue of debentures and receipt of loans, less transaction costs	718	-	718
Repayment of debentures and loans	(555)	(1,273)	(1,828)
Interest paid	(200)	(114)	(314)
Total net cash provided by financing activities	(37)	(1,387)	(1,424)
Financial expenses recognized in the statement of income	157	103	260
Balance as at December 31, 2020	6,307	2,117	8,424
Changes due to cash flows from financing activities			
Proceeds from the issue of debentures and receipt of loans, less transaction costs	**395**	**300**	**695**
Repayment of debentures and loans	**(567)**	**(500)**	**(1,067)**
Interest paid	**(186)**	**(68)**	**(254)**
Total net cash provided by financing activities	**(358)**	**(268)**	**(626)**
Financial expenses recognized in the statement of income	**223**	**63**	**286**
Balance as at December 31, 2021	**6,172**	**1,912**	**8,084**

14. Trade and Other Payables

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Trade payables		
Open accounts and expenses payable *	**955**	940
Total trade payables	**955**	940
Other current payables, including derivatives		
Liabilities to employees and other liabilities for wages and salaries	**352**	397
Deferred income	**158**	168
Liability for payment in respect of frequencies **	**87**	-
Institutions	**110**	66
Derivatives	**35**	51
Accrued interest	**22**	24
Current tax liabilities	**5**	80
Other	**24**	33
Total other current payables, including derivatives	**793**	819
Total trade payables and other current payables	**1,748**	1,759
Other non-current payables		
Deferred income from a government grant**	**65**	72
Deferred income	**69**	75
Liability for payment in respect of frequencies	**-**	86
Derivatives	**-**	66
Other	**8**	8
Total other non-current payables	**142**	307
Total trade payables and other current and non-current payables	**1,890**	2,066

* Of which, trade payables that are related parties and interested parties as at December 31, 2021 amount to NIS 4 million (December 31, 2020 – NIS 3 million).

** See Notes 10.1 and 3.14 regarding the frequencies tender and a government grant.

15. Provisions

	Customer claims	Additional legal claims	Dismantling and clearing of cellular sites and warranty	Total
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2021	112	1	56	169
Provisions created	**6**	**1**	**3**	**10**
Provisions used	**(23)**	**(2)**	**(1)**	**(26)**
Provisions cancelled	**(31)**	**-**	**(4)**	**(35)**
Balance as at December 31, 2021	**64**	**-**	**54**	**118**
Presented in the statement of financial position as:				
Current provisions	**64**	**-**	**5**	**69**
Non-current provisions	**-**	**-**	**49**	**49**
	64	**-**	**54**	**118**

* For further information about legal claims, see Note 17.

16. Employee Benefits

Employee benefits include termination benefits, post-employment benefits, other long-term benefits, and short-term benefits. See also Note 26 regarding share-based payment.

16.1 Composition of liabilities for employee benefits

		2021	2020
	Note	NIS million	NIS million
Current liabilities for:			
Vacation		**126**	122
Sick pay	16.4	**150**	161
Provision for early retirement plan at Bezeq	16.5.1	**98**	87
Provision for early retirement for employees transferred from the civil service at Bezeq	16.5.2	**100**	62
Provision for efficiency plan and bonuses at Pelephone, Bezeq International and DBS	16.5.3	**29**	43
Current maturities of retirement benefits	16.3.3	**7**	7
Total current liabilities for employee benefits		**510**	482
Non-current liabilities for:			
Liability for retirement benefits	16.3.3	**139**	140
Provision for early retirement for employees transferred from the civil service	16.5.2	**-**	108
Severance pay, net (see composition below)	16.3.1	**60**	58
Early notice and pension	16.3.2	**33**	29
Provision for efficiency plan at DBS	16.5.3	**11**	-
Total non-current liabilities for employee benefits		**243**	335
Total liabilities for employee benefits		**753**	817
Composition of liability for severance pay:			
Obligation for severance pay		**223**	214
Fair value of plan assets		**(163)**	(156)
		60	58

16.2 Defined contribution plans

16.2.1 Liabilities for employee benefits at retirement age in respect of the period of their service in the Company and its subsidiaries, and for employees to which Section 14 of the Severance Pay Law, 1963 (“the Severance Pay Law) applies, are covered in full by regular payments to pension funds and insurance companies

	2021	2020	2019
	NIS million	NIS million	NIS million
Deposits recognized as an expense for a defined contribution plan	**218**	221	223

16.2.2 For certain employees, the Group has an obligation to pay severance in excess of the amount accumulated in the compensation fund which is in the employees' name. See section 16.3.1 below.

16.3 Defined benefit plans

Obligations for defined benefit plans in the Group include the following:

16.3.1 The severance pay obligation for the balance of the obligation not covered by contributions and/or insurance policies in accordance with the existing labor agreements and the Severance Pay Law. For this part of the obligation, there are deposits in the name of Group companies in pension funds and insurance companies. The deposits in pension funds and insurance companies include accrued linkage differences and interest. Withdrawal of the reserve monies is contingent upon fulfillment of the provisions in the Severance Pay Law.

16.3.2 An obligation in accordance with the employment agreements of some of the senior employees in the Group for payment of a benefit for notice upon severance. The Company also has an obligation to a number of senior employees who are entitled to early retirement terms (pension and retirement grants) which are not dependent on the existing retirement agreements for all employees

16.3.3 Company retirees receive, in addition to pension payments, benefits which consist mainly of a holiday gift (linked to the dollar exchange rate), financing for the upkeep of retiree clubs and social activities The Company's liability for these costs accumulates in the employment period. The Company's financial statements include the liabilities for expected costs in the severance period.

16.4 Provision for sick leave

The financial statements include a provision in respect of redemption and use of sick leave. The right to accumulate sick leave was taken into account for all employees in the Group. Only employees eligible under the terms of the employment agreement may redeem sick leave. The provision was computed on the basis of an actuarial calculation, including the assumption of positive accumulation of days by most of the employees and use of days by the last in first out (LIFO) method.

16.5 Early retirement and termination benefits

16.5.1 According to the collective agreement of December 2006 between the Company and the employees union and the Histadrut – New General Federation of Labor, and according to Amendment No. 6 to the agreement from December 2020, the Company was entitled, at its discretion, to terminate the employment of up to 50 long-time tenured employees in each of the years 2021-2026 (the Company's right is cumulative over the years), and this is in addition to a retirement quota of approximately 300 tenured employees remaining from the earlier agreement, whose employment the Company may terminate at the end of the current period of the agreement).

The Company recognizes expenses for early retirement when the Company is committed demonstrably, without realistic possibility of withdrawal, to a defined plan to terminate employment before the defined date, according to a defined plan. The collective agreement allows the Company to dismiss employees, but does not create a demonstrable commitment without realistic possibility of withdrawal. Accordingly, the expenses for early retirement are recognized in the Company's financial statements at the approval date of the plan.

On December 29, 2021, the Company's Board of Directors approved, as part of the implementation of the efficiency plan in the Company, the early retirement on pension of 50 long-time tenured employees, at a total cost of NIS 71 million. In light of the foregoing, the Company recorded in its financial statements for the fourth quarter of 2021 an expense of NIS 67.5 million.

16.5.2 On December 16, 2018, an early retirement plan was approved, until the end of 2021, for all employees of the Company who were transferred to the Company from the Ministry of Communications (94 employees). The balance of the provision for the retirement liability for these employees as at December 31, 2021 is NIS 100 million, payable in 2022.

16.5.3 Pelephone, Bezeq International and DBS have collective agreements with the labor federations and the employee committees. The balance of the provision for efficiency and bonus payments in respect of these agreements as at December 31, 2021 is NIS 40 million.

16.6 Actuarial assumptions

The main actuarial assumptions for defined benefit plans at the reporting date are as follows:

16.6.1 Mortality rates are based on the rates published in Pension Circular 2017-3-6 of the Capital Market Authority. Future declines in mortality rates are based on rates published in Circular 2019-1-10.

16.6.2 Churn rates were determined on the basis of the past experience of the Company and the subsidiaries, distinguishing between different employee populations and taking into account the number of years of employment. The churn rates include a distinction between severance with entitlement to full termination compensation and severance without entitlement to full termination compensation.

16.6.3 The discount rate (nominal) is based on the yield on linked high-quality corporate debentures with maturity dates approximating those of the gross obligation.

The main discount rates are as follows:

	December 31, 2021	December 31, 2020
	Average discount rate	Average discount rate
Severance pay	**3%**	2.7%
Retirement benefits	**3.3%**	2.8%

16.6.4 Assumptions regarding salary increments for calculation of the liabilities were made on the basis of the management's assessments, distinguishing between the groups of employees. The main assumptions (in nominal terms) regarding salary increases of the main employee groups are as follows:

	Annual salary increase assumptions
Long-time tenured employees of the Company	The calculation was based on specific assumptions regarding an expected salary increase for 2022 through to 2026, arising from the collective agreement signed in August 2015 and in December 2020.
New tenured employees of the Company	Average adjustment of 5.8% for young employees, decreasing gradually to 2.7% at the age of 66 (in 2020 – average adjustment of 3.2% for young employees, decreasing gradually to 1.4% at age 66).
Non-tenured employees of the Company	6.4% for young employees decreasing gradually to 0.1%, 2% (in real terms) for senior employees
Pelephone, Bezeq International and DBS employees	Salary increase rates were determined based on the collective agreements signed. The annual average salary increase is between 1%-2%.

16.6.5 Average weighted life of liabilities for the main post-employment benefits:

	December 31, 2021	December 31, 2020
	Years	Years
Severance pay	**12**	12
Retirement benefits	**16**	16

16.7 Sensitivity analysis for key actuarial assumptions

Analysis of the possible effect of changes in the main actuarial assumptions on liabilities for employee benefits: The calculation was for each separate assumption, assuming that the other assumptions remained unchanged.

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Discount rate – addition of 0,5%	**(32)**	(35)
Rate of future salary increases – addition of 0.5%	**33**	34
Employee churn rate – addition of 5%	**(14)**	(20)
Mortality rate assumption – 5% increase	**(3)**	(3)

17. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, among other things, on legal opinions as to the likelihood of success of the claims, the financial statements include adequate provisions (as described in Note 15), where provisions are required to cover the exposure arising from the legal claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond these provisions) as at December 31, 2021 for legal claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 3.6 billion. There is also additional exposure of NIS 2.5 billion for claims, the chances of which cannot yet be assessed.

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

The amounts of the additional exposure in this Note are nominal.

For updates subsequent to the reporting date, see section 17.2 below.

17.1 Following is are details of the Group's contingent liabilities as at December 31, 2021, classified into groups with similar characteristics:

Claims group	Nature of the claims	Balance of provision	Additional exposure	Exposure for claims whose chances cannot yet be assessed
		NIS million		
Customer claims	Mainly motions for certification of class actions (and claims by virtue thereof) on grounds of unlawful collection of payment and faulty service provided by the Group companies.	**64**	**2,787**	**665**
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or investments.	**-**	**752**	**(1)1,813**
Claims of employees and former employees of Group companies	Mainly individual law suits filed by employees and former employees of the Group, regarding various payments.	**-**	**1**	**-**
Claims by the State and authorities	Various legal proceedings by the State of Israel, government institutions and state authorities ("the Authorities"). These are mainly proceedings related to regulation applicable to the Group companies and financial disputes concerning amounts paid by the Group companies to the Authorities (including municipal property taxes). See also Note 6.6.	**-**	**-**	**7**
Miscellaneous	Other legal claims, including claims in tort (excluding claims for which the insurance coverage is not disputed), real estate, infrastructure, etc.	**-**	**23**	**23**
Total legal claims against the Company and subsidiaries		**64**	**3,563**	**2,506**

(1) The amount includes two motions for certification of a class action for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers in the Group and companies in the group of the Company's controlling shareholder at the time, regarding the transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a consolidated motion is expected to be filed instead of these two motions. For now, the proceeding has been stayed in view of the criminal proceeding that is being conducted following the investigation by the Israel Securities Authority (as described in Note 1.3) and at the request of the Attorney General, until July 20, 2022.

17.2 Subsequent to the date of the financial statements, a motion for certification of a class action was filed against the Group companies, without a financial assessment. As of the date of approval of the financial statements, the chances of the motion cannot yet be assessed. In addition, three claims without a financial estimate as well as claims with exposure of NIS 501 million were concluded.

18. Commitments

18.1 DBS has agreements for the acquisition of space segments (as detailed in Note 18.2 below), content, and copyrights, up to the end of 2026 and onwards. The amounts of future agreements for these contracts as at December 31, 2021 are as follows:

Year ended December 31	Space segments	Content and copyright	Total
	NIS million	NIS million	NIS million
2022	**77**	**394**	**471**
2023	**78**	**175**	**253**
2024	**60**	**38**	**98**
2025	**56**	**-**	**56**
2026 and onwards	**9**	**-**	**9**
	280	**607**	**887**

18.2 In accordance with the agreement with Space Communications Ltd. ("Spacecom") of 2013, as amended (including an amendment from July 2021), DBS leases space segments in the Amos satellites ("the Spacecom Agreement").

In accordance with the Spacecom Agreement, DBS leases space segments on the Amos 3 satellite (which is expected to end its service at the beginning of 2026), as well as on the Amos 7 satellite, in which Spacecom has the right to lease space segments under an agreement with the holder of rights in this satellite, which is leased to DBS until February 2024, with DBS entitled to extend the lease period by an additional six months.

<u>Leased space segments</u>: Under the Spacecom Agreement, and subject to unavailability events, until the end of the period of lease of Amos 7, DBS will lease 12 space segments from Spacecom, according to the distribution among the relevant satellites as determined in the agreement for the different periods, after which DBS will lease ten space segments on Amos 3. The agreement also establishes the positioning of the leased backup space segments in the agreement period, under the terms and within the limitations prescribed in the agreement.

<u>Early termination of the agreement</u>: Under the Spacecom Agreement, DBS is entitled to give notice of early termination of the Spacecom Agreement without cause, subject to advance notice of 12 months and payment of the consideration for the lease of Amos 7 with the addition of a partial payment for the remainder of the lease of space segments on Amos 3.

18.3 The cellular infrastructure equipment in the UMTS/HSPA, LTE and 5G networks is manufactured by LM Ericsson Israel Ltd. ("Ericsson"), which serves as a supplier of Pelephone for the deployment of a 4G radio (LTE) and 5G network. Ericsson is also a material supplier of Pelephone for microwave transmission. Pelephone has multi-year agreements for maintenance, support and upgrade of software for the UMTS/HSPA network and an agreement for acquisition of 4G (LTE) and 5G network equipment with Ericsson, and Pelephone believes that it could be dependent on Ericsson for network support and expansion. As at December 31, 2021, Pelephone has agreements with Ericsson for the acquisition of terminal equipment and the receipt of services as aforesaid, for a total of NIS 22 million.

18.4 In April 2021, a new agreement came into effect between Pelephone and Apple Distribution International ("Apple") for the purchase and resale of iPhone handsets, in which Pelephone committed to purchase a minimum quantity of iPhone handsets per year, for an additional period of three years, at the manufacturer's prices on the actual date of the purchases.

18.5 For purposes of its operations, Bezeq International purchases from service providers indefeasible rights of use of capacities (IRU). In the first quarter of 2021, Bezeq International signed an agreement with a provider extending the periods of use of the capacities until July 2030. The payments for the rights of use are made by Bezeq International in annual installments over the period of use of the capacities. The balance of the liability under the agreement as at December 31, 2021 is USD 10.1 million.

18.6 As at December 31, 2021, the Group companies have agreements for the acquisition of terminal equipment, fixed assets, intangible assets and other assets amounting to NIS 449 million.

18.7 Further to Note 9.4 above concerning deployment of the fiber optic network by the Company, in accordance with the provisions of section 14C of the Communications Law, following the amendment of the Company's license, the telecom companies, among them the Company and its subsidiaries Pelephone, DBS and Bezeq International, are required to pay a rate of 0.5% of their annual revenue during the deployment period, into the Incentive Fund. The Incentive Fund, to be managed by the Accountant General in the Ministry of Finance, is meant to encourage fiber deployment by participating in its funding in statistical areas that are not included among the deployment areas selected by the Company. The Communications Minister, with the consent of the Finance Minister and the approval of the Economic Affairs Committee, may change this rate.

18.8 For information about transactions with related parties, see Note 29.

19. Securities, Liens and Guarantees

The Group's policy is to provide tender, performance and legal guarantees. In addition, the Company provides bank guarantees, where necessary, for banking obligations of subsidiaries.

19.1 The Group companies provided guarantees of NIS 132 million in favor of the Ministry of Communications to secure the terms of their licenses (of which NIS 55 million is linked to the CPI).

19.2 The Group companies provided bank guarantees totaling NIS 199 million in favor of third parties (including a guarantee of NIS 120 million for the Sakia property – see Note 6.6 for details).

19.3 Restrictions on the creation of liens on assets of the Group companies

19.3.1 In accordance with the Company's license, the license may not be transferred, pledged or attached, in whole or in part. Any transfer, pledge or attachment of any of the license assets that is not explicitly permitted by the license, is subject to the approval of the Minister, who may, in special cases, permit the transfer of the license in conjunction with structural changes, if he is satisfied that the transferee license holder meets all the conditions that were met by the transferor. Furthermore, if a third party has rights in any of the assets used to provide the Company's services, the Company must ensure that the exercise of such rights does not impair the performance of the Company's obligations under the license.

19.3.2 In accordance with its cellular license, Pelephone is not permitted to sell, lease or pledge any of its assets used for the implementation of the license ("the License Assets"), without the consent of the Minister of Communications, given after he was satisfied that the exercise of the rights by the third party will not impair the services provided under the license, except for:

A. A pledge on any of the License Assets in favor of a bank operating lawfully in Israel, to receive bank credit, provided that Pelephone gives the Ministry of Communications notice regarding the pledge it intends to register, specifying that the pledge agreement includes a clause ensuring that in any event, exercise of the rights by the bank will not impair, in any way, the services provided under the license.

B. Sale of items of equipment when implementing an upgrade, including sale of equipment by the trade-in method.

C. Sale, lease, pledge or transfer of the License Assets to a holder of a cellular infrastructure license holder of which Pelephone is a customer.

19.3.3 In accordance with its license, Bezeq International is not permitted to sell, lease or pledge any of the assets required for ensuring the services of the license holder, without the consent of the Minister of Communications, given after he was satisfied that the exercise of the rights by the third party will not impair the services provided under the license. Notwithstanding the foregoing, Bezeq International may pledge any of the license assets in favor of a bank operating lawfully in Israel, to receive bank credit, provided that Bezeq International gives the Ministry of Communications advance notice regarding the pledge it intends to make, and that the pledge agreement includes a clause ensuring that the exercise of the rights by the bank will not impair the services provided under the license.

19.3.4 Regarding DBS's broadcasting license, the Communications Law and the license stipulate restrictions on the transfer, attachment and encumbrance of the license and of any of the license assets. The broadcasting license requires receiving the Minister's approval for certain changes in the holding of means of control in DBS and imposes reporting obligations with respect to the holders of means of control. There are also certain restrictions under the license on the performance of uplink operations ((transfer of broadcasts from DBS's broadcasting center to the broadcasting satellite and implementation of setup and ancillary operation activities).

19.3.5 For information about the conditions that the Company undertook for loans and borrowings, see Note 13.

19.4 For information on the conditions to which the Company committed with respect to loans and borrowings, see Note 13.

20. Equity

20.1 Share capital

	December 31, 2021	December 31, 2020
	Number of shares	Number of shares
Authorized share capital	**2,849,485,753**	2,825,000,000
Issued and paid-up share capital	**2,765,485,753**	2,765,485,753

20.2 Dividends

20.2.1 Dividend distribution policy.

Subsequent to the date of the financial statements, on March 22, 2022, the Company's Board of Directors decided to approve a new dividend distribution policy for the Company, according to which the Company will distribute to its shareholders, on a semi-annual basis, a cash dividend at 50% of the semi-annual profit (after tax) according to the Company's consolidated financial statements, as from the upcoming distribution (for the second half of 2021). Implementation of the dividend distribution policy is subject to the provisions of any law, including the distribution criteria prescribed by the Companies Law, while taking into account the expected cash flow, the Company's needs and obligations, its cash reserves, plans and position, as they may be from time to time, and subject to the approval of the General Meeting of the Company shareholders for each specific distribution, as provided in the Company's Articles of Association.

Approval of the Company's dividend policy as aforesaid does not obligate the Company to distribute a dividend to its shareholders, and each specific distribution will be considered on its own merits in accordance with the above terms of implementation of the dividend distribution policy. Furthermore, approval of the policy as aforesaid will not preclude the Company's Board of Directors from reviewing from time to time the dividend distribution policy to the Company's shareholders, taking into account, *inter alia*, the provisions of the law, the Company's business position and plans as well as its capital structure, while maintaining a balance between ensuring the Company's financial strength and stability, including its debt level and credit rating, and continuing to create value for the Company's shareholders by regular dividend distributions.

The Board of Directors sees great importance in maintaining a balance between ensuring the Company's financial strength and stability, including retaining its current rating [AA] over time, and continuing to create value for the Company's shareholders by regular dividend distributions.

The Board of Directors was presented with an analysis and the results of a professional study carried out by Professor Aharon (Roni) Ofer, the forecasts for the Company and the Group, as well as a sensitivity analysis in the event of an unforeseen deterioration in the business of the Company and the Group. After examining all of the above, the Board of Directors determined that this decision reflects the correct balance between these needs, as described above.

20.2.2 Dividend distribution.

Further to the decision concerning the Company's dividend distribution policy as set out in Note 20.2.1 above, on March 22, 2022 the Company's Board of Directors decided to recommend to the General Meeting of shareholders of the Company the distribution of a cash dividend to the Company's shareholders for a total of NIS 240 million. As of the date of approval of the financial statements, said dividend had not yet been approved by the General Meeting.

21. Revenues

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Domestic fixed-line communications (Bezeq fixed-line)			
Internet infrastructure	**1,562**	1,537	1,497
Fixed-line telephony	**891**	981	1,017
Transmission and data communication	**844**	785	745
Cloud and digital services	**318**	288	273
Other services	**230**	222	225
	3,845	3,813	3,757
Cellular communications – Pelephone			
Cellular services and terminal equipment	**1,606**	1,550	1,674
Sale of terminal equipment	**643**	577	642
	2,249	2,127	2,316
Multichannel television – DBS	**1,270**	1,286	1,344
ISP, international communications and NEP services and ICT services – Bezeq International	**1,186**	1,217	1,283
Other	**271**	280	229
	8,821	8,723	8,929

22. General Operating Expenses

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Interconnectivity and payments to domestic and international telecommunications operators	**717**	776	757
Terminal equipment and materials	**803**	747	806
Content costs	**553**	589	644
Marketing and general expenses	**538**	462	489
Maintenance of buildings and sites	**238**	246	271
Services and maintenance by subcontractors	**348**	303	270
Vehicle maintenance*	**60**	50	71
	3,257	3,173	3,308

* General operating expenses are presented net of expenses of NIS 49 million recognized in 2021 for investments in fixed assets and intangible assets (2020 – NIS 38 million; 2019 – NIS 43 million).

23. Salaries

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Total salaries and related expenses	**2,410**	2,439	2,472
Share-based payment	**27**	-	-
Less salaries recognized in investments in fixed assets and intangible assets	**(555)**	(548)	(539)
	1,882	1,891	1,933

24. Other Operating Expenses (Income), Net

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Capital gain (mainly from the sale of real estate)	**(175)**	(18)	(508)
Provision (reversal of provision) for claims	**(23)**	11	10
Receipts from a settlement agreement	**(5)**	(9)	-
Termination expenses for early retirement at the Company (see Note 16.5.1)	**95**	64	109
Termination expenses for early retirement and efficiency agreement at Pelephone, Bezeq International and DBS (see Note 16.5.3)	**37**	9	167
Gain from the sale of an investee	**-**	(22)	-
Provision for collective agreement signing bonus in the Company	**-**	40	-
Other expenses (income)	**(6)**	(1)	1
Other operating expenses (income), net	**(77)**	74	(221)

25. Financial Expenses (Income), Net

	Year ended December 31		
	2021	**2020**	**2019**
	NIS million	**NIS million**	**NIS million**
Interest expenses for financial liabilities	**230**	273	349
Costs for early repayment of loans and debentures	**15**	65	93
Financial expenses for lease liabilities	**40**	30	29
Linkage and exchange rate differences	**49**	22	43
Change in fair value of financial assets at fair value through profit or loss	**-**	11	9
Financial expenses for employee benefits	**7**	8	89
Other financial expenses	**8**	7	12
Total financial expenses	**349**	416	624
Income from credit in sales	**28**	30	29
Other financial income	**16**	15	32
Income from debenture exchange	**-**	-	14
Total financial income	**44**	45	75
Financial expenses, net	**305**	371	549

26. Share-Based Payment

26.1 Plan terms

In 2021 the Company allotted options to officers, executives and senior employees of the Company and the Subsidiaries. The options were allotted to each offeree in three grants, each for a third of the total number of options allotted to the offeree. Each grant is to vest in four annual tranches, with a different exercise price set for each grant. The exercise of any option is subject to the exercise price conditions being met after the option vesting date (the average of the closing prices of the Company's share on the stock exchange during at least 30 consecutive trading days immediately prior to the test date is equal to or higher than the price set as a condition for exercising the option).

Exercise prices and share prices for exercising the option:

	Exercise price	Share price for exercising the option
Grant 1	NIS 3.72	NIS 5
Grant 2	NIS 4.46	NIS 5.75
Grant 3	NIS 5.35	NIS 7

26.2 Change in number of options

	Number of options
	2021
	In millions
Options granted during the year	**62**
Options cancelled during the year due to termination of the offerees	**(2)**
Balance outstanding at the end of the period	**60**
Exercisable as at the end of the period (subject to compliance with the share price condition)	***15**

* As at the date of approval of the financial statements, approximately 5 million options met the share price condition and are exercisable.

26.3 Information on fair value measurement of share-based payment plan

The fair value of the options granted, which was estimated by an external appraiser using the Monte Carlo method, is NIS 46 million, based on the vesting period and terms of exercise of the options as set out above. Below are the main parameters used in the valuation:

	Chairman of the Board	CEO of the Company	CEO of Pelephone, Bezeq International and DBS	Executives and senior employees
Number of options (in millions)	**12**	**9**	**9**	**32**
Fair value at the grant date (NIS million)	**9.3**	**6.9**	**6.9**	**23**
Share price	NIS 3.43	NIS 3.43	NIS 3.43	NIS 3.3-3.45
Projected volatility	29.82%	29.82%	29.82%	29.79%-29.83%
Risk-free interest rate	0.54%	0.54%	0.54%	0.54%-0.79%
Dividend yield	A zero dividend yield was assumed	A zero dividend yield was assumed	A zero dividend yield was assumed	A zero dividend yield was assumed
Projected early exercise factor	2.8	2.8	2.8	2.2
Time to expiry	6.9 years	6.9 years	6.9 years	6.8-7 years
Abandonment rate after vesting	0%	0%	0%	0%

26.4 Salary expense recognized by the Group for share-based payment

	2021	2020	2019
	NIS million	NIS million	NIS million
Salary expenses	**27**	-	-

27. Earnings per Share

	2021	2020	2019
Net profit (loss) (NIS million)	**1,183**	796	(1,194)
Number of shares (millions of shares)	**2,765**	2,765	2,765
Basic and diluted earnings (loss) per share (NIS)	**0.43**	0.29	(0.43)

28. Segment Reporting

28.1 The Group operates in four different segments in the communications sector, such that each company in the Group operates in a separate business segment. Each company provides services in the segment in which it operates, using the fixed assets and the infrastructure it owns (see also Note 21). The infrastructure of each company is used for providing its services. Some of the Group companies use infrastructure owned by other companies in the Group. The primary reporting format, by business segments, is based on the Group's management and internal reporting structure.

The business segments of the Group are as follows:

1. Bezeq The Israel Telecommunication Corp. Ltd.: fixed line domestic communications
2. Pelephone Communications Ltd.: cellular communications
3. Bezeq International Ltd.: ISP, international communications and NEP services and ICT (information and communications systems) solutions ("the Bezeq International services segment")
4. DBS Satellite Services (1998) Ltd.: multichannel television

The other companies in the Group are presented under the "Other" item. Other operations include call center services (Bezeq Online) and online content services (in the years 2019-2020). These operations are not reported as reportable segments as they do not fulfill the quantitative thresholds in the reported years.

Inter-segment pricing is set at the price determined in transactions in the ordinary course of business.

The results, assets and liabilities of a segment include items directly attributable to that segment, as well as those that can be allocated on a reasonable basis.

The results of the multichannel TV segment are presented net of the impairment losses described Note 10.5. This is in accordance with the manner in which the Group’s chief operating decision maker evaluates the performance of the segments and makes decisions regarding the allocation of resources to the segment.

Segment capital expenditure is the total cost incurred in the period for acquisition of fixed assets and intangible assets.

28.2 Operating segments

	Year ended December 31, 2021						
	Domestic fixed-line communic-ations	Cellular communic-ations	Bezeq International services	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,845	2,249	1,186	1,270	271	-	8,821
Inter-segment revenues	337	40	51	-	6	(434)	-
Total revenues	4,182	2,289	1,237	1,270	277	(434)	8,821
Depreciation, amortization and impairment	938	577	173	292	4	(95)	1,889
Segment results – operating profit (loss)	1,748	42	22	(41)	27	72	1,870
Financial expenses	357	23	5	4	-	(40)	349
Financial income	(15)	(65)	(3)	(3)	-	42	(44)
Total financial expenses (income), net	342	(42)	2	1	-	2	305
Segment profit (loss) before income tax	1,406	84	20	(42)	27	70	1,565
Income tax	343	20	12	1	6	-	382
Segment results – net profit (loss)	1,063	64	8	(43)	21	70	1,183
Segment assets	9,245	4,452	778	1,293	100	(2,280)	13,588
Investment in associates	-	-	5	-	-	-	5
Goodwill	-	-	-	-	-	341	341
Segment liabilities	11,415	1,753	566	474	37	(1,407)	12,838
Investments in fixed assets, intangible assets and deferred expenses	1,197	289	111	188	5	-	1,790

* Results of the multichannel television segment are presented net of the total impairment recognized beginning in 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.3 for condensed selected information from the financial statements of DBS.

28.2 Operating segments (cont.)

	Year ended December 31, 2020						
	Domestic fixed-line communic-ations	Cellular communic-ations	Bezeq International services	Multichannel television*	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,813	2,127	1,217	1,286	280	-	8,723
Inter-segment revenues	346	59	54	1	6	(466)	-
Total revenues	4,159	2,186	1,271	1,287	286	(466)	8,723
Depreciation, amortization and impairment	877	599	149	310	14	(112)	1,837
Segment results – operating profit (loss)	1,705	(84)	(241)	(42)	44	73	1,455
Financial expenses	419	18	5	15	1	(42)	416
Financial income	(16)	(66)	(3)	(2)	-	42	(45)
Total financial expenses (income), net	403	(48)	2	13	1	-	371
Segment profit (loss) before income tax	1,302	(36)	(243)	(55)	43	73	1,084
Income tax	262	(11)	32	2	4	(1)	288
Segment results – net profit (loss)	1,040	(25)	(275)	(57)	39	74	796
Segment assets	8,471	4,371	781	1,365	96	(2,188)	12,896
Investment in associates	-	-	4	-	-	-	4
Goodwill	-	-	-	-	-	341	341
Segment liabilities	11,764	1,742	580	505	42	(1,242)	13,391
Investments in fixed assets, intangible assets and deferred expenses	975	437	123	165	12	-	1,712

* Results of the multichannel television segment are presented net of the total impairment recognized beginning in 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.3 for condensed selected information from the financial statements of DBS.

28.2 Operating segments (cont.)

	Year ended December 31, 2019						
	Domestic fixed-line communic-ations	Cellular communic-ations*	Bezeq International services	Multichannel television**	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,757	2,316	1,283	1,344	229	-	8,929
Inter-segment revenues	316	46	56	1	9	(428)	-
Total revenues	4,073	2,362	1,339	1,345	238	(428)	8,929
Depreciation, amortization and impairment	861	633	190	334	14	(120)	1,912
Segment results – operating profit (loss)	2,142	(99)	(196)	(135)	1	(863)	850
Financial expenses	608	23	8	17	1	(33)	624
Financial income	(39)	(62)	(2)	(5)	-	33	(75)
Total financial expenses (income), net	569	(39)	6	12	1	-	549
Segment profit (loss) after financial expenses, net	1,573	(60)	(202)	(147)	-	(863)	301
Share in losses of associates	-	-	-	-	(2)	-	(2)
Segment profit (loss) before income tax	1,573	(60)	(202)	(147)	(2)	(863)	299
Income tax	381	(13)	(45)	2	-	1,168	1,493
Segment results – net profit (loss)	1,192	(47)	(157)	(149)	(2)	(2,031)	(1,194)

* Impairment loss of the cellular communications segment is presented under adjustments.

** Results of the multichannel television segment are presented net of the total impairment recognized beginning in 2018. This is in accordance with the manner in which the Group's chief operating decision maker evaluates the performance of the segment and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.3 for condensed selected information from the financial statements of DBS.

28.3 Adjustments for segment reporting of revenues, profit or loss, assets and liabilities

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Revenues			
Revenues from reportable segments	**8,978**	8,903	9,119
Revenues from other segments	**277**	286	238
Elimination of revenues from inter-segment sales	**(434)**	(466)	(428)
Consolidated revenues	**8,821**	8,723	8,929
Profit or loss			
Operating profit for reportable segments	**1,771**	1,338	1,712
Financial expenses, net	**(305)**	(371)	(549)
Adjustments for the multichannel television segment	**72**	81	80
Profit for operations classified in other categories and other adjustments	**27**	36	9
Share in losses of associates	**-**	-	(2)
Impairment loss of assets	**-**	-	(951)
Consolidated profit before income tax	**1,565**	1,084	299

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Assets		
Assets of reportable segments	**15,773**	14,992
Assets attributable to operations classified in other categories	**100**	96
Goodwill not attributable to an operating segment	**341**	341
Less impairment loss of assets (see Note 10), inter-segment assets and other adjustments	**(2,280)**	(2,188)
Consolidated assets	**13,934**	13,241
Liabilities		
Liabilities of reportable segments	**14,208**	14,591
Liabilities attributable to operations classified in other categories	**37**	42
Less inter-segment liabilities	**(1,407)**	(1,242)
Consolidated liabilities	**12,838**	13,391

29. Transactions with Interested and Related Parties

29.1 Identity of interested and related parties

The Company's interested and related parties as defined in the Securities Law and in IAS 24 – Related Party Disclosures include mainly B Communications and related parties of B Communications(including parties that were related parties of B Communications in the reporting period, but are not related parties of B Communications as at the reporting date), affiliated companies, directors and key management personnel in the Company or B Communications and a person who is close to a family member of any of the above parties.

It should be noted that the transactions described below with interested and related parties do not include reference to Note 1.3 regarding the investigations of the Israel Securities Authority and the Israel Police or its possible implications.

29.2 Balances with interested and related parties

	December 31	
	2021	2020
	NIS million	NIS million
Trade and other receivables – associate	**1**	2
Related parties, net	**(2)**	(1)
Eurocom DBS Ltd. for excess advance payments for contingent consideration (not including interest) (see Note 12.2.1)	**99**	99

29.3 Transactions with interested and related parties

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Revenues			
From related parties	**10**	12	13
From associates	**1**	2	1
Expenses			
To related parties	**33**	28	20
To associates	**-**	2	-

29.3.1 <u>Negligible transactions procedure</u>

The Company's Audit Committee resolved to adopt rules, guidelines and criteria for classifying a transaction of the Company or its subsidiaries with Company officers or in which a Company officer has a personal interest ("transaction with an officer") and a transaction with a controlling shareholder of the Company or in which a controlling shareholder has a personal interest ("transaction with a controlling shareholder") as a negligible transaction.

The criteria established in the procedure, as revised from time to time in accordance with its provisions, may be used by the Company, *inter* alia, for the following purposes:

A. To classify the transaction as a negligible transaction as prescribed in section 41(a3) of the Securities Regulations (Annual Financial Statements), 2010.

B. To assess the scope of disclosure in the periodic report and in a prospectus (including shelf offering reports) regarding a transaction of the Company, a company controlled by it and a subsidiary or associate with a controlling shareholder or which the controlling shareholder has a personal interest in its approval, as set out in section 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Periodic Reports Regulations"), and in section 54 of the Securities Regulations (Prospectus Details and Draft Prospectus – Structure and Form), 1969.

C. In addition, the criteria for determining if a transaction is negligible, as set out in the procedure, may serve as a tool for assessing the negligibility of other business relationships, such as whether a business relationship with a candidate for the office of external or independent director is negligible as provided in the Companies Regulations (Matters Not Constituting a Relationship), 2006, and as provided n section 240(f) of the Companies Law, 1999 ("the Companies Law").

The Company and its subsidiaries from time to time enter into transactions with officers and controlling shareholders of the Company (collectively – "Interested Parties in the Company"), including transactions of the types and with the characteristics set out below:

1. Sales of communications services and products by Group companies – including basic communications services (infrastructure, telephony, transmission and PRI) and hosting at server farms; cellular services, value added services and sales and upgrading of cellular end equipment; Internet access services, international telephony services, hosting services and data communication services; television services.
2. Rental, management and real estate acquisition agreements, including, inter alia, rental of areas used for communications facilities and warehouses.
3. Receipt of consulting and training services for Group companies or their employees.
4. Acquisition of goods and services used by the Group companies in their activity, such as purchase of fuels and energy products, repair services, financial/banking services, etc.

In the absence of special qualitative considerations arising from the overall circumstances, a transaction is deemed negligible if all the following parameters exist:

A. The transaction is not an extraordinary transaction (i.e. it is a transaction made in the ordinary course of business, at market terms, which has no material impact on the Company's profitability, assets or liabilities, all in accordance with Company procedures).

B. The amount of the transaction for the Company (separately, and not on a consolidated basis) (or for each of the subsidiaries) does not exceed NIS 10 million.

C. The Company is not required to issue an immediate report for the transaction under section 36 and section 37A of the Periodic Reports Regulations or any other law.

D. The transaction does not include terms of service and employment (as defined in the Companies Law) of an interested party or his relative, and does not constitute an agreement as set out at the end of section 270(4) of the Companies Law (agreement of a public company with a holder of control therein, directly or indirectly, including through a company he controls, for the receipt of services from him by the Company, and if such person is also an officer of the Company – as to the terms of his service and employment, and if he is an employee of the Company but not an officer – as to his employment by the Company).

In general, each transaction will be tested separately for compliance with the conditions for classifying it as a negligible transaction as set out above. Notwithstanding the aforesaid, separate transactions that are part of the same transaction or continuing transactions or very similar transactions that are carried out routinely and repeatedly or with the same entity and with corporations under its control or transactions which are interdependent or mutually conditioned, will be tested for negligibility as one transaction on an annual basis.

Subject to the provisions of the Companies Law, as in effect from time to time, once a year, prior to the publication of the annual financial statements, the Audit Committee will review the parameters detailed above and the need to revise them, and will approve them or revisions thereto.

The Audit Committee may, from time to time, at its discretion, revise the above parameters for the classification of a negligible transaction.

29.3.2 Transactions listed in section 270(4) of the Companies Law, which are not considered negligible transactions

Date of approval by the General Meeting (after approval by the Company's Audit/Compensation Committee and Board of Directors), unless otherwise stated	Nature of the transaction	Amount of the transaction	Nature of the personal interest
April 3, 2017	Approval for the Company to vote at the general meeting of DBS in favor of DBS signing with Space Communications Ltd. ("Spacecom" and "the Parties" respectively) an amendment/addendum to the existing agreement between the Parties dated November 4, 2013, for the lease of satellite segments in Spacecom's satellites ("the Agreement"), including in favor of the perfection and implementation of the transaction.	A total nominal cost of up to USD 263 million for the entire term of the agreement (until December 31, 2028), reflecting an average annual cost of USD 21.9 million. For further information about the Spacecom agreement, see Note 18.1 and 18.2.	Section A below

A. B Communications had a personal interest in the transaction at the time of its approval, since, as at the date of the transaction, Spacecom was controlled by Eurocom Communications, which was at that time the controlling shareholder (indirectly) of B Communications. To the best of the Company's knowledge and according to information provided to the Company by Eurocom Communications, as from May 3, 2018, the connection between Eurocom Communications and Spacecom was severed, and the Company has ceased to regard Spacecom as a related party.

For information about the transactions listed in section 270(4) of the Companies Law, regarding directors and officers insurance and indemnity, see Note 29.6 below.

29.4 Benefits for key officers

Benefits for employment of key officers in 2019-2021, including:

	Year ended December 31		
	2021	**2020**	**2019**
	NIS thousand	**NIS thousand**	**NIS thousand**
Number of key officers*	**3**	4	3
Salary**	**7,787**	6,919	5,485
Bonus	**5,437**	4,995	3,834
Management fees for former Chairman of the Board of Directors***	**-**	1,919	2,400
Share-based payment	**13,250**	-	-
	26,474	13,833	11,719

* Key officers in the Group in the reporting year include the Chairman of the Board of Directors, the CEO of the Company and the CEO of Pelephone, Bezeq International and DBS.

** In 2021, the changes in other provisions (which are included in the total salary) include mainly a provision for vacation and sick leave amounting to NIS 0.2 million.

In 2020, the changes in other provisions (which are included in the total salary) include mainly a provision for early notice and for a non-competition period for the Chairman of the Board of Directors, amounting to NIS 0.9 million.

In 2019, the changes in other provisions (which are included in the total salary) include mainly an increase in the provision for early notice, vacation and sick leave for the Company's CEO in the amount of NIS 0.6 million.

*** On May 3, 2019, the former Chairman of the Board of Directors notified the Company of a 20% reduction in management fees for the whole of 2019.

For information about share-based compensation see Note 26.

29.5 Benefits for directors

	Year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Remuneration for directors who are not employed by the Company (see 29.5.1)	**1,694**	2,212	2,890
Number of directors receiving remuneration	**7**	7	13
Salary of employee directors (see 29.5.2)	**670**	624	626
Number of directors receiving a salary (see 29.5.2)	**1**	2	1

29.5.1 The management fees for the services of the former Chairman of the Board of Directors and the remuneration for the current Chairman of the Board of Directors are not included in this section and are included in section 29.4 above, since the Chairman of the Board of Directors is a key officer.

29.5.2 The salary paid to the employee director in the reporting year is for his work in the Company and does not include any additional payment for his service as a director. The salary specified in the table includes only the period in which he served as a director and received a salary accordingly.

29.6 Additional benefits for directors and officers

Date of approval by the General Meeting (after approval by the Company's Audit/Compensation Committee and Board of Directors), unless otherwise stated	Nature of the transaction	Amount of the transaction
June 14, 2020 Approval of the Compensation Committee in accordance with section 1B1 of the Relief Regulations.	Approval of the Company's insurance policy for directors and officers liability in the Company and its subsidiaries, in accordance with the Company's compensation policy, for the period up to June 14, 2020 (inclusive).	A limit of liability of up to USD 130 million per claim and in total for the entire year of insurance plus a limit of liability of USD 20 million beyond the basic policy for coverage for directors only (Side A) plus reasonable legal expenses. The annual premium is in accordance with the limitations on amounts set in the compensation policy. The Company's deductible is up to USD 250,000 per event.
January 17, 2007	Undertaking to indemnify officers in the Company, in accordance with the letters of indemnity, as amended on October 26, 2011 and May 3, 2016.	Up to 25% of the Company's equity, according to the Company's last financial statements published prior to actual granting of indemnity.
February 6, 2020	Amendment of the undertaking to indemnify and exemption for directors and officers in the Company for the maximum amount of indemnity, effective as from June 30, 2019.	Up to 25% of the Company's equity, according to the Company's last financial statements published prior to granting indemnity in practice or NIS 400 million, whichever is higher.

30. Financial Instruments

30.1 General

The Group is exposed to the following risks, arising from the use of financial instruments:

A. Credit risk

B. Liquidity risk

C. Market risk (which includes currency, interest rate and CPI risks)

This Note provides qualitative and quantitative information about the Group's exposure to each of the above risks, an explanation as to how the risks are managed, and the measurement processes.

30.2 Framework for financial risk management

The Board of Directors has overall responsibility for the Group’s financial risk management. The purpose of financial risk management in the Group is to define and regularly monitor the various risks, to set the risk exposure level that must be complied with and to determine the possible effects of this exposure based on the assessments and expectations of the Board of Directors.

The Group's policy is to manage, in accordance with the rules determined by the Board of Directors, the exposure arising from fluctuations in foreign exchange rates, interest rates and the CPI.

30.3 Credit risk

Management monitors the Group's exposure to credit risks on a regular basis. Cash and investments in deposits and securities are deposited in highly-rated banks.

Trade and other receivables

The Group's management regularly monitors customer debts, and the financial statements include provisions for doubtful debts which properly reflect, in the management's estimation, the loss inherent in doubtful debts. In addition, the balances of the trade receivables are widely spread.

Investments in financial assets

Any investments in securities are made in liquid, marketable and low-risk securities. Transactions involving derivatives are made with entities that have a high credit rating.

As at the reporting date, there is no material concentration of credit risks.

30.4 Liquidity risk

The Group's liquidity management policy is to ensure, to the extent possible, adequate liquidity to meet its existing and expected liabilities when they fall due, in a normal business scenario and under stress conditions, without causing undesirable losses or impairment to goodwill. The cash balances held by the Group are mainly managed in liquid investment channels, subject to the financing requirements of operating activities and the debt service. The Group routinely assesses the existing and expected cash requirements in the foreseeable future, also in the scenario of an unexpected deterioration in its business. These forecasts take into account, among other things, raising and refinancing of debt from banking and non-banking sources. In accordance with the conclusions, active measures are being employed to minimize the risk.

For information about the terms of the debentures issued by Group companies and the loans received, see Note 13 above.

The Group has contractual commitments with respect to acquisitions, fixed assets, terminal equipment and other ongoing services. For further information about commitments, see Note 18, Commitments.

The following are the contractual maturities of financial liabilities actually acquired up to December 31, 2021, including estimated interest payments (based on known CPI and interest rates on December 31, 2021):

	December 31, 2021						
	Carrying amount	Contractual cash flow	First half 2022	Second half 2022	2023	2024 to 2026	2027 onwards
	NIS million						
Non-derivative financial liabilities							
Trade and other payables	**1,559**	**1,559**	**1,535**	**24**	**-**	**-**	**-**
Loans	**1,906**	**2,194**	**85**	**50**	**141**	**1,042**	**876**
Debentures	**6,156**	**6,807**	**73**	**958**	**1,058**	**2,502**	**2,216**
	9,621	**10,560**	**1,693**	**1,032**	**1,199**	**3,544**	**3,092**
Financial liabilities for derivative instruments	**35**	**35**	**6**	**29**	**-**	**-**	**-**

The above table does not include an early repayment on Debentures (Series 9) made in January 2022 in the amount of NIS 370 million. Other than this, the Group expects that it will not be required to repay the above obligations earlier or in substantially different amounts.

30.5 Market risks

The purpose of market risk management is to manage and oversee the exposure to market risks within accepted parameters to prevent significant exposures to market risks that will influence the Group's results, liabilities and cash flow.

As part of the Group's exposure management policy, a decision was made to establish a mix of exposure of the debt to interest and linkage and to reduce foreign currency exposure. Accordingly, during the normal course of its business, the Group takes full or partial hedging action and takes into account the effects of the exposure in its considerations for determining the type of loans it takes and in managing its investment portfolio.

30.5.1 Exposure to CPI and foreign currency risks

CPI risk

Changes in the rate of inflation affect the Group's profitability and its future cash flows, mainly due to its CPI-linked liabilities. In applying a policy of minimizing the exposure to the CPI, the Group makes forward contracts against the CPI. Hedging transactions are performed against the hedged debt repayment schedules. The Company applies hedge accounting for these forward contracts.

A considerable part of these cash balances is invested in shekel deposits, which are exposed to changes in their real value as a result of a change in the rate of the CPI.

Foreign currency risk

The Group is exposed to foreign currency risks mainly due to payments for purchases of terminal equipment and fixed assets, some of which are denominated in or linked to the dollar or euro. In addition, the Group provides services for customers and receives services from suppliers worldwide for which it is paid and it pays in foreign currency, mainly the dollar. The Group's policy is to reduce, to the extent possible, foreign currency acquisition agreements, and to partially hedge dollar exposure through forward transactions against the dollar and management of dollar deposits.

Statement of financial position according to linkage basis as at December 31, 2021:

	December 31, 2021				
	Unlinked	CPI-linked	In or linked to foreign currency (mainly USD)	Non-monetary balances	Total balances
	NIS million	NIS million	NIS million	NIS million	NIS million
Current assets					
Cash and cash equivalents	**945**	**-**	**28**	**-**	**973**
Investments	**934**	**-**	**20**	**-**	**954**
Trade receivables	**1,833**	**15**	**11**	**-**	**1,859**
Other receivables	**131**	**112**	**-**	**36**	**279**
Inventory	**-**	**-**	**-**	**74**	**74**
Non-current assets					
Trade and other receivables	**254**	**179**	**-**	**-**	**433**
Broadcasting rights	**-**	**-**	**-**	**60**	**60**
Right-of-use assets	**-**	**-**	**-**	**1,828**	**1,828**
Fixed assets	**-**	**-**	**-**	**6,312**	**6,312**
Intangible assets	**-**	**-**	**-**	**912**	**912**
Deferred expenses and non-current investments	**37**	**16**	**-**	**173**	**226**
Deferred tax assets	**-**	**-**	**-**	**24**	**24**
Total assets	**4,134**	**322**	**59**	**9,419**	**13,934**
Current liabilities					
Debentures, loans and borrowings	**359**	**621**	**-**	**-**	**980**
Current maturities of lease liabilities	**6**	**460**	**-**	**-**	**466**
Trade and other payables	**1,310**	**44**	**240**	**154**	**1,748**
Employee benefits	**507**	**-**	**3**	**-**	**510**
Provisions	**69**	**-**	**-**	**-**	**69**
Non-current liabilities					
Loans and debentures	**4,787**	**2,295**	**-**	**-**	**7,082**
Lease liabilities	**23**	**1,488**	**-**	**-**	**1,511**
Employee benefits	**199**	**-**	**44**	**-**	**243**
Derivatives and other liabilities	**-**	**-**	**-**	**142**	**142**
Deferred tax liabilities	**-**	**-**	**-**	**38**	**38**
Provisions	**49**	**-**	**-**	**-**	**49**
Total liabilities	**7,309**	**4,908**	**287**	**334**	**12,838**
Total exposure in the statement of financial position	**(3,175)**	**(4,586)**	**(228)**	**9,085**	**1,096**
Forward contracts	**(1,096)**	**880**	**216**	**-**	**-**

Statement of financial position according to linkage basis as at December 31, 2020:

	December 31, 2020				
	Unlinked	CPI-linked	In or linked to foreign currency (mainly USD)	Non-monetary balances	Total balances
	NIS million	NIS million	NIS million	NIS million	NIS million
Current assets					
Cash and cash equivalents	775	-	65	-	840
Investments	665	-	59	-	724
Trade receivables	1,592	16	13	-	1,621
Other receivables	50	90	-	38	178
Inventory	-	-	-	73	73
Assets held for sale	-	-	-	10	10
Non-current assets					
Trade and other receivables	323	191	-	-	514
Broadcasting rights	-	-	-	67	67
Right-of-use assets	-	-	-	1,804	1,804
Fixed assets	-	-	-	6,131	6,131
Intangible assets	-	-	-	929	929
Deferred expenses and non-current investments	36	-	-	206	242
Deferred tax assets	-	-	-	108	108
Total assets	3,441	297	137	9,366	13,241
Current liabilities					
Debentures, loans and borrowings	268	518	-	-	786
Current maturities of lease liabilities	2	413	-	-	415
Trade and other payables	1,287	126	179	167	1,759
Employee benefits	479	-	3	-	482
Provisions	115	2	-	-	117
Non-current liabilities			-	-	
Loans and debentures	4,943	2,671	-	-	7,614
Lease liabilities	4	1,488	-	-	1,492
Employee benefits	286	-	49	-	335
Derivatives and other liabilities	89	66	-	152	307
Deferred tax liabilities	-	-	-	32	32
Provisions	52	-	-	-	52
Total liabilities	7,525	5,284	231	351	13,391
Total exposure in the statement of financial position	(4,084)	(4,987)	(94)	9,015	(150)
Forward contracts	(1,477)	1,215	262	-	-

30.5.2 CPI

In 2021, the known CPI increased by 2.4% (2020: – decrease of 0.6%; 2019 – increase of 0.3%)

30.5.3 Sensitivity analysis for change in the CPI and for change in the USD exchange rate

An increase/decrease of 1% in the CPI at the reporting date would not have a material effect on the net profit or capital.

An increase/decrease of 10% in the USD exchange rate at the reporting date would not have a material effect on profit or capital.

30.5.4 Interest rate risk

As at December 31, 2021, the exposure to interest rate risk due to liability for debt instruments bearing variable interest – is negligible.

A. Type of interest

Type of interest on the Group's interest-bearing financial instruments:

	Carrying amount	
	2021	**2020**
	NIS million	**NIS million**
Fixed-interest instruments		
Financial assets (mainly deposits and trade receivables)	**1,700**	1,547
Financial liabilities (loans and debentures)	**(7,726)**	(8,329)
	(6,026)	(6,782)
Variable-interest instruments		
Financial liabilities (debentures)	**(336)**	(71)

B. Fair value sensitivity analysis for instruments at fixed interest

The Group's assets and liabilities at fixed interest are not measured at fair value through profit or loss. Accordingly, a change in interest rates at the reporting date will not affect profit or loss.

C. Cash flow sensitivity analysis for instruments at variable interest

An increase/decrease of 1% in the interest rates at the reporting date would have a negligible effect on profit and on capital.

30.6 Hedging

30.6.1 Cash flow hedge accounting

The Company entered into forward contracts, as described in the table below, to reduce exposure to changes in the CPI for CPI-linked debentures. These transactions hedge specific cash flows of some of the debentures and are accounted for as cash flow hedge. The expiry date of these transactions corresponds to the repayment schedules of the debentures they are meant to hedge. The fair value of the forward contracts is determined based on observable market information (level 2 in the fair value hierarchy).

Hedged item	Repayment dates	Number of transactions	Nominal value	Fair value	Capital reserve
			NIS million	NIS million	NIS million
December 31, 2021					
Debentures (Series 6)	**December 2022**	**1**	**300**	**(29)**	**4**
Debentures (Series 10)	**December 2022 to December 2025**	**4**	**300**	**3**	**9**
Debentures (Series 12)	**June 2026 to June 2030**	**5**	**250**	**13**	**16**
		10	**880**	**(13)**	**29**
December 31, 2020					
Debentures (Series 6)	December 2021 to December 2022	3	665	(78)	(9)
Debentures (Series 10)	December 2022 to December 2025	4	300	(15)	(6)
Debentures (Series 12)	June 2026 to June 2030	5	250	(10)	(5)
		12	1,215	(103)	(20)

30.6.2 Economic hedging

A. In 2021, the Company entered into forward contracts to reduce exposure to changes in the dollar exchange rate. The net fair value of these transactions as at December 31, 2021 is a liability of NIS 4 million (in 2020 – a liability of NIS 2 million).

B. DBS has forward contracts to reduce exposure to changes in the dollar exchange rate. The net fair value of these transactions as at December 31, 2021 is a liability of NIS 2 million (as at December 31, 2020 – a liability of NIS 12 million).

30.7 Financial instruments measured at fair value

30.7.1 The table below presents an analysis of the financial instruments measured at fair value.

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Level 2: forward contracts (see 30.7.2)	**(19)**	(117)

30.7.2 The fair value of forward contracts on the CPI or foreign currency is based on discounting the difference between the price in the forward contact and the price of the present forward contact for the balance of the contract term until redemption, at an appropriate interest rate (Level 2). The estimate is made under the assumption that a market participant takes into account the credit risks of the parties when pricing such contracts.

30.8 Financial instruments at fair value for disclosure purposes only

The table below shows the differences between the carrying amount and the fair value of financial liabilities.

The fair value of debentures issued to the public is determined based on their quoted closing buying price at the reporting date (Level 1).

The fair value of loans and non-marketable debentures is based on the present value of future principal and interest cash flows, discounted at the market interest rate for similar liabilities, plus the required adjustments for a risk and non-marketability premium, as at the date of the financial statements (Level 2).

	December 31, 2021			December 31, 2020		
	Carrying amount (including accrued interest)	Fair value	Discount rate (weighted average)	Carrying amount	Fair value	Discount rate (weighted average)
	NIS million		%	NIS million		%
Loans from banks and financial institutions (unlinked)	**1,612**	**1,713**	**1.93**	2,118	2,252	1.97
Debentures issued to the public (CPI-linked)	**2,913**	**3,249**	**(1.25)**	3,199	3,394	0.44
Debentures issued to the public (unlinked)	**3,222**	**3,415**	**1.17**	3,036	3,253	1.40
	7,747	**8,377**		8,353	8,899	

30.9 Offset of financial assets and liabilities

The Group has agreements with various communications companies to supply and receive communications services. Under some of the agreements, each party has the right to offset the amounts owed by the other party. The table below shows the carrying amount of the offset balances as presented in the statement of financial position:

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Trade and other receivables, gross	**97**	93
Offset amounts	**(87)**	(84)
Trade and other receivables presented in the statement of financial position	**10**	9
Trade payables, gross	**104**	102
Offset amounts	**(87)**	(84)
Trade payables presented in the statement of financial position	**17**	18

31. Selected Condensed Information from the Financial Statements of Pelephone Communications Ltd., Bezeq International Ltd., and DBS Satellite Services (1998) Ltd.

31.1 Pelephone Communications Ltd.

Information from the statement of financial position:

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Current assets	**1,121**	899
Non-current assets	**3,331**	3,472
	4,452	4,371
Current liabilities	**837**	720
Non-current liabilities	**916**	1,022
Total liabilities	**1,753**	1,742
Equity	**2,699**	2,629
	4,452	4,371

Information from the statement of income:

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Revenues			
Revenues from services	**1,642**	1,591	1,709
Revenues from sales of terminal equipment	**647**	595	653
Total revenues from services and sales	**2,289**	2,186	2,362
Operating expenses			
General operating expenses	**1,346**	1,329	1,373
Salaries	**315**	324	373
Depreciation and amortization	**577**	599	633
Total operating expenses	**2,238**	2,252	2,379
Other operating expenses, net	**9**	18	82
Operating profit (loss)	**42**	(84)	(99)
Financial income			
Financial expenses	**23**	18	23
Financial income	**(65)**	(66)	(62)
Financial income, net	**(42)**	(48)	(39)
Profit (loss) before income tax	**84**	(36)	(60)
Income tax expenses (income)	**20**	(11)	(13)
Profit (loss) for the year	**64**	(25)	(47)

31.2 Bezeq International Ltd.

Information from the statement of financial position:

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Current assets	**472**	443
Non-current assets	**311**	342
	783	785
Current liabilities	**409**	432
Non-current liabilities	**157**	148
Total liabilities	**566**	580
Equity	**217**	205
	783	785

Information from the statement of income:

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Revenues	**1,237**	1,271	1,339
Operating expenses			
General operating expenses and impairment	**799**	802	827
Salaries	**237**	248	261
Depreciation, amortization and impairment	**173**	149	190
Other operating expenses, net	**6**	313	257
Total operating expenses	**1,215**	1,512	1,535
Operating profit (loss)	**22**	(241)	(196)
Financial expenses (income)			
Financial expenses	**5**	5	8
Financial income	**(3)**	(3)	(2)
Financial expenses, net	**2**	2	6
Profit (loss) before income tax	**20**	(243)	(202)
Income tax expenses (income)	**12**	32	(45)
Profit (loss) for the year	**8**	(275)	(157)

31.3 DBS Satellite Services (1998) Ltd.

Information from the statement of financial position:

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Current assets	**196**	176
Non-current assets	**230**	248
	426	424
Current liabilities	**394**	436
Non-current liabilities	**80**	69
Total liabilities	**474**	505
Equity deficit	**(48)**	(81)
	426	424

Information from the statement of income:

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Revenues	**1,270**	1,287	1,345
Operating expenses			
General operating expenses and impairment	**835**	857	923
Salaries	**188**	203	216
Depreciation, amortization and impairment	**203**	203	219
Other operating expenses (income), net	**12**	(15)	42
Total operating expenses	**1,238**	1,248	1,400
Operating profit (loss)	**32**	39	(55)
Financial expenses (income)			
Financial expenses	**4**	15	17
Financial income	**(3)**	(2)	(5)
Financial expenses, net	**1**	13	12
Profit (loss) before income tax	**31**	26	(67)
Income tax expenses	**1**	2	2
Profit (loss) for the year	**30**	24	(69)

32. Subsequent Events

32.1 On January 23, 2022, the Company made, at its initiative, partial early repayment of approximately NIS 370 million par value of Debentures (Series 9) of the Company.

32.2 See Note 12.1.2 on the Board of Directors' resolution, subsequent to the date of the financial statements, regarding the cancellation of the plan for a structural change in the Group and an alternative outline.

32.3 See Note 20.2 on the Board of Director's resolution of March 22, 2022 regarding the dividend distribution policy and the Board of Director's resolution to recommend to the General Meeting a dividend distribution.

Separate Financial Information for Year ended December 31, 2021

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

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+972 3 684 8000

The Shareholders of "Bezeq" the Israeli Telecommunication Corporation Ltd.

Dear Sirs,

Subject: Special auditors' report on separate financial data according to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970

We have audited the separate financial data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970 of "Bezeq" the Israeli Telecommunication Corporation Ltd. (hereinafter – "the Company") as of December 31, 2021 and 2020 and for each of the three years, the last of which ended December 31, 2021. The separate financial data are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on the separate financial data based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial data are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial data. An audit also includes assessing the accounting principles that were used in preparing the separate financial data and the significant estimates made by the Board of Directors and by Management of the Company, as well as evaluating the separate financial data presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the separate financial data has been prepared, in all material respects, in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) - 1970.

Without qualifying our abovementioned opinion, we draw attention to Note 12, which refers to Note 1.3 to the consolidated financial statements, regarding the Israel Securities Authority's (ISA) and the Israel Police investigation of suspected offenses under the Securities Law and Penal Code, involving inter alia transactions related to the former controlling shareholder, and the announcement by the Tel Aviv District Attorney's Office (Taxation and Economics Division) that it was considering prosecuting the Company and holding a hearing on suspicions of bribery and reporting with intent to mislead a reasonable investor, as well as that stated in said note regarding the filing of an indictment against the Company's former controlling shareholder on various offenses, among others, bribery and causing a misleading particular to be included in an immediate report, and regarding the filing of an indictment against the Company's former controlling shareholder and former senior officers in the Bezeq Group, charging the defendants with receiving something fraudulently under aggravating circumstances, fraud and breach of trust in a corporation, and reporting violations under the Securities Law. Additionally, further to the institution of the above investigation, several civil actions were filed against the Company, against former officers of the Company, and against companies from the group of the Company's former controlling shareholder, including motions to certify class action lawsuits. As noted in the aforementioned note, the Company is unable to assess the effects of the investigations, their findings and their results on the Company, as well as on the financial statements and on the estimates used in their preparation, if any.

In addition, without qualifying our abovementioned opinion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be calculated, as set forth in Note 11.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 22, 2022

Information on Financial Position as of December 31

	Note	2021 NIS million	2020 NIS million
Assets			
Cash and cash equivalents		**702**	431
Investments	3.1	**954**	724
Trade receivables	3.3	**776**	773
Other receivables	3.3	**122**	76
Assets held for sale		**-**	10
Total current assets		**2,554**	2,014
Trade and other receivables	3.3	**222**	214
Fixed assets	5	**5,400**	5,154
Intangible assets		**243**	237
Goodwill		**265**	265
Investment in investees	9.2	**3,001**	2,878
Right-of-use assets		**656**	628
Non-current and other investments	3.2	**139**	111
Deferred tax assets	4.2	**31**	113
Total non-current assets		**9,957**	9,600
Total assets		12,511	**11,614**

The accompanying notes are an integral part of the separate financial information.

Information on Financial Position as of December 31 (Cont'd)

		2021	2020
	Note	NIS million	NIS million
Liabilities			
Debentures and loans	3.5	**980**	786
Trade and other payables	3.4	**725**	768
Employee benefits		**425**	384
Current maturities of lease liabilities		**105**	79
Loan from subsidiaries	10.2.1	**130**	-
Provisions	11	**28**	79
Total current liabilities		**2,393**	2,096
Loans and debentures	3.5	**7,082**	7,614
Loan from a subsidiary	10.2.1	**1,100**	1,065
Employee benefits		**204**	303
Lease liabilities		**583**	566
Derivatives and other liabilities		**53**	120
Total non-current liabilities		**9,022**	9,668
Total liabilities		**11,415**	11,764
Equity			
Share capital		**3,878**	3,878
Share premium		**384**	384
Reserves		**391**	327
Accumulated deficit		**(3,557)**	(4,739)
Total equity (equity deficit)		**1,096**	(150)
Total liabilities and equity		**12,511**	11,614

Gil Sharon	**Dudu Mizrachi**	**Tobi Fischbein**
Chairman of the Board of Directors	CEO	CFO Bezeq Group

Date of approval of the financial statements: March 22, 2022

The accompanying notes are an integral part of the separate financial information.

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The accompanying notes are an integral part of the separate financial information.

Information on income for year ended December 31

		2021	2020	2019
	Note	NIS million	NIS million	NIS million
Revenues	6	**4,182**	4,159	4,073
Operating expenses				
Salaries		**934**	919	911
Depreciation and amortization		**938**	877	861
General operating expenses	7	**667**	590	565
Other operating expenses (income), net	8	**(105)**	68	(406)
Total operating expenses		**2,434**	2,454	1,931
Operating profit		**1,748**	1,705	2,142
Financial expenses (income)				
Financial expenses		**357**	419	608
Financial income		**(15)**	(16)	(39)
Financial expenses, net		**342**	403	569
Profit after financial expenses, net		**1,406**	1,302	1,573
Share in profits (losses) of investees, net		**120**	(244)	(2,386)
Profit (loss) before income tax		**1,526**	1,058	(813)
Income tax	4.1	**343**	262	381
Profit (loss) for the year attributable to shareholders of the Company		**1,183**	796	(1,194)

Information on comprehensive income for year ended December 31

		2021	2020	2019
		NIS million	NIS million	NIS million
Profit (loss) for the year		**1,183**	796	(1,194)
Items of other comprehensive income (loss), net of tax		**36**	(14)	(32)
Total comprehensive income (loss) for the year attributable to shareholders of the Company		**1,219**	782	(1,226)

The accompanying notes are an integral part of the separate financial information.

Information on cash flows for year ended December 31

	2021	2020	2019
	NIS million	NIS million	NIS million
Cash flow from operating activities			
Profit (loss) for the year	**1,183**	796	(1,194)
Adjustments:			
Depreciation and amortization	**938**	877	861
Share in losses (profits) of investees, net	**(120)**	244	2,386
Financial expenses, net	**301**	368	462
Capital gain, net	**(173)**	(35)	(513)
Share-based payment	**15**	-	-
Income tax expenses	**343**	262	381
Change in trade and other receivables	**(24)**	(94)	20
Change in trade and other payables	**(3)**	69	(44)
Change in provisions	**(50)**	(8)	(45)
Change in employee benefits	**(63)**	(136)	(144)
Miscellaneous	**-**	(18)	(9)
Net cash provided by operating activities due to transactions with subsidiaries	**45**	24	4
Net income tax paid	**(368)**	(243)	(318)
Net cash provided by operating activities	**2,024**	2,106	1,847
Cash flow from investing activities			
Investment in intangible assets and other investments	**(148)**	(139)	(123)
Receipts on account of the sale of fixed assets	**273**	146	74
Proceeds from the sale of the Sakia property	**-**	-	328
Investment in deposits with banks and others	**(1,031)**	(1,335)	(2,067)
Proceeds from repayment of deposits with banks and others	**800**	1,785	2,295
Purchase of fixed assets	**(1,007)**	(771)	(684)
Payment of permit fees and purchase tax for the Sakia property	**-**	-	(74)
Payment of appreciation tax for the sale of the Sakia property	**-**	-	5
Investment in a subsidiary	**-**	-	(145)
Miscellaneous	**9**	17	29
Proceeds from the sale of Walla, net	**-**	55	-
Net cash provided by investing activities due to transactions with subsidiaries	**10**	70	149
Net cash used in investing activities	**(1,094)**	(172)	(213)

The accompanying notes are an integral part of the separate financial information.

Information on cash flows for year ended December 31 (cont.)

	2021	2020	2019
	NIS million	NIS million	NIS million
Cash flow from financing activities			
Issue of debentures and receipt of loans	**695**	718	1,865
Repayment of debentures and loans	**(1,067)**	(1,821)	(3,425)
Payment of early repayment fees	**(15)**	(65)	(93)
Interest paid	**(291)**	(346)	(419)
Payment of principal and interest for a lease	**(116)**	(111)	(114)
Payment for expired hedging transactions	**(30)**	(57)	(46)
Net cash provided by financing activities due to transactions with subsidiaries	**165**	45	205
Net cash used in financing activities	**(659)**	(1,637)	(2,027)
Net increase (decrease) in cash and cash equivalents	**271**	297	(393)
Cash and cash equivalents as of January 1	**431**	134	527
Cash and cash equivalents at the end of the year	**702**	431	134

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The accompanying notes are an integral part of the separate financial information.

1. General

Below is separate financial information of the Company ("Separate Financial Information") from the Group's Consolidated Financial Statements as at December 31, 2021 ("Consolidated Statements"), published in the framework of the Periodic Report. The Separate Financial Information is presented in accordance with Regulation 9C ("the Regulation") and the Tenth Schedule ("the Tenth Schedule") of the Securities Regulations (Periodic and Immediate Reports), 1970 concerning separate financial information of the corporation.

The Separate Financial Information should be read in conjunction with the Consolidated Statements.

In this Separate Financial Information –

"The Company" – Bezeq - The Israel Telecommunication Corporation Limited.

"Associate", "Subsidiary", "Group", "Investee," "Interested Party" – as these terms are defined in the Group's consolidated financial statements for 2021.

2. Significant Accounting Policies Applied in the Separate Financial Information

The accounting policies specified in the Consolidated Statements were consistently applied by the Company for all the periods presented in this Separate Financial Information, including the method of classifying financial information in the Consolidated Statements, with the required changes as set out below:

2.1. Presentation of the financial information

The information on financial position, income, comprehensive income and cash flows includes information contained in the Consolidated Statements that is attributable to the Company separately. The investment balances and results of operations of investees are accounted for by the equity method. Cash flows of operating activities, investing activities and financing activities due to transactions with investees are presented separately, in net figures, under the relevant item based on the nature of the transaction.

2.2. Transactions between the Company and investees

2.2.1 Presentation

Intra-group balances and income and expenses arising from intra-group transactions, which were eliminated in the preparation of the Consolidated Statements, are presented separately from the balance for investees and the profit relating to investees, together with similar third party balances.

2.2.2 Measurement

Transactions between the Company and its subsidiaries are measured in accordance with the recognition and measurement principles set out in the International Financial Reporting Standards ("IFRS"). These principles outline the accounting treatment for third party transactions.

2.3. New standards not yet adopted

For information regarding new standards that have not yet been adopted, see Note 3.18 to the Consolidated Statements.

3. Financial Instruments

3.1. Investments

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Bank deposits in shekels (1)	**934**	665
Bank deposits in foreign currency (2)	**20**	59
	954	724

(1) The deposits are repayable until December 2022.

(2) Deposits in U.S. dollars are repayable until November 2022

3.2. Non-current and other investments

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Bank deposit used for providing loans to Company employees (1)	**36**	36
Customer acquisition asset, net	**78**	66
Hedging transactions asset	**16**	-
Deferred expenses	**9**	9
	139	111

(1) The bank deposit for providing loans to Company employees has no maturity date.

3.3. Trade and other receivables

	Maturity	Unlinked	Israeli CPI linked	Total
		NIS million	NIS million	NIS million
December 31, 2021				
Current assets				
Trade receivables	**2022**	**776**	**-**	**776**
Other receivables and government authorities	**2022**	**30**	**92**	**122**
Total current assets		**806**	**92**	**898**
Non-current assets				
Trade and other receivables	**2023-2024**	**60**	**162**	**222**
December 31, 2020				
Current assets				
Trade receivables	2021	773	-	773
Other receivables and government authorities	2021	28	48	76
Total current assets		801	48	849
Non-current assets				
Trade and other receivables	2022-2023	44	170	214

3.4. Trade and other payables

	Unlinked (including non-monetary items)	Israeli CPI linked	In or linked to foreign currency (primarily USD)	Total
	NIS million	NIS million	NIS million	NIS million
December 31, 2021				
Trade and other payables	**645**	**39**	**41**	**725**
December 31, 2020				
Trade and other payables	631	114	23	768

3.5. Debentures and loans

3.5.1 Composition

	December 31, 2021	December 31, 2020
	NIS million	NIS million
Current liabilities		
Current maturities of debentures	**897**	584
Current maturities of loans	**83**	202
	980	786
Non-current liabilities		
Debentures	**5,259**	5,707
Loans	**1,823**	1,907
	7,082	7,614
	8,062	8,400

3.5.2 Terms and debt repayment schedule

	December 31, 2021		December 31, 2020	
	Carrying amount	Par value	Carrying amount	Par value
	NIS million	NIS million	NIS million	NIS million
Total unlinked bank loans at fixed interest	**712**	**711**	1,118	1,113
Total unlinked bank loans at variable interest	**300**	**300**	-	-
Total unlinked loans from financial institutions at fixed interest	**894**	**894**	991	992
Total loans	**1,906**	**1,905**	2,109	2,105
Debentures issued to the public:				
Total Debentures Series 6,7,9-14 issued to the public	**6,156**	**6,067**	6,291	6,202
Total debentures	**6,156**	**6,067**	6,291	6,202
Total interest-bearing liabilities	**8,062**	**7,972**	8,400	8,307

For further information see Note 13 to the Consolidated Statements – Debentures, Loans and Borrowings.

3.6. Liquidity Risk

Below are the expected maturities of financial liabilities, including estimated interest payments (based on known CPI and interest rates at December 31, 2021):

	December 31, 2021						
	Carrying amount	Contractual cash flows	First half 2022	Second half 2021	2023	2024-2026	2027 onwards
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Non-derivative financial liabilities							
Trade and other payables	592	592	569	23	-	-	-
Loans from subsidiaries	1,230	1,380	5	156	264	599	356
Loans	1,906	2,194	85	50	141	1,042	876
Debentures	6,156	6,806	72	958	1,058	2,502	2,216
Total	9,884	10,972	731	1,187	1,463	4,143	3,448
Financial liabilities for derivatives	33	33	4	29	-	-	-

3.7. Currency and CPI risks

For information regarding CPI hedging transactions made by the Company in 2021, see Note 30.6 to the Consolidated Statements. These transactions are accounted for as cash flow hedges.

4. Income Tax

4.1. General

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Current tax expenses			
Expenses for the current year	**271**	273	386
Adjustments in respect of previous years based on an assessment agreement	**-**	53	-
Total current tax expenses	**271**	326	386
Deferred tax expenses			
Creation and reversal of temporary differences	**72**	(29)	(5)
Adjustments in respect of previous years based on an assessment agreement	**-**	(53)	-
Reversal of temporary differences based on an assessment agreement	**-**	18	-
Total deferred tax expenses (income)	**72**	(64)	(5)
Income tax expenses	**343**	262	381

4.2. Changes in recognized deferred tax assets and tax liabilities during the year

Composition of and changes in deferred tax assets and tax liabilities during the year:

	Balance at January 1, 2020	Recognized in profit or loss	Recognized in equity	Balance at December 31, 2020	Recognized in profit or loss	Recognized in equity	Balance at December 31, 2021
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Employee benefit plans	265	(19)	(1)	245	**(8)**	**1**	**238**
Fixed assets	(219)	11	-	(208)	**(10)**	**-**	**(218)**
Tax asset in respect of tax loss on the sale of a subsidiary	-	37	-	37	**(37)**	**-**	**-**
Provisions and others	7	35	(3)	39	**(17)**	**(11)**	**11**
	53	64	(4)	113	**(72)**	**(10)**	**31**

5. Fixed Assets

	2021	2020
	NIS million	NIS million
Cost		
Balance at January 1	**17,230**	16,697
Additions	**1,049**	837
Reclassified from assets held for sale	**21**	47
Disposals	**(663)**	(351)
Balance at December 31	**17,637**	17,230
Depreciation		
Balance at January 1	**12,076**	11,735
Depreciation for the year	**722**	678
Reclassified from assets held for sale	**20**	15
Disposals	**(581)**	(352)
Balance at December 31	**12,237**	12,076
Depreciated cost at December 31	**5,400**	5,154

For further information see Note 9 to the Consolidated Statements – Fixed Assets.

6. Revenues

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Internet infrastructure	**1,624**	1,622	1,578
Fixed-line telephony	**913**	1,008	1,039
Transmission and data communications	**1,087**	1,011	948
Cloud and digital services	**318**	288	274
Other services	**240**	230	234
	4,182	4,159	4,073

7. General Operating Expenses

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Maintenance of buildings and sites	**111**	113	132
General and marketing expenses	**187**	159	146
Interconnectivity and payments to telecommunications operators	**104**	115	97
Services and maintenance by subcontractors	**134**	94	82
Vehicle maintenance	**35**	29	35
Terminal equipment and materials	**96**	80	73
	667	590	565

8. Other Operating Expenses (Income), Net

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Gain on the sale of fixed assets (mainly real estate)	**(173)**	(13)	(513)
Provision for employee termination benefits under early retirement plan	**95**	64	109
Provision for employee bonus	**-**	40	-
Gain on the sale of a subsidiary	**-**	(22)	-
Other income (mainly provisions for claims)	**(27)**	(1)	(2)
	(105)	68	(406)

9. Subsidiaries

9.1 For information concerning the Company's investment in DBS and Bezeq International, see Note 12 to the Consolidated Statements.

9.2 Direct subsidiaries of the Company:

	Company's interest in equity	Investment in subsidiaries (equity-accounted) at	
		December 31, 2021	December 31, 2020
		NIS million	NIS million
Pelephone Communications Ltd.	**100%**	**2,767**	2,698
Bezeq International Ltd.	**100%**	**218**	205
Bezeq Online Ltd.	**100%**	**62**	53
DBS Satellite Services (1998) Ltd.	**100%**	**(46)**	(78)
		3,001	2,878

Regarding the recording of an investment impairment in companies of the Group, see Notes 10.5 and 10.6 to the Consolidated Statements

The Company's subsidiaries have immaterial investments in other subsidiaries.

For information concerning loans received from and provided to subsidiaries, see Note 10.2 below.

10. Material Agreements and Transactions with Investees

10.1. Guarantees

10.1.1 The Company provided a guarantee in favor of banks for credit to Bezeq International of up to NIS 65 million if it will be granted.

10.1.2 The Company provided a bank guarantee to DBS, in respect of the guarantee which DBS provided in favor of the State of Israel, in accordance with the terms of DBS's license. The guarantee is based on the current rate of its holdings in DBS (100%), up to an amount of NIS 32 million (linked to the Consumer Price Index).

10.1.3 For information on guarantees provided by the Company to various entities, see Note 19 to the Consolidated Statements – Collateral, Liens and Guarantees.

10.2 Intercompany loans

10.2.1 Loans from investees

Terms of loans received from investees (as presented in the Information on Financial Position):

	Balance			
	NIS million	Payment dates	Number of installments	Interest rate
Pelephone				
	815	2022-2025	4	3.41%
	20	2026-2030	5	3.62%
	185	2026-2030	5	3.41%
	15	2026-2030	5	2.94%
	175	2026-2030	5	2.25%-2.56%
	1,210			
Bezeq International				
	20	2026-2030	5	2.35%
	1,230			

10.2.2 DBS credit facility or capital investment

On November 29, 2021, the Company's Board of Directors approved an irrevocable undertaking by the Company to DBS to provide a credit facility or capital investment in the amount of NIS 40 million until December 31, 2022 (which had not been used as of the date of approval of these statements).

10.3 Service agreements

The Company and its investees, as communications providers, are bound by agreements and arrangements for providing and receiving various services in the communications sector, such as: transmission agreements, interconnectivity agreements, billing agreements, various agreements regulating the communications services jointly provided by two companies, communications equipment maintenance, dealer agreements, agreements for the purchase of communications equipment, rental agreements (primarily for communications installations), agreements for joint ventures and advertising on websites of subsidiaries, etc.

The terms of the above service agreements were set according to customary market rates for services of this kind.

Details of the transactions and their carrying amounts in the Company's books:

	Year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Transactions			
Revenues			
Pelephone	**70**	84	81
Bezeq International	**261**	255	230
DBS	**3**	4	3
Other	**3**	3	2
Total	**337**	346	316
Expenses			
Pelephone	**30**	38	30
Bezeq International	**15**	10	18
Total	**45**	48	48

		December 31	December 31
		2021	2020
		NIS million	NIS million
Balances due to the Company			
Pelephone		**10**	8
Bezeq International		**73**	81
DBS		**1**	2
Total		**84**	91

For further information, see Note 29 to the Consolidated Statements – Transactions with Interested and Related Parties

11. Contingent Liabilities

11.1 During the normal course of business, legal claims were filed against the Company or there are various legal proceedings pending against it (in this section: "legal claims").

In the opinion of the Company's management, based, inter alia, on legal opinions as to the likelihood of success of these legal claims, the financial statements include appropriate provisions in the amount of NIS 28 million, where provisions are required to cover the exposure arising from such legal claims.

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

As of December 31, 2021:

Provision	Additional exposure *	Exposure for claims whose chances cannot yet be assessed*
NIS million		
28	**1,468**	**2,498**(1)

* Nominal

(1) The exposure includes:

Two motions to certify a class action suit for a total of NIS 1.8 billion, filed in June 2017 against the Company, officers of the Group, and companies of the group of the Company's former controlling shareholder, concerning a transaction for the Company's acquisition of DBS shares from Eurocom DBS Ltd. In accordance with the court's decision, a consolidated motion is expected to be filed instead of these two motions. The proceeding has been stayed in light of the investigation described in Note 1.3 to the Consolidated Statements and at the request of the Attorney General, until July 20, 2022.

11.2 See Note 6.6 to the Consolidated Statements concerning an amount of NIS 106 million recognized in other receivables and government authorities in respect of permit fees and betterment tax paid by the Company to the Israel Land Authority and the Or Yehuda Local Authority for the sale of the Sakia property in 2019.

11.3 Subsequent to the date of the financial statements, two claims without a monetary assessment as well as claims for which the Company had exposure of NIS 89 million were concluded.

For further information on contingent liabilities see Note 17 to the Consolidated Statements.

12. Events in and Subsequent to the Reporting Period

12.1 Regarding the investigation by the Israel Securities Authority and the Israel Police, see Note 1.3 to the Consolidated Statements.

12.2 For information on the impacts of the coronavirus pandemic, see Note 1.4 to the Consolidated Statements.

12.3 Regarding an impairment loss in respect of Bezeq International and DBS and a test for goodwill impairment with respect to Pelephone and Bezeq's fixed-line segment, see Note 10 to the Consolidated Statements.

12.4 See Note 12.1.2 on the Board of Directors' resolution, subsequent to the date of the financial statements, regarding the cancellation of the plan for a structural change in the Group and the alternative outline.

12.5 For information on the deployment of a fiber optic network by the Company and the commitment to pay into the Incentive Fund, see Notes 9.4 and 18 to the Consolidated Statements.

12.6 For information concerning employee retirement see Note 16.5 to the Consolidated Statements.

12.7 For information on the Board of Directors' resolution of March 22, 2022 regarding the dividend distribution policy and the Board of Directors' resolution to recommend to the General Meeting a dividend distribution, see Note 20.2 to the Consolidated Statements.

12.8 For information on additional material subsequent events, see Note 32 to the Consolidated Statements.

Chapter D

Additional Information about the Company
Corporate Governance Questionnaire
Year ended December 31, 2021

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

1. **Regulation 10A: Summary of the Statements of Comprehensive Income for each of the quarters of the reporting year**

See section 1.3 of the Board of Directors Report, attached to the second part of this report.

2. **Regulation 10C: Use of proceeds for securities**

On December 23, 2021, the Company issued new Debentures (Series 13) with a par value of NIS 200,000,000, as well as new debentures (Series 14) with a par value of NIS 200,000,000, pursuant to a shelf offering report dated December 21, 2021 ("**Shelf Offering Report**"), included herein by reference, that was published pursuant to a listing and unlocking prospectus and a shelf prospectus dated April 8, 2020 and published on April 7, 2020 ("**Shelf Prospectus**" or "**Prospectus**"), included herein by rreference, for total gross proceeds of NIS 400,000,000 ("**Proceeds of the Debentures (Series 13 and 14) Offering**").[1] In keeping with the intended use of the proceeds as provided in the Shelf Offering Report, the Proceeds of the Debentures (Series 13 and 14) Offering were used by the Company to refinance an existing debt. The Company has invested the balance of the proceeds of the offering, up to their use, in solid investments in conformity with its investment policy as determined from time to time by the Company's management, with the approval of the Board of Directors.

3. **Regulation 11: Breakdown of investments in subsidiaries as at the date of the statements of financial position**

Company name:	Name of holder	Class of share	Number of shares held	Total par value	% of holding in issued capital and voting rights	% of holding in right to appoint directors	Value in Company's separate balance sheet (NIS millions)
Pelephone Communications Ltd. ("**Pelephone**")	The Company	Ordinary NIS 1 shares	302,460,000	302,460,000	100%	100%	2,767
Bezeq International Ltd. ("**Bezeq International**")	The Company	Ordinary NIS 0.1 shares	1,136,986,301	113,698,630	100%	100%	218
DBS Satellite Services (1998) Ltd. ("**DBS**")	The Company	Ordinary NIS 1 shares	36,117	36,117	100%	100%	(46)
Bezeq Online Ltd. ("**Bezeq Online**")	The Company	Ordinary shares without par value	1,170,000	-	100%	100%	62

4. **Regulation 12: Changes in investments in subsidiaries in the reporting period**[2]**:**

Date of change	Nature of change[3]	Company name	Reported amounts (NIS millions)
November 8, 2021	Repayment of capital note of Bezeq Online	Bezeq Online	10

1 Total net proceeds amounted to NIS 395 million.

2 For information on the recording of impairments of investments in Group companies, see Notes 10.3, 10.5 and 10.6 to the Financial Statements. For information on the grant of an irrevocable undertaking by the Company to DBS for the provision of a credit facility or capital investment, see Note 12.2.2 to the Financial Statements.

3 Repayment amounts set out in this Regulation refer to principal amounts only. For details of loans received by the Company from investees, see Note 10.2 to the Separate Financial Information attached to this report. As of December 31, 2021, the outstanding principal on these loans totals NIS 1,230 million.

5. Regulation 13: Revenues of subsidiaries and the Company's revenues from them as at the date of the Statement of Financial Position (NIS millions)

Company name	Income (loss) for the period	Comprehensive income (loss) for the period	Dividends	Management fees[4]	Interest income
Pelephone	64	65	-	0.13	-
Bezeq International	8	10	-	0.1	
DBS	30	30	-	0.08	-
Bezeq Online	19	19	-	0.04	1

6. Regulation 20: Stock Exchange trading

A. In the reporting period, the new Debentures (Series 13 and 14) of the Company, as detailed above under Regulation 10C, were listed on the Main Board of the Tel Aviv Stock Exchange Ltd. ("**TASE**").

B. In the reporting period and up to the date of publication of the report, 17,936 ordinary shares of NIS 1 par value each of the Company ("**Ordinary Shares**") were listed on the TASE, resulting from the exercise of non-marketable options into Ordinary Shares on behalf of employees and officers ("**Options**"), out of the total of such Options that were allotted to employees and officers of the Company pursuant to a profile and material private offering report of the Company, dated December 12, 2020 and published on that date, as amended on January 14, 2021, and pursuant to a non-material private offering report of the Company, dated June 24, 2021 and July 20, 2021 ("**Non-Material Offering Report**").

C. To the best of the Company's knowledge, during the reporting period, there was no interruption in trading in the Company's listed securities, other than a halt in trading of Debentures (Series 9) of the Company on January 4, 2022, subsequent to the reporting date, due the announcement of a change in the terms of the security.

7. Regulation 21: Remuneration of interested parties and executive officers

Below is a breakdown of the remuneration for 2021, as recognized in the financial statements for 2021, paid to each of the highest-paid executive officers in the Company or in a company under its control for their service in the Company or in a company under its control (employer's cost and on annual basis). It should be emphasized that the amounts stated in the table are the amounts recognized in the financial statements for 2021 but some of the actual payments to some of the officers include amounts recognized in previous financial statements, and some are subject to conditions as set out below.

[4] These amounts do not comprise management fees but reimbursement of costs of participation in meetins of directors of the subsidiaries

Recipient					Remuneration (NIS thousands)				Total (NIS thou.)	Section below
Name	Position	Sex	Scope of position	% of holding in Company's capital	Salary[5]	Bonus[6]	Share-based payment	Other (management fees)	Total	
Ran Guron	CEO of Pelephone, DBS and Bezeq International	Male	Full-time	-	2,472	2,838	3,975	-	9,285	A
Dudu Mizrahi	CEO of the Company	Male	Full-time	-	2,469	2,599	3,975	-	9,043	B
Gil Sharon	Chairman of the Board of Directors	Male	Full-time	-	2,846	-	5,300	-	8,146	C
Dganit Kramer	Deputy CEO and VP Private Customers at Pelephone, DBS and Bezeq International	Female	Full-time	-	1,254	847	647	-	2,748	D
Zvika Abramovich	VP Human Resources at Pelephone, DBS and Bezeq International	Male	Full-time		1,330	779	432		2,541	E
Udi Atar	VP Residential Division	Male	Full-time	-	1,216	648	648	-	2,512	F

Below are details of the terms of agreement with the interested parties and the officers listed in the above table:

A. Ran Guron

As of January 1, 2019, his total gross monthly salary for his service as CEO of the three significant subsidiaries: Pelephone, Bezeq International and DBS (collectively in this section: "**Subsidiaries**"), amounted to NIS 150 thousand, linked to the Consumer Price Index. The agreement is for an unlimited period, and may be terminated at any time with six months prior notice by either party.

Ran Guron's bonus targets for 2021 as CEO of the Subsidiaries were preset by the Company's Board of Directors in December 2020, following approval by the Company's Compensation Committee and approval by the Boards of Directors of the Subsidiaries, and included: an adjusted

5 The salary amounts include cost of salary (employer's cost) and salary-related components, including perks and social benefits, such as telephone expenses, customary type of company car (cost of leasing or vehicle depreciation costs, and reimbursement of expenses in lieu of use of a company car), study fund (for some of the managers), deposit into pension fund and deposits for termination of employer-employee relationship (for employees subject to section 14 of the Severance Pay Law), reimbursement of expenses and vacation, sick leave and annual convalescence allowance as customery, expenses for employee holiday gift (grossed-up amount), membership fees for professional organizations paid for the employee (not in the employee's field of occupation), and, if a loan was provided to an employee, the value of the benefit embodied in the interest on the loan.

6 The bonus amounts appearing in the table are as recognized in the financial statements for 2021 and include a performance bonus and special bonuses (for information concerning each of the officers, see sections A-F below the following table), all in accordance with the Company's compensation policy. The performance bonus that appears in the table is for 2021 (as of the reporting date, it is yet to be paid to the executive officers) and includes a contingent portion that will be paid to these officers by way of the distribution described in the notes to the table. In 2021, bonuses were paid to the above officers for 2020, the amount of which (including the contingent portion (if any) that was not actually paid in 2021, but will be paid in 2022 is included in the corresponding table in the Company's annual report for 2020 (as published on March 25, 2021).

EBITDA[7] target for the Subsidiaries, accounting for 60% of the bonus calculation; an adjusted EBITDA target less CAPEX for the Subsidiaries (CAPEX in cash flow terms), accounting for 15%; an adjusted EBITDA target by company – a combined target[8] accounting for 15%; and a manager assessment target, accounting for 10%. The threshold condition for receiving the bonus was that the adjusted EBITDA[9] results for the Subsidiaries for 2021 (NIS 799 million) would not fall by more than 40% below the adjusted EBITDA results in 2020 (NIS 697 million) – this condition was met. The rate of compliance of the CEO of the Subsidiaries with all the bonus targets for 2021 was 123.4%. Accordingly, the bonus that will be granted to the CEO of the Subsidiaries for 2021 amounts to123.4% of the annual salary. Mr. Guron will be entitled to 40% of the remuneration for compliance with the weighted adjusted EBITDA in 2021, only in 2023 (after the date of approval of the financial statements for 2022), and only if the minimum adjusted EBITDA target set for the 2022 budget year is achieved. It should be noted that, in accordance with the Company's compensation policy, Mr. Guron was approved in the reporting year a special performance bonus for implementation of a synergy and efficiency plan in the Subsidiaries, based on the cumulative savings for the years 2019-2021, totaling NIS 603.6 thousand (included in the above table in the bonus for 2021). The bonus is for the implementation of a synergy and efficiency plan – an exceptional, unusual and highly significant project involving the investment of exceptional efforts by the CEO of the Subsidiaries, resulting in a significant savings in expenses and giving the Group significant added value, and in order to ensure the retention of the CEO of the Subsidiaries, as a key role holder in the companies.

* In light of the correction of the error in the financial statements of Bezeq International for 2019, there was a change in the rates of compliance with Mr. Guron's annual bonus targets for 2019. In accordance with the provisions of the compensation policy and the resolutions of the board of directors of Bezeq International, the Compensation Committee of Bezeq and the Board of Directors of Bezeq, Mr. Guron is required to return a net amount of NIS 60 thousand, which will be deducted from the amount of his bonus for 2021.

On December 10, 2020, the Company's Board of Directors and the Boards of Directors of the Subsidiaries approved, following approval by the Company's Compensation Committee on December 9, 2020, the grant of 9,000,000 options to the CEO of the Subsidiaries. On January 18, 2021, the General Meeting of the Company approved an amendment to the Company officers' compensation policy, which was a condition for the grant of the options. For information on the terms of the options, see amending report regarding an employee share option plan and a material private offering report dated January 14, 2021. The fair value of the options at the date of their grant (calculated using the Monte Carlo model) is NIS 6.9 million.

B. <u>Dudu Mizrahi</u>

Employed as CEO of the Company since September 1, 2018, under a personal employment agreement dated October 4, 2018 (in this section: "**Employment Agreement**"). His gross monthly salary amounts to NIS 150 thousand, linked to the Consumer Price Index. The agreement is for an unlimited period, and may be terminated at any time with six months prior notice by either party.

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7 Adjusted EBITDA for determining the compensation – calculated as EBITDA less other operating expenses/income (net), impairment/appreciation losses/gains (including continuing impairment losses), effects of the application of IFRS 16 "Leases," and costs of share-based payments.

8 Pelephone 40%, DBS 30%, Bezeq International 30%.

9 See footnote 7 above.

Dudu Mizrahi's bonus targets for 2021 as CEO of the Company were preset by the Company's Board of Directors in December 2020, following approval by the Company's Compensation Committee, and included: an adjusted EBITDA[10] target for the Company (separate), accounting for 50% of the bonus calculation; an after-tax profit target for the Company (separate), accounting for 25%; and an adjusted FCF[11] target for the Company (separate), accounting for 25%. The threshold condition for receiving the bonus was that the adjusted EBITDA results for 2021 (NIS 2,512.1 million) would not fall by more than 40% below the adjusted EBITDA results in 2020 (NIS 2,563.0 million) – this condition was met. The rate of compliance of the Company's CEO with all the bonus targets for 2021 was 118.49%. Accordingly, the bonus that will be granted to the Company's CEO for 2021 amounts to 118.5% of the annual salary. Mr. Mizrahi will be entitled to 40% of the remuneration for compliance with the adjusted EBITDA target for the Company (separate) in 2021 only in 2023 (after the date of approval of the financial statements for 2022), and only if the minimum adjusted EBITDA target for the Company (separate) set for the 2022 budget year is achieved. It should be noted that after the reporting year, Mr. Mizrahi was approved, in accordance with the Company's compensation policy, a special target bonus of up to four gross monthly salaries for 2021, which included: a fiber optic infrastructure deployment target (households), accounting for 25%; a fiber customers recruitment target, accounting for 25%; and a target relating to the extemt of the financial impact of the reduction in telephony rates on 2021, accounting for 50%. The rate of compliance of the Company's CEO with all the special bonus targets for 2021 was 75%. Accordingly, the special bonus amounts to NIS 450 thousand (included in the above table in the bonus for 2021).

On January 18, 2021, the General Meeting of the Company approved, following approval by the Company's Board of Directors on December 10, 2020 and by the Company's Compensation Committee on December 9, 2020, an amendment to the Company officers' compensation policy as well as the grant of 9,000,000 options to the Company's CEO. For information on the terms of the options, see amending report regarding an employee share option plan and a material private offering report dated January 14, 2021. The fair value of the options at the date of their grant (calculated using the Monte Carlo model) is NIS 6.9 million.

C. <u>Gil Sharon</u>

Employed as a director and as Chairman of the Board of Directors of the Company and as chairman of the board of directors of all the Group's subsidiaries as of August 27, 2020, under a personal employment agreement from December 10, 2020 (in this section: "**Employment Agreement**"). In this framework, subject to and in accordance with resolutions of the Board of Directors from time to time, he is also employed on a full-tine basis as the chairman of the board of directors of subsidiaries of the Company. As such, he is to provide the following services: (1) steering the Company and delineating its operating strategy, while implementing the strategy determined by the Company's Board of Directors; (2) promoting and developing the Company; and (3) performing, inter alia, the duties imposed on him within his authority and role as Chairman of the Board of Directors, in accordance with the provisions of any law, including the Company's articles of association and procedures as revised from time to time. His total gross monthly salary amounts to NIS 170 thousand. The agreement is for an unlimited period, and may be terminated at any time and for any reason with three months prior notice by either party. For further information on the terms of service and employment of Gil Sharon as Chairman of the Board of Directors of the Company, see the report on the convening of a general meeting, as published on December 12, 2020, included herein by reference.

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[10] See footnote 7 above.

[11] Adjusted FCF (free cash flow) – calculated as cash flows arising from operating activities less cash flows for/from the purchase/sale of fixed assets and intangible assets (net), and less payments for leases.

On January 18, 2021, the General Meeting of the Company approved, following approval by the Company's Board of Directors on December 10, 2020 and by the Company's Compensation Committee on December 9, 2020, an amendment to the Company officers' compensation policy as well as the grant of 12,000,000 options to the Chairman of the Board of Directors of the Company. For information on the terms of the options, see amending report regarding an employee share option plan and a material private offering report dated January 14, 2021. The fair value of the options at the date of their grant (calculated using the Monte Carlo model) is NIS 9.3 million.

It should be noted that subsequent to the reporting year, the Company's Board of Directors approved on March 22, 2022, following approval by the Compensation Committee on March 10, 2022, the payment of a cash bonus to Mr. Sharon for 2021, amounting to three gross monthly salaries (in this section: "**Bonus**"), subject to approval by the Annual General Meeting of shareholders of the Company which is to be held on April 28, 2022. For further information on the Bonus, see report on the convening of a General Meeting as published on March 23, 2022, included herein by reference ("**Report on Convening of Annual General Meeting**").

It is likewise noted that the Annual General Meeting of shareholders of the Company will have on its agenda, among other items, the approval of an amendment (and extension) of the Company officers' compensation policy, whereby the Chairman of the Board of Directors will be granted, as of 2022 and onwards, a performance bonus up to a limit of nine gross monthly salaries, subject to meeting 100% of the targets. For further information see the Report on Convening of Annual General Meeting.

D. Dganit Kramer

Employed as Deputy CEO and VP Private Customers at the Subsidiaries since March 1, 2019, under a personal employment agreement dated May 1, 2013 (in this section: "**Employment Agreement**"). Her gross monthly salary amounts to NIS 77 thousand, linked to the Consumer Price Index. The agreement is for an unlimited period, and may be terminated at any time with six months prior notice by either party.

Ms. Kramer's bonus targets for 2021 as Deputy CEO and VP Private Customers at the Subsidiaries were preset by the Boards of Directors of the Subsidiaries in December 2021, and included: an adjusted EBITDA[12] target for the Subsidiaries, accounting for 50% of the bonus calculation; a target for net addition of subscribers in the private segment - a combined target[13] accounting for 15%; a target for expenses, investments and salaries of the Subsidiaries' Private Customers Division, accounting for 10%; and a manager assessment target, accounting for 10%. The rate of compliance of the Deputy CEO and VP Private Customers at the Subsidiaries with all the bonus targets for 2021 was 115.6%. Accordingly, the bonus that will be granted to the Deputy CEO and VP Private Customers at the Subsidiaries for 2021 amounts to 57.8% of the annual salary. Ms. Kramer will be entitled to 40% of the remuneration for compliance with the weighted adjusted EBITDA target in 2021 only in 2023 (after the date of approval of the financial statements for 2022), and only if the minimum adjusted EBITDA target set for the 2022 budget year is achieved. It should be noted that after the reporting year, Ms. Kramer was approved a special performance bonus for implementation of a synergy and efficiency plan in the Subsidiaries, based on the cumulative savings for the years 2019-2021, totaling NIS 309.7 thousand (included in the above table in the bonus for 2021).

[12] See footnote 7 above.

[13] See footnote 8 above.

* In light of the correction of the error in the financial statements of Bezeq International for 2019, there was a change in the rates of compliance with Ms. Kramer's annual bonus targets for 2019. In accordance with the provisions of the compensation policy and the resolutions of the board of directors of Bezeq International, Ms. Kramer is required to return a net amount of NIS 9 thousand, which will be deducted from the amount of her bonus for 2021.

On December 9, 2020, the Boards of Directors of the Subsidiaries approved the grant of 1,500,000 options to the Deputy CEO and VP Private Customers at the Subsidiaries. On January 18, 2021, the General Meeting of the Company approved an amendment to the Company officers' compensation policy, which was a condition for the grant of the options. For information on the terms of the options, see amending report regarding an employee share option plan and a material private offering report dated January 14, 2021. The fair value of the options at the date of their grant (calculated using the Monte Carlo model) is NIS 1.1 million.

E. <u>Zvika Abramovich</u>

Employed as VP Human Resources at the Subsidiaries since March 1, 2019, under a personal employment agreement dated September 1, 2014 (in this section: "**Employment Agreement**"). His gross monthly salary amounts to NIS 75 thousand, linked to the Consumer Price Index. The agreement is for an unlimited period, and may be terminated at any time with six months prior notice by either party.

Mr. Abramovich's bonus targets for 2021 as VP Human Resources at the Subsidiaries were preset by the Boards of Directors of the Subsidiaries in December 2021, and included: an adjusted EBITDA[14] target for the Subsidiaries, accounting for 50% of the bonus calculation; a target for salary expenses of the Subsidiaries, accounting for 20%; a target for closing collective agreements according to the planned plan structure, accounting for 20%; and a manager assessment target, accounting for 10%. The rate of compliance of the VP Human Resources at the Subsidiaries with all the bonus targets for 2021 was 105.4%. Accordingly, the bonus that will be granted to the VP Human Resources at the Subsidiaries for 2021 amounts to 52.7% of the annual salary. Mr. Abramovich will be entitled to 40% of the remuneration for compliance with the weighted adjusted EBITDA target in 2021 only in 2023 (after the date of approval of the financial statements for 2022), and only if the minimum adjusted EBITDA target set for the 2022 budget year is achieved. It should be noted that after the reporting year, Ms. Kramer was approved a special performance bonus for implementation of a synergy and efficiency plan in the Subsidiaries, based on the cumulative savings for the years 2019-2021, totaling NIS 301.7 thousand (included in the above table in the bonus for 2021).

* In light of the correction of the error in the financial statements of Bezeq International for 2019, there was a change in the rates of compliance with Mr. Abramovich's annual bonus targets for 2019. In accordance with the provisions of the compensation policy and the resolutions of the board of directors of Bezeq International, Mr. Abramovich is required to return a net amount of NIS 9 thousand, which will be deducted from the amount of his bonus for 2021.

On December 10, 2020, the Boards of Directors of the Subsidiaries approved the grant of 1,000,000 options to the VP Human Resources at the Subsidiaries. On January 18, 2021, the General Meeting of the Company approved an amendment to the Company officers' compensation policy, which was a condition for the grant of the options. For information on the terms of the options, see amending report regarding an employee share option plan and a material private offering report dated January 14, 2021. The fair value of the options at the date of their grant (calculated using the Monte Carlo model) is NIS 0.7 million.

[14] See footnote 7 above.

F. Udi Atar

Was employed as VP of the Company's Residential Division from October 15, 2018 until March 1, 2022,[15] under a personal employment agreement from October 15, 2018 (in this section: "**Employment Agreement**"). His total gross monthly salary amounted to NIS 70 thousand.

Udi Atar's bonus targets for 2021 as VP of the Company's Residential Division were preset by the Company's Board of Directors in December 2020, and included: an adjusted EBITDA[16] target for the Company (separate), accounting for 50% of the bonus calculation; a revenue target for the Residential Division (net of transfers to the Business Division), accounting for 20%; a net combined Internet, telephony and ICT target, accounting for 10%; a fiber customer base target, accounting for 10%; and a salary expenses target for the Residential Division, accounting for 10%. The rate of compliance of the VP of the Residential Division with all the bonus targets for 2021 was 104.3%. Accordingly, the bonus that will be granted to the VP of the Residential Division for 2021 amounts to 52.16% of the annual salary. It should be noted that after the reporting year, Mr. Atar was approved, in accordance with the Company's compensation policy, a special target bonus for 2021 which included: a fiber optic infrastructure deployment target (households), accounting for 25%; a fiber customers recruitment target, accounting for 25%; and a target relating to the extemt of the financial impact of the reduction in telephony rates on 2021, accounting for 50%. The rate of compliance of the VP of the Residential Division with all the special bonus targets for 2021 was 75%. Accordingly, the special bonus amounts to NIS 210 thousand (included in the above table in the bonus for 2021). Additionally, it is noted that the Company's Compensation Company, in its meeting on March 10, 2022, resolved to release to Mr. Atar the contingent remuneration for 2021 (40% of the remuneration for compliance with the adjusted EBITDA target for the Company) at the time of payment of the entire bonus.

* In light of the correction of the error in the financial statements of Bezeq International for 2019, there was a change in the rates of compliance with Mr. Atar's annual bonus targets for the years in respect of which the financial statements were restated by the Company in December 2020, in which Mr. Atar served as VP of the Residential Division at Bezeq International. In accordance with the provisions of the compensation policy and the resolutions of the Board of Directors of Bezeq International, Mr. Atar is required to return a net amount of NIS 53 thousand.

On December 10, 2020, the Company's Board of Directors approved, following approval by the Company's Compensation Committee on December 9, 2020, the grant of 1,500,000 options to the VP of the Residential Division. On January 18, 2021, the General Meeting of the Company approved an amendment to the Company officers' compensation policy, which was a condition for the grant of the options. For information on the terms of the options, see amending report regarding an employee share option plan and a material private offering report dated January 14, 2021. The fair value of the options at the date of their grant (calculated using the Monte Carlo model) is NIS 1.1 million. After the reporting date, the number of options decreased by 1,125,000, due to their lapsing upon the termination of Mr. Atar's service on March 1, 2022. For more information see the Company's immediate report dated March 3, 2022.

G. Pursuant to the provisions of section 7.2.1.6.3 of the Company's compensation policy, below are details of the threshold conditions for receiving an annual performance bonus for the CEO of the Company and the CEO of the Subsidiaries for 2022, as approved by the Company's Compensation Committee and Board of Directors:

[15] See footnote 14 in this report.

[16] See footnote 8 above.

The threshold condition for the CEO of the Company, Dudu Mizrachi, receiving a bonus for 2022 is that the adjusted EBITDA[17] results of the Company (separate) for 2022 do not fall by more than 40% below the adjusted EBITDA results of the Company (separate) in 2021.

The threshold condition for the CEO of the Subsidiaries, Ran Guron, receiving a bonus for 2022 is that the aggregate adjusted EBITDA[18] results of the Subsidiaries for 2022 do not fall by more than 40% below the aggregate adjusted EBITDA results of the Subsidiaries for 2021.

Additionally, subject to approval by the Annual General Meeting of shareholders of the Company, which has been convened for April, 2022, of the amendment (and extension) of the compensation policy, the threshold condition for the Chairman of the Board of Directors, Gil Sharon, receiving a bonus for 2022 is that the adjusted EBITDA[19] results of the Group for 2022 do not fall by more than 40% below the adjusted EBITDA results of the Group in 2021. For further information on the proposed amendment to the compensation policy, see the Report on Convening of Annual General Meeting.

Other interested parties who received remuneration from the Company in the reporting year

H. **Joseph Abergel** served as an employee director in the reporting year, starting from January 14, 2020, and up to December 31, 2021.[20] His total salary as an employee of the Company during the period in which he served as a director in 2021 stood at NIS 650,000 and was linked to the professional salary tables. This salary does not include a bonus for 2021, in the amount of NIS 20 thousand, set in accordance with the criteria for all the Company's employees based on the Company's adjusted EBITDA[21] results, which was not yet paid as of the reporting date. Said amounts do not include retirement bonuses that were paid to Mr. Abergel for all the years of his employment at the Company, in accordance with the provisions of the collective agreement. All the remuneration amounts paid to Mr. Abergel, as detailed above, were in respect of his being an employee of the Company during the period of his service as an employee director, and not in respect of his service as a director of the Company.

I. **Remuneration for external directors, independent directors and directors who are not external directors nor independent directors** (regarding the latter, distinguishing between an expert director and non-expert director) is based on the maximum rates fixed in the Fourth Schedule to the Companies Regulations (Rules Concerning Remuneration and Expenses for an External Director), 2000 ("**Remuneration Regulations**"), with regard to an expert external director, linked to the CPI as set out in those Regulations. The total remuneration paid to external directors and independent directors in respect of their service on the Board of Directors, Board Committees and boards of directors of subsidiaries (as the case may be) in 2021 is NIS 1,663 thousand (not including VAT).

8. Regulation 21A: The controlling shareholder of the Company

To the best of the Company's knowledge, as of October 11, 2021, 738,953,713 of the Company's shares are held directly by B Communications Ltd. ("**B Communications**"), an Israeli public company whose shares are traded on the Tel Aviv Stock Exchange Ltd.(after all the Company's shares held by B Communications (SP2) Ltd., a private company registered in Israel, under the full ownership and control of B Communications (SP1) Ltd., a private company registered in Israel, under the full ownership and control of B Communications, were transferred to the direct ownership of B Communications).

[17] See footnote 7 above.

[18] See footnote 7 above.

[19] See footnote 7 above.

[20] For further information see footnote 14 in this report.

[21] See footnote 7 above.

To the best of the Company's knowledge, the controlling shareholders of B Communications are Searchlight II BZQ L.P., a limited partnership incorporated in the Cayman Islands ("**Searchlight**"), and T.N.R. Investments Ltd. ("**TNR**"), a private company incorporated in Israel.

The ultimate general partner in Searchlight is Searchlight Capital Partners II GP, LLC, a limited liability company incorporated in the State of Delaware, that is owned by a number of individuals, among them, Messrs. Eric Zinterhofer, Erol Uzumeri and Oliver Haarmaann, who are among the individuals that received the control permit for the Company from the Ministry of Communications.

TNR is wholly owned and controlled by Mr. David Fuhrer (50%) and Mrs. Michal Fuhrer (50%).

As the Company was informed, in accordance with the definition of the term "controlling shareholder" in Section 268 of the Companies Law, 1999, Searchlight and TNR are deemed the controlling shareholders of B Communications by virtue of the control permit dated November 11, 2019 and by virtue of a voting agreement between them that gives them a cumulative stake, as at date of publication of this report, of 73% of the shares of B Communications. Furthermore, TNR Real Estate Properties Ltd., which to the best of the Company's knowledge is controlled by Mr. David Fuhrer (50%) and Mrs. Michal Fuhrer (50%), holds 2,546,320 shares of the Company.

For further details, see the Company's immediate report of December 2, 2019.

Control permit under the Communications Law and the Communications Order

On November 11, 2019, the Minister of Communications, by virtue of the power of the Prime Minister that was transferred to him ("**Ministers**"), granted control permits for control of the Company, pursuant to section 4D of the Communications Law and Section 3 of the Communications Order, as follows:

A. A control permit to B Communications 2, B Communications 1, B Communications, TNR, Searchlight and Searchlight Group companies[22] ("**Permit for Companies**").

B. A permit to hold means of control of the Company and to control it to Messrs. Michal Fuhrer, David Fuhrer, Oliver Harmaann, Erol Uzumeri, Eric Zinterhofer and Darren Glatt[23] ("**Permit for Individuals**"). The Permit for Companies and the Permit for Individuals are hereinafter referred to collectively as the "**Control Permits**." The entities to which the Permits were granted are referred to as the "**Permit Holders**."

The Control Permits are for the control and holding of means of control of the Company, through B Communications 2, B Communications 1 and B Communications, at a rate of no less than 25% (**"Minimum Rate**")[24]. The Control Permits permit the Permit Holders to be the controlling shareholders of the Company directly and indirectly (according to the approved structure of holdings), and they permit Searchlight and TNR to make "joint appointments," as defined in the Communications Order, in the Company and in B Communications.

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22 Searchlight II BZQ, L.P. (Cayman ELP) ("**Aggregator LP**"), Searchlight II BZQ GP, Ltd (Cayman) ("**Aggregator GP**"), SC II BZQ, L.P. (Cayman ELP) ("**Main /fund Splitter**"), SC II PV BZQ L.P. (Cayman ELP) ("**PV Fund Splitter**"),SC II BZQ Holdings, Ltd. (Cayman Corp.) ("**Main Fund Blocker**"), SC II PV BZQ Holdings L.P. (Cayman ELP) ("**PV Fund Blocker GP**"), SC II PV BZQ Holdings GP, Ltd. (Cayman Corp.) ("**PV Fund Blocker GP**"), Searchlight Capital II, L.P. (Cayman ELP) ("**Main Fund**"),Searchlight Capital II, PV L.P. (Cayman ELP) ("**PV Fund**"),Searchlight Capital Partners II GP, L.P. (Cayman ELP) ("**General Partner**"),Searchlight Capital Partners II GP, LLC (DE LLC) ("**Upper GP**").

23 Darren Glatt is a director of the Company. As the Company was informed by B Communications, Darren Glatt is not considered a "controlling shareholder" of the Company, within the meaning of the term in the Securities Law and the Companies Law.

24 The Minimum Rate is defined as 25% of any type of means of control in the Company, or a lower rate as approved by the Ministers under Section 3 (a2) of the Communications Order. It should be noted that the Minimum Rate may change if it is proven to the satisfaction of the Minister of Communications that the conditions set out in Section 3 (a3) of the Communication Order are met.

The Control Permits regulate, among other things, the transfer of means of control among the Permit Holders themselves (subject to the restrictions set therein), and also prohibit the transfer of means of control to entities that do not belong to the Permit Holders without the Ministers' approval.

In addition, the Control Permits impose on the Permit Holders the duty of reporting to the Ministers regarding the matters specified therein. The Control Permits further establish provisions regarding the minimum rate of holdings of an "Israeli Entity" (as defined in the Communications Order)[25] in the Company. For further information on the hearing of March 8, 2020 concerning a change in the requirement for holding a minimum rate of means of control in a general license holder by an Israeli Entity, see Section 2.16.3.6 in Chapter A of the Periodic Report.

Furthermore, the Permit for Companies establishes provisions regarding the amendment of the articles of association of the Company, B Communications and the Company's subsidiaries that are licensees under the Communications Law (in this section: "**Subsidiaries**"), as follows: (1) The articles of association of the Company, B Communications and the Subsidiaries must contain provisions whereby: (a) the method for appointing directors will not be changed without the prior written approval of the Minister of Communications; (b) the Company will report to the Ministers regarding a holder of means of control with irregular holdings in the Company as soon as it becomes aware of the existence of such irregular holdings; (c) the Company will report to the Ministers regarding a shareholder that becomes an interested party in the Company, within 48 hours from when the Company becomes aware of such change; (2) The articles of association of the Subsidiaries must contain provisions regarding the rights of the Israeli Entity, as defined in the Communications Order, to appoint directors in them, in accordance with Section 4(a)(2)(b)(2) of the Communications Order (see Section 2.16.3 in Chapter A of the Periodic Report); (3) Provisions were established which the articles of association of B Communications are required to include, in accordance with the provisions of the Control Permit and the Communications Order. The Control Permit specifies that if the articles of association of B Communications, the Company and the Subsidiaries do not include provisions as aforesaid at the time the Permit is granted, they must be laid down within 60 days of the granting of the Permit, and that failure to lay down such required provisions within 60 days of the granting of the Control Permit or to amend the provisions of the Articles as aforesaid, would constitute grounds for revoking the Control Permit.

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

The Permit was granted to the Permit Holders based on the composition of their means of control[26]. In addition, the Control Permits do not include a permit to issue a tender offer for the acquisition of the Company's total shares.

According to the Control Permits, if the Ministers become aware that there has been a change compared with the factual situation that was before them when they considered the permit application, which they

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[25] The Control Permits were granted subject to Messrs. David and Michal Fuhrer being citizens and residents of Israel, and they provide that, as long as the Communications Order requires an Israeli entity, as defined in the Communications Order, to hold means of control in the Company, TNR and/or Messrs. Michal Fuhrer and David Fuhrer may not transfer means of control in the Company without the Ministers' prior written approval, if such transfer will diminish their holdings, as the case may be, in any type of means of control to a lower rate than the Minimum Rate under the Communications Order. It is also provided that any change in the Israeli citizenship and residency of Messrs. Michal Fuhrer and David Fuhrer will be grounds for rescinding the Control Permit.

[26] The Permits allow, under certain conditions, transfer of the means of control of the Company among the Permit Holders themselves.

believe may be detrimental to the security of the State, including the ability to maintain its security, essential public needs or the provision of the essential service by the Company, the Ministers may, after consulting with the Minister of Defense, revoke the Permit.

Additional cases[27] were defined in the Control Permits where, if the Ministers believe that there are real concerns of impairment of the provision of the essential service by the Company, or of the grounds for designating it as an essential service, the Ministers may act as provided in the Communications Order, including with regard to issuing orders and revoking the Permit. From the date of revocation of the Control Permits, all holdings acquired pursuant to the Control Permits will become irregular holdings within the meaning of the Communications Order.

Regarding any grounds for calling for immediate repayment specified in the terms of the Company's debentures and loans from financial institutions in the event of a change in control of the Company (as this term is defined there), see Note 14 to the financial statements for 2020.

<u>Pledge Permit</u>

On November 11, 2019, Reznik Paz Nevo Trusts Ltd., as trustee for holders of debentures issued by B Communications ("**Trustee**"), was awarded a permit by the Ministers to hold means of control of the Company by way of a pledge on all the shares of the Company held by B Communications, directly or indirectly, pursuant to Section 4D of the Communications Law and Section 3 of the Communications Order ("**Pledge Permit**").

The Pledge Permit states that it does not constitute a permit for holding or operating means of control of the Company, except by way of pledge, and does not constitute a permit for control or transfer of control of the Company. In addition, it provides that the rights vested in the Trustee and in any holder of a debenture in respect of which means of control of the Company were pledged in favor of the Trustee, may not be deemed as the transfer of ownership of means of control of the Company, but only as pledged collateral.

Moreover, the Pledge Permit includes restrictions on the exercise of the pledge, considering, among other things, the provisions of the Communications Order, including provisions whereby the pledge may be exercised only by appointment of a receiver and a trustee whose identity has been approved by the Ministers based on various parameters specified in the Permit. Furthermore, similar to the Control Permits as set out above, mutatis mutandis, the Pledge Permit also includes provisions permitting the Ministry of Communications to revoke it, including in circumstances of concern regarding harm to State security or essential public needs as well as other cases[28] where, if the Ministers believe that there are real concerns of impairment of the provision of the essential service by the Company, or of the grounds for designating it as an essential service, the Ministers may act as provided in the Communications Order, including with regard to giving orders and revoking the Permit.

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[27] These include: incorrect information provided in the application for a permit, failure of the Permit Holders to file a report as required or a material change in information provided by the Permit Holders, failure to establish a provision in the articles of association or amending a provision not in accordance with the Permit, and filing an application to initiate proceedings under the Insolvency Law or under the Companies Ordinance.

[28] These include: incorrect information in the application for a permit, failure of the Trustee to file a report as required, or a material change in the information provided by the Trustee, failure to report as required by the Trustee or material changes in the information provided by the Trustee, and the Trustee's failure to apply for the appointment of a receiver and a trustee at the times stipulated by the Permit.

9. Regulation 22: Transactions with the controlling shareholder

For particulars, to the best of the Company's knowledge, concerning any transactions with the controlling shareholder of the Company or where the controlling shareholder has a personal interest in their approval, which were entered into by the Company, its controlled companies or its related companies during the reporting year or on a date subsequent to the end of the reporting year until the date of submission of the report, or which are still in force on the reporting date, and for further information on the Company's negligible transactions procedure, see Note 29 to the financial statements.

10. Regulation 24: Holdings of interested parties and executive officers

Details of the holdings of interested parties and executive officers of the Company are brought in this report by way of reference to the amending report on holdings of interested parties and executive officers of the Company, dated October 12, 2021.

11. Regulation 24A: Authorized capital, issued capital, and convertible securities

The Company's authorized capital as at the date of publication of the Periodic Report is 2,849,485,753 ordinary shares of NIS 1 par value each of the Company ("**ordinary shares**").

The Company's issued and paid-up share capital as at the date of publication of the Periodic Report is 2,765,487,590 ordinary shares.

For information on the Company's equity as at the report publication date, see the Company's immediate report dated March 3, 2022, included herein by reference.

12. Regulation 24B: Register of shareholders

The Company's register of shareholders is presented in this report by way of reference to the statement of equity, grant of share purchase rights and registers of securities of the Company and changes therein, dated March 3, 2022.

13. Regulation 25A: Registered address of the Company

Address: 7 Hamanor St., 5th floor, Holon

Telephone 1: 03-626-2200; Telephone 2: 03-626-2201; Fax: 03-626-2209

Email: Shelly.Bainhoren@bezeq.co.il (Group Secretary and Internal Compliance Officer)

14. Regulation 26: Directors of the Company

The table below lists the directors serving on the Company's Board of Directors as at the report publication date, followed by particulars of directors who served in the reporting year, but whose service ended before the report publication date.[29]

A. Serving directors as at the report publication date

Name ID Date of birth Citizenship	Address for service of court papers	Membership on Board committees Serves as an external or independent director	Employee of the Company, a subsidiary or a related company or of an interested party (excluding service as a director of subsidiaries)	Date of commencement of service	Education and employment in the past five years and details of the companies in which he serves as a director (other than the Company)	Related to other interested parties in the Company	Does the Company consider the director as having accounting and financial expertise
Gil Sharon 058381351 September 12, 1963 Israeli	37 Drezner St., Tel Aviv	Chairman of the Board of Directors of the Company Chairman of the Security Committee The director is not an external director	Yes. In addition, served formerly, in the years 2005-2015, as CEO of Pelephone Communications Ltd., a wholly owned subsidiary of the Company	August 27, 2020	Education: BA in Economics and Business Administration, Hebrew University of Jerusalem. MBA, Tel Aviv University. Occupation in past five years: Chairman and CEO of Golan Telecom Ltd., 2017-2020. Director in the following companies: Educating for Excellence (member of the executive committee).	No	Yes
Tomer Raved 036864288 April 18, 1985 Israeli	7 Avshalom Haviv St., Apt. 2, Tel Aviv 6949507	Security Committee The director is not an external director	Yes, see details of occupation in past five years	May 14, 2020	Education: BA in Economics, Tel Aviv University. LLB, Tel Aviv University. MBA, specializing in Accounting and Finance, NYU Stern School of Business. Occupation in past five years: CEO, B Communications Ltd., 2020 to the present. Director and VP, Royal Bank of Canada (investment bank), 2016-2020.	No	Yes
Darren Glatt 549871770 November 18, 1975 US citizen	16 Abba Hillel St., Ramat Gan (c/o, Meitar, Liquornik, Geva, Leshem, Tal & Co. law firm)	No The director is not an external director	Yes, see details of occupation in past five years	December 1, 2019	Education: BACCY, George Washington University. MBA, Harvard University School of Business Administration. Occupation in past five years: Partner in private capital fund Searchlight Capital Partners, and head of investments in infrastructure, telecommunications, media and technology. Director in Bezeq, Adams Outdoor Advertising and All Points Broadband, Chairman of the board of directors of B Communications, as of December 2019. Served previously as a board member of: Rackspace, Charter Communications, MediaMath, Ocean Outdoor, 160over90, PatientPoint, PlayPower, Veritable Maritime and Core Media. Director in the following companies: Chairman of the board of directors of B Communications, Adams Outdoor Advertising, All Points Broadband.	No	Yes

[29] For the current roster of officers as of the reporting date, see immediate report of the Company dated March 23, 2022, included herein by reference.

Name ID Date of birth Citizenship	Address for service of court papers	Membership on Board committees Serves as an external or independent director	Employee of the Company, a subsidiary or a related company or of an interested party (excluding service as a director of subsidiaries)	Date of commencement of service	Education and employment in the past five years and details of the companies in which he serves as a director (other than the Company)	Related to other interested parties in the Company	Does the Company consider the director as having accounting and financial expertise
David Granot 045333739 January 30, 1947 Israeli	26 Hashomer Street, Raanana 60850	Security Committee; Financial Statements Review Committee; Audit Committee; Compensation Committee The director is not an external director The director is an independent director	No	May 9, 2017	Education: BA in Economics, Hebrew University of Jerusalem. MBA, Hebrew University of Jerusalem. Occupation in past five years: Acting Chairman of the Board of Directors of Bezeq, from June 2017 to April 2018 and from June 23, 2020 to August 16, 2020. Member of the board of directors of Harel Insurance and Harel Insurance Investments and Financial Services (until 2017). Member of the board of directors of Alrov Ltd. and Mivne Ltd. (until 2019). Chairman of the investment committee in Harel Insurance Investments and Financial Services Ltd. (until 2017). Member of the executive committee of Friends of Meir Medical Center. Chairman of the loans committee of Credito Ltd. Chairman of the investment committee of Tel Aviv University. Director in Tempo Beverages Ltd. (until 2021). Member of the board of directors of Ackerstein. Chairman of the board of directors of Fritz Ltd. (private). Member of the board of directors of Rav Bariach. Chairman of the investment committee of Meitav Dash. Director in the following companies: Chairman of the board of directors of Melran Ltd. Independent director in Ormat Technologies, Independent director in Protalix. Director in Sonol and G.D. Goren (a wallet company).	No	Yes
Zeev Vurembrand 050772672 June 19, 1951 Israeli	5 Kalman Magen St., Tel Aviv 6107077	Chairman of the Financial Statements Review Committee; Audit Committee; Chairman of the Compensation Committee The director is an external director.	No	September 3, 2017	Education: BSc (cum laude) in Industrial and Management Engineering, The Israel Institute of Technology Occupation in past five years: CEO of the Meuhedet Health Fund, from May 2013 to February 9, 2019. Member of the board of trustees of Bar Ilan University (chairman of the IT committee). Director in the following companies: External director and chairman of the audit committee of Isras Investment Company Ltd. Chairman of the board of directors of Lageen Ltd. Director in ScoutCam (traded in the U.S.).	No	Yes. The Company also considers the director as an expert external director.

Name ID Date of birth Citizenship	Address for service of court papers	Membership on Board committees Serves as an external or independent director	Employee of the Company, a subsidiary or a related company or of an interested party (excluding service as a director of subsidiaries)	Date of commencement of service	Education and employment in the past five years and details of the companies in which he serves as a director (other than the Company)	Related to other interested parties in the Company	Does the Company consider the director as having accounting and financial expertise
Edith Lusky 50163567 August 16, 1950 Israeli	6 Kehilat Kovna St., Tel Aviv, 6940065	Chairperson of the Audit Committee; Financial Statements Review Committee; Compensation Committee, Security Committee The director is an external director.	No	April 26, 2018	<u>Education</u>: BA in Economics and Statistics, Tel Aviv University. MA in Economics, Tel Aviv University. <u>Occupation in past five years</u>: External director in Rafael Advanced Defense Systems Ltd. External director in Discount Bank. External director in Israel Railways. Director in Cellcom. Member of the board of trustees of the Machshava Tova Association. <u>Director in the following companies</u>: External director in Mivtach Shamir Holdings Ltd.	No	Yes. The Company also considers the director as an expert external director.
Tzipi Livni 055395321 July 8, 1958 Israeli	8 Nisan Cohen St., Tel-Aviv-Jaffa	Audit Committee, Financial Statements Review Committee, Compensation Committee. The director is an external director.	No	April 26, 2021	<u>Education</u>: LLB, Bar Ilan University. <u>Occupation in past five years</u>: Member of Knesset (Israel's Parliament), lecturer, Fisher Family Fellow at Harvard Kennedy School, consultant to organizations and universities worldwide.	No	No
Ran Fuhrer 066522772 September 2, 1984 Israeli	2 Hayas'ur Street, Ramat Gan, 4703012	Security Committee The director is not an external director	Yes VP business development at the Neopharm Group, whose controlling shareholders, David and Michal Fuhrer, are also the controlling shareholders of TNR Investments Ltd., which is part of the controlling core of B Communications, the parent company of the Company.	December 1, 2019	<u>Education</u>: MSc in General Management (Alfred P. Sloan Fellow). Stanford University, Graduate School of Business (California, USA). LLM in Commercial Law (cum laude), Tel Aviv University. LLB, Reichman University. BA in Business Administration, Reichman University. Member of the Israel Bar Association (certified attorney). Semester at Berkeley University Law School, California, USA. <u>Occupation in past five years</u>: VP business development in the Neopharm Group. Member of the board of directors of the ADO Group. Business assistant to the chairman of the Neopharm Group. Business development manager at Celgene Corporation.	Serves as VP business development and as an officer in the Neopharm Group, whose controlling shareholders are his parents, David and Michal Fuhrer, who are also the controlling shareholders of TNR Investments Ltd., which is part of the controlling core of B Communications, the parent company of the Company.	Yes
Patrice Taieb 026753723 August 26, 1960 Israeli	4/3 Rahamim Fitoussi St., Akko	No The director is not an external director	Yes. Manager of Bezeq-Tech Technology, Operations and Quality Department, Bezeq - Israel Telecommunication Corporation Ltd.	January 1, 2022[30]	<u>Education</u>: LLM, Haifa University. LLB, Carmel Academic Center. BA, Ruppin Academic Center. <u>Occupation in past five years</u>: Manager of Operations and Logistics Department, Bezeq-Tech Division, Bezeq.	No	Yes

[30] Patrice Taieb was appointed for the first time by the Board of Directors of the Company as an employee director as of January 1, 2022. In accordance with the Company's articles of association, a director so appointed will serve for a

Name ID Date of birth Citizenship	Address for service of court papers	Membership on Board committees Serves as an external or independent director	Employee of the Company, a subsidiary or a related company or of an interested party (excluding service as a director of subsidiaries)	Date of commencement of service	Education and employment in the past five years and details of the companies in which he serves as a director (other than the Company)	Related to other interested parties in the Company	Does the Company consider the director as having accounting and financial expertise
Philip Bacal[31] HP037044 September 13, 1985 Canadian	16 Abba Hillel St., Ramat Gan (c/o Meitar, Liquornik, Geva, Leshem, Tal & Co. law firm)	No The director is not an external director	Yes, see details of occupation in past five years	December 1, 2019	Education: HBA from the Richard Ivey School of Business at the University of Western Ontario. Occupation in past five years: Partner in Searchlight Capital Partners. Director in Roots Corporation. Director in Octave Group. Director in Care Advantage. Director in B Communications, as of December 2019.	No	Yes
Tal Fuhrer[32] 034521344 December 15, 1977 Israeli	15 Lehi Street, Ramat Hasharon 4704114	No The director is not an external director	Chief business officer at the Neopharm Group, whose owners, David and Michal Fuhrer, are also the controlling shareholders of TNR Investments Ltd., which is part of the controlling core of B Communications, the controlling shareholder of the Company. Serves in the Company as substitute director for his brother, Ran Fuhrer	December 1, 2019	Education: MBA in Finance and Accounting, Strategy and Entrepreneurship, Tel Aviv University. MSc in Biotechnology, Tel Aviv University. BSc in Management and Biology, Tel Aviv University. Occupation in past five years: Manager/officer in 103W COOP LLC. Chairman of the board of directors of Mivne Real Estate (KD) Ltd. Director in Birad – Bar Ilan R&D Company Ltd. Director in Jerusalem Economy Ltd. Director in Simplexis Ltd.; Director in Shall Do Real Estate Development (UK) Ltd. Chief business officer and VP business and corporate development in Neopharm Group Ltd. Director in ABBA Investment Ltd. Director in the following companies: Director in Birad Bar Ilan R&D Co. Director in Mulberry Biotherapeutics. Observer on the board of directors of Artax Biopharma.	Serves as chief business officer at the Neopharm Group, whose controlling shareholders are his parents, David and Michal Fuhrer, who are also the controlling shareholders of TNR Investments Ltd., which is part of the controlling core of B Communications, the controlling shareholder of the Company Also serves in the Company as substitute director for his brother, Ran Fuhrer, who serves as a regular director of the Company	Yes

B. <u>Directors who served in the reporting year, but whose service ended before the report publication date</u>

During the reporting year, the employee director Joseph Abergel served until December 31, 2020.

period of no more than six months from the date of his appointment or until the next General Meeting, when he can be elected, according to the earlier of these dates. On March 23, 2022, a report on convening of an Annual General Meeting of shareholders of the Company was issued, the meeting having on its agenda, among other items, the reappointment of Mr. Taieb as a director of the Company.

31 Philip Bacal was appointed as substitute director for Darren Glatt at board meetings which Darren Glatt is unable to attend, as of the date of said appointment until announced otherwise.

32 Tal Fuhrer was appointed as substitute director for Ran Fuhrer at board meetings which Ran Fuhrer is unable to attend, as of the date of said appointment until announced otherwise.

15. **Regulation 26A: Executive officers:**

The table below lists the executive officers serving in the Company as at the report publication date, followed by particulars of executive officers who served in the Company during the reporting year, but whose service ended before the report publication date.[33]

A. **Executive officers who served during the reporting year and as at the report publication date**

Name	ID	Date of birth	Date of commencement of service	Position held in the Company	Is he an interested party in the Company or a family member of another executive officer or of an interested party	Education and business experience over the past five years
Dudu Mizrahi	024810368	January 28, 1970	September 1, 2018	CEO	Yes. Interested party in the Company due to his office as Company CEO	BA in Economics, Hebrew University of Jerusalem
Tobi Fischbein	307038265	June 15, 1973	April 15, 2021	CFO Bezeq Group	No	MPA/ID (Masters in Public Administration in International Development) , Harvard University. MA in Economics, Tel Aviv University. BA in Economics, Tel Aviv University. CFO at Max IT Finance Ltd. (formerly Leumi Card Ltd.) Deputy CEO, CFO and head of business development at Tadiran Group Ltd. (formerly Tadiran Holdings Ltd.)
Guy Hadass	029654472	September 8, 1972	December 9, 2007	VP Corporate Communications	No	BA in Economics and Communication, Tel Aviv University. MBA, Tel Aviv University. Directors Course, Herzliya Interdisciplinary Center.
Nir David	024226474	February 14, 1969	March 18, 2020	VP, Head of Business Division	No	BA in Social Sciences, major in Management, Open University. Teacher's Diploma in technological subjects, Government Institute for Technology and Science Training. Practical electrical engineer, SAMAT Haifa. 2019-2020 – acting Head of Business Division and Head of Integration and Customer Relations Department at Bezeq – The Israel Telecommunication Corp. Ltd. 2011- 2018 – Head of Customer Relations Department at Bezeq – The Israel Telecommunication Corp. Ltd.
Shelly Bainhoren	066240045	November 14, 1982	February 18, 2018	Group Secretary and Internal Compliance Officer	No	LLB (cum laude), Bar Ilan University. BA in Political Science and Communication (cum laude), Bar Ilan University. Certified Attorney. June 2017-February 2018 – acting Group Secretary at Bezeq – The Israel Telecommunication Corp. Ltd. June 2013-June 2017 – Deputy Group Secretary at Bezeq – The Israel Telecommunication Corp. Ltd.
Amir Nachlieli	23012313	May 30, 1967	January 1, 2009	VP, Legal Counsel	No	MBA (expanded major in Finance), Tel Aviv University. BA in Economics, Hebrew University. LLB, Hebrew University.

[33] For the current roster of officers as of the reporting date, see immediate report of the Company dated March 23, 2022, included herein by reference.

Name	ID	Date of birth	Date of commencement of service	Position held in the Company	Is he an interested party in the Company or a family member of another executive officer or of an interested party	Education and business experience over the past five years
Amit Kurland	028044204	January 17, 1971	July 16, 2019	Chief Accountant	No	BA in Economics and Accounting, Tel Aviv University. Certified Public Accountant since 2000. Member of the executive committee and the audit committee – Eurocom Retirees Association (voluntary position). 2017-2019 – CFO at Yail Noa Group 2009-2016 – CFO and VP Finance, Procurement and Transportation at Neviot – Nature of Galilee Ltd.
Meni Baruch	038246492	November 21, 1975	May 25, 2021	VP IT and Network Division	No	1998-2000 – BA in Business Administration, Universtiy of Derby. 2008-2009 – Information Systems Management, Clark University, Boston (israel branch). 2020 – CIO Senior Management Course, The Technion
Moran Kita	033424607	February 8, 1977	February 10, 2021	VP Human Resources	No	BA in Statistics and Actuarial Studies, Haifa University. MBA major in Human Resources, Ariel University. Program for the Development of an Executive Cadre, Bezeq in collaboration with Bar Ilan University. February 2016-February 2021 – Head of Human Resources, Salary and Labor Relations Department at Bezeq.
Eyal Kamil	057248999	August 30, 1961	December 5, 2006	VP Operations and Logistics	No	BA in Industrial Engineering and Management, Tel Aviv University; MBA, Tel Aviv University
Lior Segal	025695701	September 9, 1973	January 24, 2011	Internal Auditor	No	MBA major in Finance and Accounting, Strategy and Entrepreneurship; LLB; BA in Accounting, and Diploma in Accounting – all from Tel Aviv University. Diploma in internal and public auditing from the IMC. Certified attorney and CPA in Israel. Certified Internal Auditor (CIA), Internal Audit Quality Assurance Reviewer (QAR), and Certified in Risk Management Assurance (CRMA) – Global Institute of Internal Auditors. Certified in Risk and Information Systems Control (CRISC), and Certified Data Privacy Solutions Engineer (CDPSE) – international Information System Audit and Control Association (ISACA). Director at the Institute of Internal Auditors in Israel (IIA), which was established in 2020 by consolidation of two organizations of auditors, in one of which – IIA Israel – he served as a director until 2019 (service in both organizations on a voluntary basis). Member of the audit committee of Akim Guardianship Association (volunteer).

Name	ID	Date of birth	Date of commencement of service	Position held in the Company	Is he an interested party in the Company or a family member of another executive officer or of an interested party	Education and business experience over the past five years
Keren Leizerowicz	031583156	October 9, 1978	December 1, 2018	VP Marketing and Innovation	No	BA in Communication and Psychology (cum laude), Haifa University. MBA, specializing in Marketing and Strategy, Tel Aviv University.
Erez Hasdai	022760599	May 21, 1967	February 15, 2019	VP Economics and Regulation	No	BA in Economics, Tel Aviv University. MBA, specializing in Finance, Florida International University. 2011- February 14, 2019 – Deputy CFO at Bezeq Group
Ran Guron	024113268	December 25, 1968	Pelephone November 8, 2015; yes August 1, 2018; Bezeq International September 1, 2019	CEO of the subsidiaries Pelephone, Bezeq International and DBS	No	BA in Economics and Business Administration, Hebrew University. MBA, Hebrew University. January 9, 2006-November 8, 2015 – Deputy CEO and VP Marketing at the Company.

B. Officers who served in the reporting year, but whose service ended before the report publication date

During the reporting year, Ehud Mezouman served as VP Human Resources, completing his actual employment with the Company (i.e. termination of employer-employee relationship) on April 1, and Udi Atar served as VP Residential Division, completing his actual employment with the Company on March 1, 2022. .

16. Regulation 27: The Auditors of the Company

Somekh Chaikin, Certified Public Accountants
Address: KPMG Millennium Tower, 17 Ha'arba'a St., Tel Aviv 6473917
Tel: 03-6848000

17. Regulation 29(a): Recommendations and resolutions of the Board of Directors submitted to the General Meeting, and Board resolutions which do not require the approval of the General Meeting in the matters specified in Regulation 29(a)

A. For information on extraordinary transactions, see Note 29 to the financial statements.

B. Resolution of December 10, 2020 – Recommendation to the General Meeting of shareholders to approve an increase in the Company's authorized share capital by an additional 24,485,753 ordinary shares, to stand at NIS 2,849,485,753 divided into 2,849,485,753 ordinary shares, and accordingly to amend the text of Section 8 of the Company's articles of association and Section 2.B. of the Company's memorandum of association.

C. Resolution of March 11, 2021 – Recommendation to the General Meeting of shareholders to approve the amendment of Section 8.1 (Insurance) of the Company officers' compensation policy, as set out in Section 2.12 of the report on the convening of a General Meeting of shareholders published by the Company on March 18, 2021, included herein by reference.

D. Resolution of January 3, 2022, subsequent to the reporting date – Partial early repayment, at the Company's initiative, of NIS 369,999,902 par value of Debentures (Series 9) of the Company, as set out in immediate report dated January 4, 2022 and in immediate report dated January 23, 2022 as amended on February 6, 2022, included herein by reference.

18. Regulation 29(c): Resolutions of an Extraordinary General Meeting

A. Approval of an increase in the Company's authorized share capital by an additional 24,485,753 ordinary shares, to stand at NIS 2,849,485,753 divided into 2,849,485,753 ordinary shares, with a corresponding amendment of the text of Section 8 of the Company's articles of association and Section 2.B. of the Company's Memorandum of Assocation (resolution dated January 18, 2021).

B. Approval of the terms of service and employment of Gil Sharon as Chairman of the Board of Directors of the Company, to apply retroactively from August 27, 2020, the date of actual commencement of his service, as set out in Section 2.2 of the notice of convening of a General Meeting of the shareholders published by the Company on December 12, 2020 and amended on January 14, 2021, which is included herein by reference (resolution dated January 18, 2021).

C. Approval of the allocation of 9,000,000 options exercisable into up to 9,000,000 ordinary shares in accordance with the Company's equity compensation plan, to Dudu Mizrahi, the Company's CEO, as set out in Section 2.3 of the notice of convening of a General Meeting of the shareholders published by the Company on December 12, 2020 and amended on January 14, 2021 (resolution dated January 1, 2021).

D. Approval for making amendments and revisions to the Company officers' compensation policy, as set out in Section 2.4 of the notice of convening of a General Meeting of the shareholders published by the Company on December 12, 2020 and amended on January 14, 2021 (resolution dated January 18, 2021).

E. Approval of appointment of the KPMG Somekh Chaikin accounting firm as the Company's auditors for 2021 until the next Annual General Meeting, and authorization of the Board of Directors to determine their fee for 2021 (resolution dated April 22, 2021).

F. Approval of reappointment of the following directors, as of April 22, 2021 until the end of the next Annual General Meeting: ordinary directors – Gil Sharon (who serves as Chairman of the Board of Directors), Darren Glatt, Ran Fuhrer and Tomer Raved; independent directors – David Granot (resolution dated April 22, 2021).

G. Approval of appointment of the employee director, Joseph Abergel, to an additional term on the Company's Board of Directors until the next Annual General Meeting of shareholders of the Company (resolution dated April 22, 2021).[34]

H. Approval of reappointment of Edith Lusky to an additional (second) term of three (3) years as an external director on the Company's Board of Directors, as of April 26, 2021 until April 25, 2024 (inclusive) (resolution dated April 22, 2021).

I. Approval of first appointment of Tzipi Livni as an external director on the Company's Board of Directors, for a term of three (3) years, as of April 26, 2021 until April 25, 2024 (inclusive) (resolution dated April 22, 2021).

J. Approval of the grant of a letter of exemption and indemnification undertaking to the candidate for the position of external director, as stated in Section 13(i) above, worded the same as the letters of indemnification and exemption undertakings approved by the General Meeting for all the other directors of the Company on February 2, 2020, May 14, 2020, September 6, 2020 and January 18, 2021 (resolution dated April 22, 2021).

K. Approval for making amendments and revisions to Section 8.1 (Insurance) of the Company officers' compensation policy, as set out in Section 2.12 of the report on the convening of a General Meeting of shareholders published by the Company on March 18, 2021 (resolution dated April 22, 2021).

[34] It should be noted that Mr. Abergel's tenure as employee director ended on December 31, 2021.

19. Regulation 29A(4): Exemption, insurance and indemnification undertaking to officers

For information on the exemption, insurance and indemnification undertaking given to officers, see Note 29.6 to the financial statements.

March 23, 2022

Date

Bezeq - The Israel Telecommunication Corp. Ltd.

Signatories and their positions:
Gil Sharon, Chairman of the Board of Directors
Dudu Mizrahi, CEO

Chapter E:

Report on the effectiveness of internal control over financial reporting and disclosure for the year ended December 31, 2021

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

1. Report of internal control over financial reporting and disclosure:

Annual report on the effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 9(b)a of the Securities Regulations (Periodic and Immediate Reports), 1970:

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

For this matter, the members of Management are:

1. Dudu Mizrahi, CEO
2. Udi Atar, VP Residential Division[1]
3. Eyal Kamil, VP Operations and Logistics Division
4. Amir Nachlieli, Legal Counsel
5. Erez Hasdai, VP Economics and Regulation Division
6. Guy Hadass, VP Corporate Communications
7. Tobi Fischbein, CFO Bezeq Group
8. Moran Kita, VP Human Resources Division
9. Meni Baruch, VP Technologies and Network Division
10. Nir David, VP Business Division
11. Keren Laizerovitz, VP Marketing and Innovation Division

In addition to the said members of Management, the following serve in the Company:

1. Lior Segal, Internal Auditor
2. Shelly Bainhoren, Group Corporate Secretary and Internal Compliance Officer

Internal control over financial reporting and disclosure includes controls and procedures in the Company, which were planned by the CEO[2] and the most senior financial officer, or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Company, and were designed to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format laid down in law.

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

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[1] Tenure ended on March 1, 2022.

[2] Regarding the transfer of the CEO's authority in matters connected with investees of the Company to the Board of Directors – see Section 1.1.3 of the Description of Company Operations chapter in this Report.

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

Management, under the supervision of the Board of Directors, has carried out a review and an assessment of the internal controls over financial reporting and disclosure within the Company and their effectiveness.

Assessment of the effectiveness of the internal controls over financial reporting and disclosure that Management carried out under the supervision of the Board included:

1. Mapping and identification of the relevant business units, accounts and processes the Company deems very significant for financial reporting and disclosure;
2. Examination and update of risks of reporting and disclosure;
3. Update of documentation of the controls that provide a response to risks identified and documentation of new controls;
4. Review and assessment of effectiveness of the said controls;
5. Overall assessment of the effectiveness of the internal controls;

The model for assessment of the effectiveness of the internal controls over financial reporting and disclosure was based on the following four components:

1. Entity level controls;
2. Process of preparing and closing the financial statements;
3. IT general controls (ITGC);
4. Very significant processes for financial reporting and disclosure: Revenues, Purchasing, Fixed Assets and Payroll.

Based on the assessment of the effectiveness carried out by Management under the supervision of the Board of Directors as detailed above, the Board of Directors and Management of the Company reached the conclusion that the internal controls over financial reporting and disclosure in the Company as of December 31, 2021 are effective.

<u>Following are details of the material weaknesses in the internal control that were corrected during the reported year until the reporting date, including the date on which they were first reported</u>:

During the preparation of the quarterly report as of September 30, 2020, and as part of the controls performed over the process of preparing and closing the financial statements, Bezeq International found discrepancies between the assets and liabilities recorded in its books and the actual assets and liabilities, stemming, inter alia, from failure to post to the statement of income previous years' costs for advance payments to suppliers and from inaccurate recognition of prepaid expenses.

The management of Bezeq International began an immediate examination of the matter, inter alia through its internal auditor.

In November 2020, the Board of Directors of the Company was informed of the preliminary interim findings of Bezeq International's internal auditor, who worked in conjunction with the Security Division of Bezeq International and with the support of an independent external expert. The interim findings indicated, inter alia, the existence over many years of professional errors (erroneous accounting and recording as well as deficiencies in the way of operating the controls), as well as inadequate conduct, perhaps even knowingly, by employees of Bezeq International.

The total impact of the corrections to the discrepancies found in Bezeq International in the framework of inspections as at June 30, 2020, was a decrease in the Group's equity as detailed below:

1. A decrease in the Group's equity as at January 1, 2018, totaling NIS 114 million in respect of past balances from the years 2002-2017, with the majority of this amount (some NIS 80 million) originating in the years 2002-2003.

2, A decrease in the Group's profits (net of tax) in a cumulative amount of NIS 72 million for the period from January 1, 2018 until June 30, 2020.

3. In light of the examination's findings, Bezeq International revised its forecasts for the coming years and performed an updated valuation as of December 31, 2019, following which a further impairment loss of NIS 94 million (NIS 72 million net of tax) was recognized, as a result of the revision of the value of operations and book value of Bezeq International as at December 31, 2019.

In light of the above findings, the Group published on December 21, 2020 restated financial statements for the year 2019 and for the first and second quarters of 2020 (including the comparative figures contained in them), in order to retroactively reflect the impact of the correction of the discrepancies.

It is noted that given the proximity in time between the discovery of the findings and the date of publication of the statements for the third quarter of 2020, and the need to recalculate certain balances in its statements of financial position, the performance of the controls in the Company and in Bezeq International was not completed as of the date of approval of the financial statements for the third quarter of 2020.

On November 23, 2020, the Company's Board of Directors appointed an independent external investigator ("the External Investigator") to conduct an in-depth investigation of the matter, including the circumstances leading to the creation of the discrepancies and the processes and controls that should have prevented their occurrence.

On February 4, 2021, the External Investigator presented the findings of its investigation report ("the Investigation Report") to the Company's Board of Directors. The following are the main findings and conclusions as set out in the Investigation Report:

1. Debit supplier balances which were created as a result of payments by standing order that were not recorded as expenses in the years 2001-2003, but accumulated as a debit amount in an account in the general ledger. The majority of the debit supplier balances that were found were vis-à-vis the parent company, Bezeq, as a related party.

   Thus, in light of the aforementioned inaccurate recording of expenses, expenses were recorded during the relevant accounting period based on a cumulative, estimated and partial calculation that did not necessarily match the payments actually made, in an expenses payable account that also served in sorts as a general accounting ledger.

   In the investigation it was found that in all the examined years, the trade payables item was presented and analyzed by Bezeq International's finance department on a net basis, making it difficult for the company's internal controls to identify the aforesaid debit supplier balances.

   Additionally, it was found that some of the employees in Bezeq International's finance department were aware of the existence of the unexplained debit balances but did not act to clarify their source or deal with them in real time. Moreover, these employees did not inform either Bezeq International's management or its independent auditor about the issue.

2, Failure to recognize expenses versus revenues under service agreements with customers in the years 2018-2019: Deficient recording of expenses due to errors in distinguishing between the components of the agreements and in the manner of recording the expenses.

3, Incorrect presentation of data to the independent auditor: Over several years, the composition of the trade payables item was presented to the independent auditor on a net basis, without any breakdown into the balances created in the general ledger accounts which together comprised the net trade payables item, thereby concealing from the independent auditor the unexplained debit balances. Additionally, over several years, rows (reflecting invoices) were deliberately omitted from one of the supplier accounting ledgers, so that the ledgers should ostensibly balance out with the net trade payables item that was presented.

In the investigation it was found that some of the employees of Bezeq International's finance department were aware of and took part in the incorrect presentation of the data to the independent auditor.

The Company's Board of Directors authorized its Audit Committee to continue deliberating on the Investigation Report's findings and recommendations, as well as to monitor implementation of the recommendations, consider the implications for the topics of audit and control, and examine the need to draw further conclusions and take additional steps. Accordingly, at the Audit Committee's request, the External Investigator presented to the committee the findings of a supplementary review it conducted, following which the Company's Board of Directors accepted the Audit Committee's recommendations, which mainly included the introduction of periodic controls and analytical assessments which must be performed by Bezeq International as part of the financial statements closure process (in addition to the existing controls in the company); the adoption of a professional standard for control personnel of the Company and each of its significant subsidiaries, and for their functions, as well as the assignment of supervision and control powers to staff of the Company's accounting department over the work of the finance and accounting personnel in each of the subsidiaries with respect to its financial statements; the adoption of certain checks to increase the effectiveness of entity level controls in the Company and each of its significant subsidiaries; as well as recommendations for reviewing and improving the contracts of the Company and Bezeq International with external service providers.

It should be noted that the Investigation Report and the sample audits performed by the External Investigator do not indicate suspicions of embezzlement during the examined period, particularly with respect to the event that occurred between 2001 and 2003,[3] while with respect to the event that occurred between 2017 and 2019, the External Investigator stated that there was no concrete suspicion of embezzlement. For this reason it was decided not to broaden the investigation into suspicions of embezzlement beyond the actions that were taken and the findings and conclusions which the External Investigator derived from them.

Disclosure of the material discrepancies between the assets and liabilities recorded in the books of Bezeq International and the actual assets and liabilities was first made by the Company in an immediate report dated November 9, 2020. The Company continued providing updates on the matter in additional immediate reports that were published in November and December 2020 and in February 2021, as well as in its periodic reports.

In the assessment of the effectiveness of internal controls as of September 30, 2020 and as of December 31, 2020, the Company reported that the internal controls were ineffective, due to material weaknesses identified in the entity level controls and in the process of preparation and closing of the financial statements, which resulted in inaccurate recognition of expenses..

In the quarterly report for March 31, 2021, the Company reached the conclusion that the internal controls were effective as of the date of publication of the report, and it reported in detail on the actions that were taken to correct the material weaknesses.

It should be noted that Bezeq International is continuing to strengthen its internal controls, inter alia, by improving the automation of the work processes in which deficiencies were found as well as taking other

[3] It is noted that according to the Investigation Report, due to the large number of accounting records, the absence of documentation or incompleteness of supporting documents, and the failure to provide complete explanations regarding some of the accounting records made by employees of the finance department in those years, one cannot rule out unequivocally the suspicion of embezzlement in the years 2001-2003.

actions. Improvement of the automation of work processes is being done in the framework of a multi-annual plan that is partly being overseen by external professional consultants.

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Concerning the investigations of the Israel Securities Authority and the Israel Police as detailed in Section 1.1.6 of the Description of Company Operations chapter in this Report, the Company does not have complete information about the investigations, their content, nor the material and evidence in the possession of the statutory authorities on this matter (although in January 2021 the Company received the core of the investigation material in connection with Case 4000, further to the invitation of the Company to a hearing in this matter, as set out in Section 1.1.6.2 of the Description of Company Operations chapter). Accordingly, the Company is not yet able to assess the effects of the investigations, their findings and their outcome on the Company and on the financial statements and on the estimates used in the preparation of these financial statements, if any.

2. Declaration of Executives:

A. Declaration of the CEO in accordance with Regulation 9B(d)(1) of the Securities Regulations (Periodic and Immediate Reports), 1970:

I, Dudu Mizrahi, declare that:

(1) I have reviewed the periodic report of Bezeq – The Israel Telecommunication Corp. Ltd. ("the Company") for 2021 ("the Reports").

(2) To the best of my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.

(3) To the best of my knowledge, the financial statements and other financial information in the Reports reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.

(4) I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review Committees of the Board of Directors of the Company, based on my most recent evaluation of internal control over financial reporting and disclosure:

A. All the significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;

B. Any fraud, whether or not material, that involves the CEO or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure

(5) I, alone or together with others in the Company:

A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;

B. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

C. Assessed the effectiveness of internal controls over financial reporting and disclosure, and presented in this Report the conclusions of the Board of Directors and Management concerning the effectiveness of said internal controls as of the date of the Reports.

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

Date: March 22, 2022

Dudu Mizrahi, CEO;

B. Declaration of most senior financial officer in accordance with Regulation 9B(d)(2) of the Securities Regulations (Periodic and Immediate Reports),1970:

I, Tobi Fischbein, declare that:

(1) I have reviewed the financial statements and other financial information included in the reports of Bezeq – The Israel Telecommunication Corp. Ltd, ("the Company") for 2021 ("the Reports").

(2) To the best of my knowledge, the financial statements and other financial information included in the Reports do not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period of the Reports.

(3) To the best of my knowledge, the financial statements and other financial information included in the Reports reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for periods presented in the Reports:

(4) I have disclosed the following to the Independent Auditor of the Company, to the Company's Board of Directors, and to the Audit and the Financial Statements Review Committees of the Board of Directors of the Company, based on my most recent evaluation of the internal control over financial reporting and disclosure:

A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, with respect to the financial statements and other financial information included in the Reports, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize or report financial information, in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law;

B. Any fraud, whether or not material, that involves the CEO, or anyone directly subordinate to the CEO, or which involves other employees who have a significant role in the Company's internal control over financial reporting and disclosure.

(5) I, alone or together with others in the Company:

A. Established controls and procedures, or ensured the establishment and maintaining of controls and procedures under my supervision, designed to ensure that material information relating to the Company, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 2010, insofar as it is relevant to the financial statements and other financial information included in the Reports, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of preparation of the Reports;

B. Established controls and procedures or ensured the establishment and maintaining of controls and procedures under our supervision, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

C. Assessed the effectiveness of internal controls over financial reporting and disclosure, with respect to the financial statements and other financial information included in the Reports, as of the date of the Reports. My conclusions pursuant to my said assessment were reported to the Board of Directors and are included in this Report.

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

Date: March 22, 2022

Tobi Fischbein,
CFO Bezeq Group