B Communications Ltd.
Annual Report 2021

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Chapter A

(Description of the Corporation's Business)

2021 Periodic Report

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Chapter A - Description of the Corporation's Business

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

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

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

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

1.1.1. General

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

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

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

1.1.2. Acquisition of control of Bezeq

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

As of the date of this report, the Company holds approximately 26.72% of Bezeq's issued and paid-up equity.

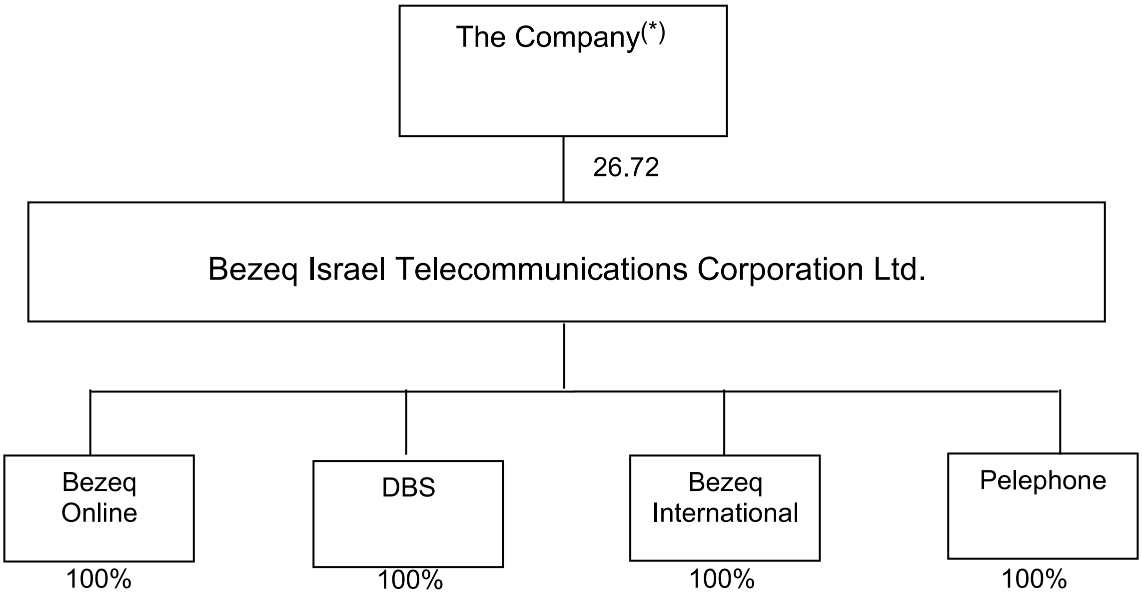
For further details regarding the control of the Company and the control permit in connection with the Company's holding in Bezeq shares, see Section 1.1.4 below.

1.1.3. Bezeq Group - General

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

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

Below is a diagram of the structure of the holdings in the Group as of the date of approval of this report (March 22, 2022):



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

Regarding Walla - following previous decisions of Bezeq's Board of Directors regarding the Bezeq Group's business strategy, including activities for the sale of the subsidiaries Bezeq Online and Walla, on December 27, 2020, Bezeq's transaction with Jerusalem Post Ltd. ("**the Buyer**") was completed for the sale all of Bezeq's holdings in Walla, in exchange for a total of NIS 65 million, of which NIS 55 million in cash, and the balance through Bezeq's entitlement to receive from the Buyer and Walla (and entities related thereto) advertising space for a period of up to 7 years from the date of completion of the transaction. Accordingly, as of the aforesaid date, Walla is not a subsidiary of Bezeq, and it should be noted that the sale agreement included Bezeq's obligation to indemnify the Buyer in certain circumstances.

1.1.4. Control of the Company

On December 2, 2019, a debt arrangement was completed between the Company and its bondholders, as part of which Searchlight II BZQ LP and a corporation controlled by the Forer family (TNR Investments Ltd.) purchased control of the Company (and consequently, the control ofBezeq). The Company holds Bezeq through a company under its full (indirect) control, B. Communications (SP2) Ltd.[1]. In this regard, see also Bezeq's immediate report dated December 2, 2019 regarding the Company's announcement of the completion of the said transaction, as well as Bezeq's immediate reports dated January 2, 2020 regarding the holdings of stakeholders and those who became stakeholders in the corporation.

As of the date of completion of the debt arrangement as stated above, the controlling shareholders of the Company are Searchlight II BZQ LP, a limited partnership incorporated in the Cayman Islands ("**Searchlight**") and TNR Investments Ltd. ("**TNR**"), a private company incorporated in Israel. The final general partner of Searchlight is Searchlight Capital Partners II GP LLC, a limited liability company incorporated in the State of Delaware, which is held by a number of individuals including Eric Zinterhofer, Erol Uzumeri and Oliver Harmaann, the latter being among the only ones to receive the Company's control permit from the Ministry of Communications. TNR is wholly owned and fully controlled by Mr. David Forer (50%) and Mrs. Michal Forer (50%). Searchlight and TNR are considered controlling shareholders in the Company by virtue of a control permit dated November 11, 2019 and by virtue of a voting agreement between them which gives them a cumulative holding, as of the date of publication of this report, of approximately 72% of

[1] As of October 11, 2021, and in accordance with the amendment of the control permit signed on August 22, 2021, 738,953,713 of Bezeq's shares are held directly by the Company, after on that day all the Company's shares held by B. Communications (SP2) Ltd. (a company wholly owned and controlled by Bi Communications (SP1) Ltd. which is wholly owned and controlled by the company) were transferred to the Company for direct holding. Following the transfer of Bezeq's shares to the Company, the companies B Communications (SP2) Ltd. and B Communications (SP1) Ltd. were closed.

the voting rights in the Company.

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

The control permit

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

a. A control permit for corporations is given to the Company and two private companies wholly owned by the Company[2], Searchlight Corporations, and TNR ("**Permit for Corporartions**").

b. A control permit for individuals to hold means of control in Bezeq and to control it is given to Michal Forer, David Forer, Oliver Harmaann, Erol Uzumeri, Eric Zinterhofer, and Darren Glatt[3] ("**Permit for Individuals**").

The Permit for Corporations and the Permit for Individuals will be jointly referred to as "**the Control Permits**" and the parties to whom such permits were granted will be referred to as "**the Permit Holders**".

The Control Permits were issued for the control and possession of means of control in Bezeq at a minimum rate of not less than 25%[4]. The control permits allow the Permit Holders to control Bezeq directly and indirectly, and they also allow Searchlight and TNR to make a "joint appointment" of directors, as defined in the Communications Order, in Bezeq and the Company.

The Control Permits also stipulate provisions regarding the minimum holding rate in Bezeq of an "Israeli entity" as defined in the Communications Order[5].

Preconditions set out in the Control Permits

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

"3.1. The Articles of Association of BCOM, Bezeq and its subsidiaries

[2] B Communications (SP1) Ltd. and B Communications (SP2) Ltd. It should be noted that as of the date of the report, the Company holds Bezeq shares directly.

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

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

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

must include instructions as detailed below:

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

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

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

3.2. The Articles of Association of the subsidiaries must include provisions regarding the rights of the Israeli entity, as defined in the Communications Order, for the appointment of directors therein, in accordance with Article 4(a)(2)(b)(2) of the Communications Order;"

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

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

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

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

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

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

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

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

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

<u>The lien permit</u>

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

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

In addition, the Lien Permit includes restrictions on the procedures for exercising the lien by virtue thereof, taking into account, among other things, the provisions of the Communications Order, including provisions according to which the lien will be carried out only by appointing a receiver and trustee whose identity has been approved by the Ministers according to various parameters specified in the permit. In addition, similar to the control permits as detailed above and the reuiqred changes, the Lien Permit also includes provisions allowing the Ministry of Communications to revoke it, including in circumstances of concern of harming State security or vital public needs and other cases[6] in which, If the Ministers see that there is a real concern of harm to the provision of the essential service by Bezeq or the ground for determining it as an essential service, the Ministers will be entitled to act as stated in the Communications Order, including the issue of provisions and revocation of the permit.

Contacts with the Ministry of Communications

The Company updated the Ministry of Communications on contacts between the Company and Bezeq in connection with the amendment of the Articles of Association as stated above.

On May 17, 2020, the Company updated the Ministry of Communications on the results of Bezeq's general meeting, and attached the minutes of the general meeting dated May 14, 2020.

In view of the Company's efforts to approve the amendment of the Articles of Association, the Company appealed to the Ministry of Communications to refrain from taking steps in connection with Article 3.5 of the control permit (the article requiring the amendment of the Articles of Association) until the steps to implement the amendment are exhausted.

On October 28, 2020, the Company applied to the Ministry of Communications to cancel the condition set forth in the control permit granted to it in connection with its holdings in Bezeq shares, to make amendments to Bezeq's and Bezeq's subsidiaries' Articles of Association, after Bezeq's general meeting rejected the amendment. Among other reasons, the Company claims that the requested amendments anchor provisions that in any case exist in the Communication Order and other laws, and therefore do not create a new law and are not required.

1.1.5. In accordance with the decision of Bezeq’s Board of Directors dated Spetember 4, 2007 in accordance with Article 50(a) of the Companies Law and in accordance with Regulations 119 and 121 (1) of Bezeq’s Articles of Association - the powers of the CEO in all matters related to the corporations held, directly or indirectly, by Bezeq (Including Pelephone, Bezeq International, DBS And Bezeq Online) were transferred to the Board.

1.1.6. Mergers, acquisitions and structural changes

Bezeq and DBS merger

Until March 25, 2015 Bezeq held about 49.78% of the shares of DBS, and owned options that conferred thereon the right to about 8.6% of the shares of DBS and which Bezeq was prevented from exercising. The balance of DBS shares was held by Eurocom DBS[7].

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

[7] A company that was (indirectly) controlled by Shaul and Yosef Elovich, who controlled the Company at the time.

On March 25, 2015, Bezeq exercised the options free of charge, and on June 24, 2015, Bezeq completed a transaction in which it acquired all the holdings of Eurocom DBS in DBS, as well as all the owner loans that Eurocom DBS provided to DBS (approximately NIS 1,538 million as of December 31, 2014) ("**The Acquisition Transaction**").

Upon completion, Bezeq transferred to Eurocom DBS the cash consideration for the Acquisition Transaction in the amount of NIS 680 million. Upon completion of the said Acquisition Transaction, DBS became a wholly owned (100%) subsidiary of Bezeq.

It should be noted that in accordance with the terms of the Acquisition Transaction, in addition to the cash consideration of NIS 680 million, the consideration also included two additional conditional consideration as follows:

a. One additional consideration in the amount of up to NIS 200 million in accordance with the tax synergy according to the terms defined in the Acquisition Transaction ("**First Conditional Consideration"). **Most of the First Conditional Consideration was paid after Bezeq entered into an assessment agreement and a taxation decision with the Authority Taxes on financing revenue, owner loans, DBS losses and merger (See also Notes 7 and 12.2 to the 2021 statements).

b. An additional consideration of NIS 170 million, according to the business results of DBS in the years 2015-2017 ("**Second Conditional Consideration**"). Bezeq paid advances on the Second Conditional Consideration in total of about NIS 119 million.

Depending on DBS's financial results for 2017 and since the final amount of the Second Conditional Consideration was lower than the amount of advances that Bezeq paid to Eurocom DBS for the same consideration, Eurocom DBS must return the difference to Bezeq. In this context, Bezeq joined as a creditor in the liquidation process of Eurocom Communications. In addition, following Bezeq's demand that Eurocom DBS pay Bezeq the amount of the advance on the Second Conditional Consideration, together with interest as stipulated in the agreement, after the targets entitling Eurocom DBS to this consideration have not been achieved, on April 22, 2018, the Tel Aviv District Court, at Bezeq's request, garnted an order to dissolve Eurocom DBS, and Bezeq's attorney was appointed as the liquidator of Eurocom DBS.

For details regarding conditions set forth in the Competition Authority's approval of the merger (within the meaning thereof in the Economic Competition Law) between Bezeq and DBS, see section 2.16.8.3.

On December 25, 2016, a merger agreement was signed between Bezeq and DBS ("**the Merger Agreement**") which is subject to the conditions set forth therein, which included, *inter alia*, the receipt of various regulatory approvals from the Ministry of Communications, the Minister of Communications and the Head of the Civil Administration, on the date of completion of the merger, and retroactively from the effective date of the merger (December 31, 2016), all DBS activities will merge with and into Bezeq, without consideration, in accordance with the provisions of Article 323 of the Companies Law and in accordance with the provisions of Article 103B and Article 103C of the Income Tax Order [8], And DBS will cease to exist as a separate legal entity.

The main purpose of the merger, from a business and economic point of view, is to streamline the operations and activity of Bezeq and DBS and to consolidate them under one legal entity in a manner that will result in savings in operating costs over the timeline.

As of the date of this report, the merger in accordance with the Merger Agreement has not yet been carried out, in view of the non-fulfillment of the preconditions for the merger, in particular the elimination of the structural separation in the Group (see Section 1.7.2.1).

For further details regarding what is stated in this section, see also Section 2.20.5 and Note 12.2 to the 2021 statements. See also Bezeq's immediate reports dated December 23, 2016, December 25, 2016, December 26, 2016, December 28, 2016, December 29, 2016 and November 8, 2018 included in this report by way of reference.

<u>Structural change in the subsidiaries</u>

Following on from previous resolutions adopted by Bezeq as well as Bezeq's subsidiaries

8 Regarding taxation decision made on September 15, 2016 by the Tax Authority in the framework of an assessment agreement signed between the Company and the Tax Authority, which includes preliminary approval for tax purposes by the Tax Authority to merge DBS with and into the Company in accordance with Article 103B of the Income Tax Ordinance, see the Company's immediate report dated September 18, 2016.

- Bezeq International and DBS (in this Section: “**the subsidiaries**") regarding a structural change plan in which Bezeq International's private activities were to merge with and into DBS, and the spin-off of Bezeq International’s ICT activities into a new company wholly owned by Bezeq (“**the merger / spin-off plan**"). On March 16, 2022, Bezeq's Board of Directors decided, following the resolutions adopted that day by the Boards of Directors of Bezeq's subsidiaries, to approve the cancellation of the merger / spin-off plan, and to approve an alternative plan for Bezeq's subsidiaries to be presented within 60 days, according to which Bezeq International's ISP activity in the private segment will be reduced following the abolition of the separation between broadband infrastructure service and Internet access service (ISP) (as described in Note 12.3 below), and ISP activity will be established in DBS for the purpose of selling "triple" packages to customers (“the **alternative outline**"), while striving to achieve, as far as possible, the strategic, business and economic purposes that formed the basis for the resolution to promote structural change, which were, among other things, adapting the activity to the structure of the industry and the changing regulation, focusing on increasing revenues and growth, and increasing the operational synergy and streamlining.

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

Bezeq and its subsidiaries of Bezeq are unable to assess, at this stage, whether all the conditions required for the implementation of the alternative outline will be met, and when they would be met, if they are met, and accordingly there is no certainty that the alternative outline will materialize in the manner described above or at all.

Plan to repurchase the Company's shares

On November 29, 2021, the Company's Board of Directors approved a plan to repurchase the Company's shares in the amount of up to NIS 30 million, which began on December 1, 2021. For further details, see the Company's report dated November 30, 2021 (Ref.: 2021-01-104413).

1.1.7. Investigations by the Israel Securities Authority and the Israel Police

Following the investigations of the Securities Authority from June 2017 and of the Securities Authority and the Israel Police from February 2018 on suspicion of committing offenses under the Securities Law and the Penal Code, 5737-1977 ("**Penal Code**"), in respect of transactions related to the previous controlling shareholder in the Company and former Chairman of Bezeq's Board of Directors, Shaul Elovich ("**Elovich**") regarding the purchase of DBS shares and the provision of satellite communication services to DBS, the Ministry of Communications' dealings with Bezeq ("**the DBS Case**") as well as suspicions of the exercise of powers by former Prime Minister Binyamin Netanyahu, to advance issues concerning the business of Elovich and the economic interests of him and the Bezeq Group ("**Case 4000**") -

1.1.7.1 On January 28, 2020, an indictment was filed with the Jerusalem District Court in Case 4,000, *inter alia*, against Elovich for various offenses, including bribery and deliberate misstatement in an immediate report in connection with suspicions of exercise of powers by former Prime Minister Binyamin Netanyahu to advance issues concerning the business of Elovich and the economic interests of him and the Bezeq Group.

1.1.7.2 On December 23, 2020, Bezeq received a notice from the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and its summons to a hearing on Case 4,000 ("**the Notice**")[9] According to which:

a) After examining the evidence before him, the Attorney General is considering filing an indictment against Bezeq on suspicion of bribery (an offense under Article 291 of the Penal Code and Article 23 of the Penal Code), and a

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

reporting offense with the aim of misleading a reasonable investor (offense under Article 53(a)(4) of the Securities Act and Article 23 of the Penal Code).

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

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

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

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

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

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

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

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

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

1.1.7.3

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

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

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

1.2. Areas of activity

The Group has four main areas of activity that correspond to the corporate division among the Group's companies and are reported as business segments in Bezeq's consolidated financial statements (see also Note 28 to the 2021 statements):

1.2.1. Bezeq – Landline interior communications

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

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

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

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

Internet access services (ISP), international communication services, network endpoint services and the provision of ICT solutions. Bezeq International's activities are described in section 4 to this report.

1.2.4. DBS - Multi-channel TV

Digital multi-channel TV broadcasting services to subscriptions over satellite (DBS) as well as over the Internet (OTT) and the provision of value-added services to subscribers. DBS activity is described in section 3 to this report.

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

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

Regarding the completion of the transaction for the transfer of control of the Company on December 2, 2019, see section 1.1.2 above.

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

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

1.4. Dividend distribution

1.4.1. Dividend policy in the company

The Company has not distributed dividends to its shareholders in the last three years (2019-2021) and as of the date of this report, the Company does not have a valid dividend distribution policy.

1.4.2. Dividend policy at Bezeq

on March 22, 2022, Bezeq's Board of Directors decided to approve a new dividend distribution policy for Bezeq, according to which Bezeq will distribute to its shareholders, every six months, a cash dividend of 50% of Bezeq's consolidated financial statements. This is starting from the next distribution (for 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, Bezeq needs and liabilities, Bezeq's cash balances, plans and position, as they will be from time to time, and subject to the approval of the General Meeting of Bezeq's shareholders regarding any specific distribution, as provided in Bezeq's Articles of Association.

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

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

Bezeq's Board of Directors was presented with, among other things, analysis and results of professional work as performed by Professor Aharon (Roni) Ofer, Bezeq's and the Bezeq Group's forecasts, as well as sensitivity analyzes for unforeseen deterioration in Bezeq's and Bezeq Group businesses. After Bezeq's Board of Directors examined all of the above, the Board of Directors determined that this decision reflects the correct balance between these needs as described above.

1.4.2.1 Distribution of dividends in Bezeq - Bezeq has not distributed dividends in the last three years (2019-2021). As of the date of the report, the balance of distributable profits of Bezeq is NIS 1,979 million. Regarding Bezeq's Board of Directors' recommendation to the general meeting of Bezeq shareholders regarding the distribution of dividends, see Note 20 to the 2021 statements.

For this section, see Bezeq's immediate report dated March 23, 2022 regarding the dividend policy and the distribution of dividends included in this report by way of reference.

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

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

1.5.1. 2021

	Lnadline interior communi cation	Cellular communic ation (mobile radio telephone)	Bezeq Internatio nal services	Multi-channel TV (3)	Other	Consolida tion adjustme nts (2)	Consolida ted
Total revenue:							
External	3,845	2,249	1,186	1,270	271	-	8,821
From other areas of activity in the corporation	337	40	51	-	6	(434)	-
Total revenue	4,182	2,289	1,237	1,270	277	(434)	8,821
Total attributable costs:							
Variable costs attributed to the area of activity (1)	369	982	723	369	215		
Fixed costs attributed to the area of activity (1)	2,065	1,265	492	942	35		
Total costs	2,434	2,247	1,215	1,311	250	(506)	6,951
Costs that do not constitute revenue in another area of activity (3)	2,389	2,153	944	1,291	246	(72)	6,951
Costs that constitute revenue of other areas of activity	45	94	271	20	4	(434)	-
Total costs	2,434	2,247	1,215	1,311	250	(506)	6,951
Profit from ordinary activities attributed to the owner of the Cmpany	1,748	42	22	(41)	27	72	1,870
Total assets attributed to activity as of December 31, 2021	9,245	4,452	783	1,293	100	(1,939)	13,934
Total liabilities attributed to the area of activity as of December 31, 2021	11,415	1,753	566	474	37	(1,407)	12,838

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

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

(3) See Notes 10 and 28 in the 2021 statements regarding the neutralization of the impairment loss in the multi-channel television segment. The impairment loss in this segment is shown in the adjustments.

1.5.2. 2020

	Lnadline interior communi cation	Cellular communic ation (mobile radio telephone)	Bezeq Internatio nal services	Multi-channel TV (3)	Other	Consolida tion adjustme nts (2)	Consolida ted
Total revenue:							
External	3,813	2,127	1,217	1,286	280	-	8,723
From other areas of activity in the corporation	346	59	54	1	6	(466)	-
Total revenue	4,159	2,186	1,271	1,287	286	(466)	8,723
Total attributable costs:							
Variable costs attributed to the area of activity (1)	850	799	1,021	532	186		
Fixed costs attributed to the area of activity (1)	1,604	1,471	491	797	56		
Total costs	2,454	2,270	1,512	1,329	242	(539)	7,268
Costs that do not constitute revenue in another area of activity (3)	2,405	2,162	1,246	1,296	236	(77)	7,268
Costs that constitute revenue of other areas of activity	49	108	266	33	6	(462)	-
Total costs	2,454	2,270	1,512	1,329	242	(539)	7,268
Profit (loss) from ordinary activities attributed to the owner of the Cmpany	1,705	(84)	(241)	(42)	44	73	1,455
Total assets attributed to activity as of December 31, 2020	8,471	4,371	785	1,365	96	(1,847)	13,241
Total liabilities attributed to the area of activity as of December 31, 2020	11,764	1,742	580	505	42	(1,242)	13,391

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

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

(3) See Notes 10 and 28 in the 2021 statements regarding the neutralization of the impairment loss in the multi-channel television segment. The impairment loss in this segment is shown in the adjustments.

1.5.3. 2019

	Lnadline interior communi cation	Cellular communic ation (mobile radio telephone)	Bezeq Internatio nal services	Multi-channel TV (3)	Other	Consolida tion adjustme nts (2)	Consolida ted
Total revenue:							
External	3,757	2,316	1,283	1,344	229	-	8,929
From other areas of activity in the corporation	316	46	56	1	9	(428)	-
Total revenue	4,073	2,362	1,339	1,345	238	(428)	8,929
Total attributable costs:							
Variable costs attributed to the area of activity (1)	307	1,080	727	630	177		
Fixed costs attributed to the area of activity (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 area of activity (3)	1,883	2,357	1,292	1,457	232	858	8,079
Costs that constitute revenue of other areas of activity	48	104	243	23	5	(423)	-
Total costs	1,931	2,461	1,535	1,480	237	435	8,079
Profit (loss) from ordinary activities attributed to the owner of the Cmpany	2,142	(99)	(196)	(135)	1	(863)	850
Total assets attributed to activity as of December 31, 2019	8,091	4,088	1,084	1,491	151	(1,914)	12,991
Total liabilities attributed to the area of activity as of December 31, 2019	12,466	1,434	604	576	79	(1,236)	13,923

(1) The Group companies, which are companies that provide services (as opposed to manufacturing companies), do not maintain a dedicated pricing system that distinguishes between fixed and variable costs. The above distribution was made for the purposes of this report only. Variable costs are costs in the management and control of which and in the effect of which on direct output the companies have flexibility in the short term, as opposed to fixed costs that are not flexible in the short term and do not directly affect output (in this regard, in relation to the definition of fixed costs and variable costs, it is clarified that "short term" means a period of up to one year).
The variable costs included non-recurring expenses (revenue) that were included in the other expenses (revenue) item of each company.

(2) Detailed consolidation adjustments - transactions between areas of activity.

(3) See Notes 10 and 28 in the 2021 statements regarding the neutralization of the impairment loss in the multi-channel television segment. The impairment loss in this segment is shown in the adjustments.

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

1.5.4. Main results and operational data

The following is a summary of data on the results of each of the Company's main areas of activity in 2020 and 2021.

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

	2021	2020	Q4/ 2021	Q3/ 2021	Q2/ 2021	Q1/ 2021	Q4/ 2020	Q3/ 2020	Q2/ 2020	Q1/ 2020
Revenue (NIS millions)	4,182	4,159	1,052	1,037	1,039	1,054	1,055	1,042	1,044	1,018
Operating profit (NIS millions)	1,748	1,705	358	390	407	593	356	446	464	439
Depreciation and amortization (NIS millions)	938	877	245	239	231	223	225	222	218	212
Operating profit before depreciation and amortization (EBITDA) (NIS millions) (1)	2,686	2,582	603	629	638	816	581	668	682	651
Net profit (NIS millions)	1,063	1,040	206	219	238	400	216	300	229	295
Cash flow from operating activities (NIS millions)	2,024	2,106	593	567	354	510	600	561	334	611
Payments for investments in property, plant and equipment and intangible assets and other investments (NIS millions)	1,155	910	244	314	285	312	237	272	201	200
Receipts from the sale of property, plant and equipment and intangible assets (NIS millions)	273	146	87	4	-	182	119	1	19	7
Lease payments	116	111	32	31	24	29	27	26	26	32
Free cash flow (NIS millions) (2)	1,026	1,231	404	226	45	351	455	264	126	386
Number of active subscribers at the end of the period (thousands) (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 subscriber (NIS) (ARPL) (4)	47	50	46	46	47	49	50	51	51	48
Outgoing usage minutes (millions)	3,385	3,985	811	782	827	965	1,004	1,019	1,079	883
Incoming usage minutes (millions)	4,627	5,107	1,096	1,152	1,095	1,284	1,326	1,368	1,293	1,120
Total number of Internet subscribers at the end of the period (thousands) (7)	1,524	1,556	1,524	1,524	1,529	1,540	1,556	1,565	1,571	1,566
Of which are Internet lines at the end of the period - wholesale (thousands) (7)	501	557	501	510	520	539	557	570	580	584
Of which are Internet lines at the end of the period - in retail (thousands) (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 plan speed for 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
Churn rate of telephony subscribers (6)	10.6%	12.5%	2.8%	2.4%	2.6%	2.8%	3.2%	3.4%	2.7%	3.2%

(1) Operating profit before depreciation and amortization (EBITDA) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as another index for evaluating its business results since it is an accepted index in the Company's area of activity which neutralizes aspects resulting from variability in capital structure, various taxation aspects and manner and period of amortization of property, plant and equipment and intangible assets. This index is not a substitute for indices based on generally accepted accounting principles, and does not serve as a single index for assessing the Company's results of operations or cash flow. Also, the index presented in this report may not be calculated in the same way as other indices in other companies. The Company's EBITDA is calculated as operating profit before depreciation, amortization and ongoing losses from impairment of property, plant and equipment and intangible assets. For the purpose of adequate presentation of economic activity, the Company presents ongoing losses from impairment of property, plant and equipment and intangible assets in DBS and Bezeq International under the depreciation and amortization item, as well as ongoing losses from impairment of broadcasting rights under the operating and general expenses item (in the statement of income). For this matter see Note 10 to the financial statements and section 8 of the chapter on the description of the corporation's business in the 2020 periodic report.

(2) Free cash flow is a financial measure that is not based on generally accepted accounting principles. Free cash flow is defined as cash arising from current operations minus cash for the purchase / sale of property, plant and

equipment. The Company presents free cash flow as an additional index to evaluate business results and cash flows, since the Company is of the opinion that cash flow is an important liquidity index that reflects the cash derived by Bezeq from its current operations after investing cash in infrastructure and property, plant and equipment and other intangible assets. For this matter see section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.

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

(4) Calculated according to the average of subscribers for the period. For this matter see also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.

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

(6) Number (gross) of telephony subscribers who abandoned Bezeq Fixed Lines during the period divided by the average number of telephony subscribers registered in the period. See also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.

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

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

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

(1) For the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.

(2) The subscriber data include Pelephone subscribers (net of other operators’ subscribers hosted on Pelephone’s network, and net of IoT subscribers) and do not include subscribers connected to Pelephone’s service for six months or more but are inactive. Inactive subscribers are subscribers who in the last six months have not received at least one call, did not make at least one call / message or did not perform a browsing operation or did not pay for Pelephone’s services. Prepaid subscribers are included in the active subscriber base from the date of performing a charge and are deducted from the active subscriber base when no making outbound use for six

months or more. It should be noted that a customer may have more than one subscriber ("line"). The number of subscribers includes subscribers who consume various services (such as data for in-vehicle media systems), the average income from which is significantly lower than the rest of the subscribers.

(3) The average monthly income per subscriber (postpaid and prepaid). The index is calculated by dividing the average monthly revenue from all cellular services from both Pelephone's subscribers and other communication operators, including revenue received from cellular operators using Pelephone's network, repair service and extended warranty in the period by the average active subscriber base in that same period. See also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.

(4) The subscriber churn rate is calculated according to the ratio of the subscribers who disconnected from Pelephone services and the subscribers who became inactive during the period to the average of active subscribers during the period. See also section 8 of the chapter on the description of the corporation's business in the 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
Revenue (NIS millions)	1,237	1,271	328	287	310	312	325	315	314	317
Operating profit (loss) (NIS millions)	22	(241)	1	13	16	(8)	(22)	(275)	27	29
Depreciation and amortization (NIS millions)	173	149	40	38	46	49	26	42	38	43
Operating profit (loss) before depreciation and amortization (EBITDA) (NIS millions) (1)	195	(92)	41	51	62	41	4	(233)	65	72
Net profit (loss) (NIS millions)	8	(275)	(5)	10	11	(8)	(13)	(305)	21	22
Cash flow from operating activities (NIS millions)	131	230	(52)	96	26	61	75	47	48	60
Payments for investments in property, plant and equipment and intangible assets and other investments, net (NIS millions) (2)	98	116	14	27	27	30	21	28	33	34
Lease payments	33	30	7	9	9	8	7	7	8	8
Free cash flow (NIS millions) (1)	0	84	(73)	60	(10)	23	47	12	7	18
Subscriber churn rate (3)	25.3%	30.2%	5.9%	5.5%	6.0%	7.9%	10.2%	7.2%	6.1%	6.7%

(1) For the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.

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

(3) Number of Internet subscribers who left Bezeq International during the period is an average of the average Internet subscribers registered during the period. See also section 8 of the chapter on the description of the corporation's business in the periodic report for 2021.

1.5.4.4 DBS

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

(1) For the definition of operating profit before depreciation and amortization (EBITDA) and free cash flow, see notes (1) and (2) in the Bezeq Fixed Lines table.

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

(3) The number of DBS subscribers using Yes+ and STINGTV services transmitted via the Internet (as stated in Sections 5.2.2.1 and 5.2.2.2 of the chapter describing the corporation's business in the periodic report for 2021) as of the date of publication of the report, is about 250K subscribers (of which, 88K are STINGTV subscribers), whioch constitute 44% of all DBS subscribers. This rate also includes subscribers who also use satellite services at the same time.

(4) The average monthly revenue per subscriber is calculated by dividing the total DBS revenue (excluding revenue from the sale of content to external broadcasters) by the average number of customers in the period. See also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.

(5) The number of DBS subscribers who abandoned DBS during the period divided by the average number of subscribers registered in the period. See also section 8 of the chapter on the description of the corporation's business in the 2021 periodic report.

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

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

a. Adjusted net profit[10] for shareholders is expected to be in the range between NIS 1-1.1 billion.

b. Adjusted EBITDA[11] It is expected to be in the range between NIS 3.6-3.7 billion.

c. CAPEX[12] It is expected to be in the range between NIS 1.7-1.8 billion.

Bezeq will report, as required, deviations of ± 5% or more from the ranges specified in the forecasts above.

d. The scope of the Company's fiber network deployment - reaching about 1.4 million households.

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

1.6.2. Medium-term ambitions

a. Adjusted EBITDA - Stability while maintaining an adjusted EBITDA rate in revenue in the range of 41%-43%.

b. CAPEX - until 2024 - stability in CAPEX and in relation to CAPEX's revenues; Gradual decline thereafter

c. Free cash flow[13] - average annual growth (in CAGR terms) at a medium single-digit rate

d. The scope of the Company's fiber network deployment - reaching about 2.1 million households

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

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

1.6.3. Forward-looking information

The Company’s forecasts and ambitions detailed in this section are forward-looking information, as defined in the Securities Law. The forecasts and ambitions are based on Bezeq's assessments, assumptions and expectation, and among other things, on the Group's assessments regarding the structure of competition in the communications market and the regulation of the segment, on the current economic situation in the economy, and accordingly, the Group's ability to implement its plans for 2022 and in the medium-term, as applicable, taking into account the changes in business conditions, regulatory decisions, technological changes, developments in the structure of the communications market, etc. or insofar as one or more of the risk factors listed in the 2021 periodic report materialize. There is also no certainty that the forecast or ambitions will fully or partially materialize, among other things, in the face of the COVID-19 pandemic and the uncertainty as a result thereof.

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

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

[11] See footnote 10.

[12] CAPEX - Payments (gross) for investment in property, plant and equipment and intangible assets. It should be noted that the CAPEX for 2021 was approximately NIS 1.69 billion.

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

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

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

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

In the field of cellular telephony, the multiplicity of competitors leads to fierce competition in the field that leads to low prices and increased customer mobility. In the field of landline telephony, competition, including on the part of cellular companies, leads to a decrease in the consumption of landline telephony minutes as well as the abandonment of landline telephony customers (including the proliferation of customers without a home landline), and consequently, damage to the Group's results.

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

In the field of Internet services and Internet access infrastructure, there is fierce competition with companies with infrastructure, including fiber infrastructure for households, and through the wholesale market (see section 1.7.3 and section 2.16.4), and a deepening in the implementation of additional wholesale services.

In order to reduce the damage resulting from the aforesaid, the Group companies take streamlining measures as well as various moves to improve the services they provide and differentiate them from the competitors.

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

1.7.1. Communication groups in the Israeli market

In recent years, the market has been characterized by competition between communications groups (Bezeq Group, Hot Group, Cellcom Group and Partner Group) operating simultaneously in several segments of the communications market (landline and mobile telephony, landline and mobile Internet services, multi-channel television and international calls)[14].

Structural changes and mergers between communications groups and competing companies may have significant consequences for the structure of the communications market, the competition therein, and the Group's activities. As of this date, the Company is unable to assess these effects.

On August 26, 2020, Cellcom announced the completion of a contract for the acquisition of full ownership and control of Golan Telecom after the regulatory approvals for the acquisition were received. In addition, Cellcom, Hot and the Israel Infrastructure Fund hold, in equal parts, shares in a partnership that holds 70% of IBC. On this matter and on approvals received by Hot see section 2.6.3.5.

It should be noted that there are also competitors in the market who are not part of a communications group as described above (e.g. XFONE and MVNO operators in cellular, international operators and ISPs, including providers that provide service within the wholesale market).

Competition between communication groups is reflected in an increase in the rate of consumption of "service baskets" or packages of several services that include

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

combinations of several different communication services. Communication groups market communication service packages from each group's corporations, so that the customer can be offered a comprehensive solution that eliminates the need to communicate simultaneously with several different providers, and offer rates that are more attractive for the customer than the rate of purchasing each service separately (in some cases while "cross-subsidizing" between the components included in the basket). These trends intensified with the implementation of the BSA wholesale service market (see section 2.16.4.2), enabling infrastructure-less operators, including operators not part of a communications group, to offer a complete end-to-end service package to their customers (including infrastructure). Following the decision of the Minister of Communications dated June 20, 2021 regarding the abolition of the obligation to separate infrastructure service and Internet access service, as of April 3, 2022, infrastructure owners Bezeq and Hot will be able to provide private customers with Internet access service, together with their infrastructure service.

Providing a comprehensive service to the customer that meets his variety of needs has become easier both due to a trend of technological convergence (see section 2.1.4) and following regulatory changes and the transition to regulation through a general unified license, which was granted to different communication operators and under which different communication services, which previously required separate licenses, could be provided under the same license.

As of the date of the report, Bezeq Group is s ubject to stricter restrictions on the marketing of service packages than the other groups, as detailed below.

1.7.2. Bezeq Group's activity as a communications group and the limitations of structural separation

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

Against the background of the challenges the Group faces and the future needs that arise in the communication market environment, in parallel with Bezeq’s activity for the elimination of structural separation, Bezeq’s Board of Directors acts for the implementation of a comprehensive strategic plan for the Group as a communication group within the complex regulatory constraints imposed on the Group (see section 1.8).

The following are additional details about the main restrictions that apply to the Group in its activities as a communications group:

1.7.2.1 The structural separation obligation

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

Bezeq's NIO license stipulates that Bezeq must maintain structural separation between itself and its subsidiaries[15]. In this context, full separation between Bezeq's management and the managements of the subsidiaries is required, including everything related to the business system, the financial system and the marketing system, and Bezeq is prohibited from transferring commercial information to a subsidiary (subject to exceptions).

The limitations of structural separation place the Group in a position of competitive disadvantage which exacerbates over time vis-à-vis the other communication groups which are not subject to restrictions of a similar extent, and in the face of the possibility for operators to provide end-to-end services to subscribers through the use of wholesale services. In addition, the limitations of structural separation cause high overheads.

1.7.2.2 Abolition of structural separation

15 Pelephone, Bezeq International, DBS and Bezeq Online.

On February 24, 2021, a petition was submitted by Bezeq to the High Court of Justice against the Ministry of Communications for immediate cancellation of the structural separation in Bezeq Group. The petition was filed after the Ministry did not respond to Bezeq's inquiries on the subject, even though, in Bezeq's opinion, all the conditions that required the cancellation of the structural separation were met in accordance with the policy document dated May 2, 2012 regarding the expansion of competition in the landline communications field - wholesale market ("**the Policy Document**"). As part of the procedure, the state submitted an interdepartmental report for examining the update of the structural separation obligations in the Bezeq and Hot groups ("**the Report**"), in which the Minister was advised not to cancel the structural separation obligation in the Bezeq and Hot groups at this time. The team also found that certain changes can be made 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 separation used in Israel between the infrastructure service and the ISP service (for the abolition of separation, see Section 1.7.2.4).

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

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

- The baskets will be "detachable", that is - each service included in them will be offered separately outside the framework of a basket of services, under the same conditions.
- At the time of submitting the application for approval of the basket, there is a group of services in a similar format that is marketed to a subscriber as a package by a licensee who is not a Bezeq subsidiary, or there is a group that includes licensees who provide a private subscriber with all services included in the shared basket of services.
- The marketing of shared service baskets by the subsidiaries, which include Bezeq Services, is also subject, according to their licenses, to similar restrictions, including the requirement of "detachability" (except for a basket marketed by a subsidiary that includes only Bezeq's Internet infrastructure service). As of April 3, 2022 (see Section 1.7.2.4), the Company will be able to offer private customers infrastructure services in addition to the Internet infrastructure service, and will not be able to market a basket that includes Internet access service with access service of a subsidiary or another licensee.

These limitations, and in particular the "detachability" obligation, which severely limits the Group's ability to provide discounts on various components in the basket of services, place the Group in an inferior competitive position relative to competing communications groups that are not subject to similar restrictions on the marketing of bundles (except for restrictions on marketing a shared basket of Hot-Net and other companies from the Hot Group. The Ministry of Communications has been reducing these restrictions lately). Bezeq's handicap is even more significant with the implementation of the BSA wholesale service, and the ability of Internet access providers (ISPs) to provide a full end to end service (infrastructure + provider) to customers at reduced prices.

On May 23, 2021, the Ministry of Communications notified the Company of the rejection of its request dated April 4, 2021 for the marketing of a common basket of services that will allow it, among other things, to provide the Company's Internet infrastructure services and DBS content services based on landline broadband access. In the opinion of the Ministry, in light of the recent comprehensive competitive analysis, which is reflected in the recommendations of the inter-departmental team to examine the update of the structural separation obligations in Bezeq and Hot, it is not yet time to approve a joint basket of services as requested by the Company. Earlier, on February 15, 2018, the Company responded to the Company's announcement regarding the intention to send interested customers a link to the DBS website and expressed its position that the marketing of the DBS television on the Internet ("Sting") by the Company is not in accordance with the structural separation provisions set forth in the Company's license, and the Company does not market DBS's "Sting" service in accordance with the aforesaid.

1.7.2.4 Marketing a joint basket of Internet infrastructure services along with ISP

In 2017, following the Ministry's requirement, changes were carried out in the format of selling bundles, the main one of which is splitting the bundle (supplier and infrastructure) after one year. On June 18, 2020, Bezeq received a decision by the Director General of the Ministry of Communications, according to which the changes made temporarily (on March 25, 2020) in the reverse bundle[16] marketing format, and especially the elimination of the obligation to split the bundle after one year and the Company's ability to contact customers and renew the bundle at any time, will be permanently valid.

Abolition of the separation between broadband infrastructure service and Internet access service (ISP):

Following the hearing that took place on the subject, on June 20, 2021, the Minister of Communications made a decision at the hearing according to which the separation in relation to private customers between broadband infrastructure service and Internet access service (ISP) will be abolished, in the outline as follows:

A. Approval of an agreement that will constitute a shelf offer and regulate key performance indices (KPIs) and agreed compensation arrangements in the infrastructure cost (Bezeq and Hot) with a requester of access with an ISP license and at least 10,000 active customers in the wholesale market. On September 19, 2021, the Director General of the Ministry of Communications decided that the agreement regulating the key performance indicators (KPIs) transferred by Bezeq would constitute a "shelf offer" according to the Minister's decision, and would apply to any requester of access without discrimination.

B. A "calibration period" of 3 months during which the infrastructure companies and requester of access will submit the main performance indices to the Ministry every month. On January 3 ,2022, the Director General of the Ministry of Communications announced that for Bezeq, the calibration period had ended and the preparation period had begun.

C. At the end of the preparation period, the restriction on infrastructure providers offering Internet access service to private customers (the "**Effective Day**") will be lifted. In accordance with the announcement of the Director General of the Ministry of Communications on April 3, 2022, the Effective Day will apply to Bezeq, so that from that date the Bezeq will be able to offer a unified end-to-end Internet service that includes Internet and ISP infrastructure (at this time, the restriction on the sale of infrastructure and ISP products separately to new private customers who use Bezeq's broadband infrastructure will take effect, and only customers who receive service on a Effective Day in a split / semi-split configuration who wish to continue consuming the Internet services will continue to do so). Subsequently, on March 22, 2022, an amendment was made to Bezeq's license that implements the resolution regarding subscribers in the private service.

Bezeq continues to prepare for the provision of an infrastructure service and a unified ISP by it from the Effective Day.

In Bezeq's opinion, the implementation of the move according to which the Company will offer a unified Internet service from end to end, is expected to have a positive effect on its business. As far as Bezeq International is concerned, the move is expected to harm its results. 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 Bezeq and DBS

[16] See Section 4.2.1.

For the decision of the Commissioner of Competition dated April 12, 2021 regarding the amendment of the terms of the merger between Bezeq and DBS allowed Bezeq's subsidiaries to sell communication packages that include Internet infrastructure, Internet provider and television services without having to sell the television services at a detachable price. Purchasing packages - see Section 2.16.8.3.

1.7.2.6 Additional restrictions on collaboration and preference between group companies

There are additional restrictions on cooperation between Bezeq and the Group companies both by virtue of competition law and conditions set by the Competition Commissioner for mergers between Bezeq and Group companies, which prohibit discrimination in favor of the Group companies in the provision of certain services (see section 2.16.8), and by virtue of the provisions of Bezeq's license, which require it to provide its services equally. For additional restrictions see also section 5.15.2.

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

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

Starting from 2015, a model of "wholesale market" has been implemented in Israel, in which the owners of the nationwide landline access infrastructures in Israel (Bezeq and Hot) have been required to allow other communications operators to use their infrastructures at the prices set in the regulations.

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

1.7.3.1 Wholesale BSA service

This service allows infrastructure-less service providers to offer their customers a full Internet service that includes both an Internet connection service (of the service provider) and an Internet infrastructure service (based on Bezeq's network). Since the launch of the service, hundreds of thousands of customers have moved to receive service through such service providers. A wholesale BSA service also exists on Bezeq's fiber infrastructure.

1.7.3.2 Wholesale physical infrastructure use service

This service allows infrastructure-less providers to use Bezeq's physical infrastructure for the passage of communication cables, as well as the use of dark fiber.

The service was expanded after Bezeq was obliged to allow other NIO license holders, who are not necessarily infrastructure-less providers, to use its passive infrastructure for the purpose of performing any Bezeq operation and providing any Bezeq service according to their licenses. Bezeq was also given the right to use the physical infrastructure of other companies.

1.7.3.3 Wholesale telephony service

This service enables infrastructure-less service providers to offer their customers telephony service at wholesale rates through Bezeq's network. Until August 2018, a temporary arrangement for one year was in force, which allowed Bezeq to provide the service in a resale format, namely - a format in which the service provider purchases a line and call minutes and receives a package of services (including technician services) from Bezeq, while in accordance with the Ministry of Communications' announcement, as of August 2018, Bezeq is obligated to provide the service in a "Wholesale" format, namely - a service format in which the service is provided using Bezeq's switch, but the call also goes through the service provider's switch, both as ann individual service and as an additional service to the BSA service. As of August 2018, Bezeq is prepared to provide resale services at wholesale rates (excluding technician services) - although in this service the call does not pass through the service provider's switch, and as of early 2019 Bezeq is prepared to provide a wholesale telephony service solution that passes through the service provider's switch, and is based on both Bezeq's subscribers switch and an additional component external to the switch (for more details, see also sections 2.1.8, 2.7.2 and 2.16.4). As it became clear after discussions that took place, *inter alia*, in the Ministry of Communications, the service providers are not prepared to act according to the format of the service portfolio.

Regarding the new switch that complies with the requirements of the Ministry of Communications for the service format, see section 2.7.2.

The maximum rates that Bezeq may charge for the provision of services are regulated in the regulations.

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

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

1.7.4.1 Interconnectivity rates

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

On September 13, 2021, a hearing was published by the Ministry of Communications regarding a change in the rates regime regarding interconnectivity payments ("**intrerconnect**") between the communication networks, according to which there is an intention to transfer the completion segment in calls ending in the networks to a regime according to which each party will bear its own costs and no more interconnectivity payments will be transferred between the operators regarding call minutes and that there will be no change in interconnectivity rates for SMS messages. In order to prevent a shock in the affected markets, as is customary in the world and in Israel during a significant change in interconnectivity rates, and in order to give companies affected by it a sufficient preparation time, the Ministry considers to carry out the change in the rates regime after a gradual reduction outline which will last for three years. With regard to the international call market - the segment of international outgoing calls will be attached to the reduction plan as stated in accordance with the network in which the call was made (NIO or cellular) and with regard to international calls coming in from abroad, supervision of the completion segment in Israel will be removed with the entry into force of the amendment of the relevant regulations. On Novemebr 11, 2021, Bezeq submitted its response to the hearing, according to which in order to allow fair competition in the market, it is necessary to immediately cancel the interconnectivity rates to the cellular operator for forwarding a short message message that currently stands at 0.14 Agorot. A change in the interconnectivity rates regime, as detailed in the hearing, is not expected to have a material effect on the Group.

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

In accordance with the provisions of the Communications Law, NIO, international operator and broadcasting licensees (including Bezeq, Bezeq International and DBS) are not allowed to charge an exit fee for cancellation of contract by a subscriber whose average monthly bill is less than NIS 5,000, or deny him a benefit he would have received if he had not terminated the contract[17]. Cellular operators (including Pelephone) - are not allowed to charge exit fees from

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

customers who hold up to 100 telephone lines or link a contract for the receipt of cellular services to a contract for the purchase, rent or borrowing of end equipment ("disconnection"). As a rule, these restrictions make it difficult for operators subject thereto to retain customers.

1.7.4.3 Prohibition of discrimination in the provision of benefits and unique rate plans

The Ministry of Communications has previously expressed, among other things, in motions for approval of class actions filed against Pelephone, Bezeq International and DBS claiming customer discrimination, various positions stemmed from the fact that communications companies may be limited in certain circumstances in their ability to offer unique benefits and rate plans to their new customers or prevent a subscriber from switching to plans that are marketed to new customers. The Ministry of Communications announced in the past that it intends to examine the holding of a hearing in relation to the change in the provisions of the licenses regarding price discrimination between subscribers in order to create unification in the licenses aiming to create unification and in a manner that is consistent with changes and permutations in the market, and has not yet done so. On December 9, 2019, a judgment was rendered in the Tel Aviv-Yafo District Court dismissing motions for approval of class actions against certain communication companies, when due to the Ministry of Communications' changing position over time and ambiguity on their part, it was determined that a class action is not the effective way to resolve the issues. The ruling further stated that a number of major flaws (lack of factual infrastructure, lack of consultation with the Competition Authority, lack of reasoning, incoherence and failure to hold a hearing) have occurred in the method of the Ministry of Communications' decision (as described above). The verdict was appealed. For further details, see Sections 3.16.1b and d, as well as Section 5.17.2a.

1.7.4.4 License amendments and related legislation

a. Response times at call centers

The amendment to the licenses of Bezeq, Pelephone and Bezeq International have established, among other things, provisions regarding the obligation to route calls in certain matters to professional human response, response times, as well as provisions regarding call center hours, recording and documentation of calls and reporting obligations. The amendment entered into force on the date of its entry into force of the amendment to the Consumer Protection Law (July 25, 2019), which deals, among other things, with the waiting period for a human response. The DBS's broadcasting license has been similarly amended. The amendments led to an increase in the operating costs of the Group companies' call centers. In January 2021, Bezeq International received a notification from the Ministry of Communications stating that Bezeq International had exceeded the waiting times for a human response it was required to meet, and therefore the Ministry intends to impose a financial sanction of approximately NIS 285k. Further to Bezeq International's response, in which it challenged the financial sanction and the manner of measuring the deviations, the amount of the sanction was reduced to NIS 166,000 and it was paid.

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

b. Amendment of the IPv6 protocol (Internet addresses)

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

1.7.4.5 Consumer legislation and privacy protection laws

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

On November 24, 2020, an amendment to the Consumer Protection Law was published, according to which a database will be established and managed by the Consumer Protection Authority to restrict a dealer's marketing inquiries through telephone calls (including an electronic communication call) in order to engage in a transaction. Pursuant to the amendment, the database will register telephone numbers of consumers who wish to restrict such marketing inquiries to them and a dealer will not be allowed to contact a consumer whose telephone number is registered in the database with marketing offers (subject to exceptions provided by law). The date of commencement of the amendment in this matter 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, resellers will contact twice a month with a list of customer numbers they are interested in contacting and will receive in return the numbers from the list included in the database. On January 13, 2022, Bezeq submitted its comments on the draft, including the frequency of referrals to the database. The Group companies are unable to assess at this stage the effect of the amendment on their marketing and sales ability. The Consumer Protection Authority has issued a memorandum of law requesting that it be postponed to October 31, 2022.

In addition, the activity of the Group companies is affected by the provisions of the Privacy Protection Law and its regulations regarding the management and maintenance of databases and the security of the information contained therein. In May 2018, the Privacy Protection Regulations (Information Security), 5777-2017, entered into force, imposing various obligations on the database owner, including obligations to establish procedures and perform risk assessments in relation to information security, as well as the use of advanced security measures for information protection.

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 Increasing the Enforcement of Labor Law and the Telegraph Order were amended and by virtue thereof, regulators were granted powers of enforcement, supervision and the imposition of significant tiered financial sanctions for violations of the said laws or regulations and provisions thereunder. Such legislation has an effect on the conduct of the Group’s companies, *inter alia*, in terms of the concern of the imnposition of sanctions on them, their defense capability, etc.

In recent years, the Ministry of Communications has made extensive use of the authority to supervise and issue notices of intent to impose financial sanctions on Bezeq in current regulatory matters (including the implementation of the wholesale market BSA service). For the financial sanction imposed by the Competition Authority in the matter of passive infrastructure, see Section 2.16.8.5..

The Consumer Protection and Fair Trade Authority also makes use of the enforcement powers conferred on it by the Consumer Protection Act, and from time to time data demands are issued, investigations are conducted against the Group companies on suspicion of violating this law and fines are imposed. In this context, in February 2021, the Company received a notification from the Consumer Protection Authority of an intention to charge Bezeq a financial sanction of NIS 6.75 million for alleged violation of Article 2(a)(1) of the Consumer Protection Law, claiming that the Company did not supply thousands of consumers who purchased a browsing package of the type TOP 100 with this speed. The Company submitted its response to the notification and requested that the notification be canceled, since they do not give rise to any concern of misleading customers.

1.7.4.7 The Centralization Law

In December 2013, the Centralization Law was published. The following is a summary of the main provisions of the law relevant to the Group:

a. Restrictions on granting credit to business groups

   The Minister of Finance and the Governor of the Bank of Israel have been authorized to establish regulations and directives regarding credit restrictions to be granted by financial entities in Israel, cumulatively, to a corporation or business group (a group of companies under joint control and ownership).

b. Consideration of centralization considerations of the economy in the allocation of rights - restrictions on the allocation of rights in essential infrastructure to a "centralized entity "

   The law establishes a special and restrictive procedure which each regulator must take before allocating rights (such as a license, franchise, entering into a contract with the State to operate an essential infrastructure and in some circumstances also an extension of existing licenses) in areas defined as "essential infrastructure" to factors who were defined as “centralized entities”. In this regard, a list has been defined of areas that will be considered "essential infrastructure areas", including activities in which certain communication licenses are required (NIO except for unique NIO (such as VoB operators) and cellular), broadcasting licenses and other areas. The Company and corporations under its control are included in a list published by the Competition Authority and are considered a "centralized entity". The procedure established by law regarding allocation of rights to a centralized factor shall also apply to the granting of approval for the transfer of means of control in companies held by the State or which were previously state-owned companies (including Bezeq) at the rates prescribed by law, to a centralized entity.

   The law may have adverse effects on the Group's ability to operate in new areas of activity and even on its activities in its existing areas of activity.

c. Separation between significant real corporations and significant financial entities

   The law sets limits on the holdings of financial entities in significant non-financial corporations, on certain types of cross-holdings in significant non-financial corporations and in significant financial entities and on cross-holdings in such entities. The company and corporations under its control are defined as significant real corporations under the Centralization Law.

1.7.4.8 Millimeter waves

Millimeter-wave technology makes it possible to wirelessly transmit significantly larger bandwidth than previously available technologies. The technology can be used both from point to point and from point to multiple points.

On April 6, 2020, an amendment to the Wireless Telegraph Order (Non-Applicability of the Order) (No. 2), 5742-1982 was published, which provides, under certain conditions, non-applicability of the Wireless Telegraph Order with respect to use in the field of V-Band at frequencies 57-66 GHz (it should be noted that on September 15, 2020 an amendment was published extending the exemptions to the above frequency range under certain conditions, both intended to be used as fixed stations in a wireless line from point to point outside the building (outdoor) and intended to operate inside buildings only (indoor). Also, on August 2, 2020, an additional amendment was published to the above Order stipulating, under certain conditions, the non-applicability of the Wireless Telegraph Order with respect to additional uses. On December 15, 2020, the Wireless Telegraph Regulations (Licenses, Certificates and Fees) (Amendment), 5720-2020 and the Wireless Telegraph Regulations (Licenses, Certificates and Fees) (Temporary Order) (Amendment No. 2), 5780-2020 were published, relating to reduced fees in light licensing in the frequency ranges: 74 to 76 GHz and 84 to 86 GHz. In January 2022, the Ministry wrote to Bezeq that the approval to provide a service not through wired deployment is given only in certain localities, that the approval given by the Spectrum Division is for frequency use and not approval to provide service by wireless means, and that insofar as Bezeq intends to provide service through non-wired infrastructure to other localities, the advisory committee should be contacted . Bezeq responded that its license allows service to be provided via wireless infrastructure, such as millimeter waves.

1.7.4.9 Asymmetry in infrastructure information

Following the hearing held on the subject, the Ministry of Communications issued a decision on November 2, 2020, regarding asymmetry in information regarding infrastructure and amendment of the wholesale BSA + telephony service portfolio, which, among other things, imposes on infrastructure owners, including Bezeq, periodic advertising obligations on the computerized interface (API) and on its website regarding advanced network deployment. In addition, Bezeq must publish detailed statistical information on an internal interface between the operators, which relates to a wide range of parameters. The service portfolio amendment dated February 10, 2022 also stipulates that Bezeq must provide the service providers with the characterization of the mechanized interface that is appropriate for the service providers and complete its development and the publication of the network's deployment, within the deadlines set in the service portfolio amendment. An amendment to Bezeq's license was also subsequently issued regarding the submission of an engineering plan and the preparation of upgrades / developments in 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 deploying fibers (general and special), in accordance with uniform parameters and the number of subscribers to the service on optical fibers divided into statistical areas. In its decision, the Ministry stated that it intends to create an updated database that will allow it to monitor developments and changes in the deployment of fiber infrastructure in Israel.

1.7.4.10 Changing the format of the regulation of the provision of Bezeq services

On January 10, 2022, the Knesset's Economics Committee approved in a second and third instances, Communications Bill (Bezeq and Broadcasting) (Amendment No. 75) (Change in the Format of Bezeq Regulation), 5781-2020. The bill proposes to change the format of the existing regulation in the law (according to which the main tool for the regulation is a license to provide Bezeq and broadcasting services) in such a way as to eliminate the obligation to obtain a specific license in advance (per person and operation) as a condition for performing a Bezeq operation. It is proposed instead that the default regulation of the provision of communications services in Israel be through registration in a register maintained by the Director General of the Ministry of Communications, after testing only for minimum threshold conditions. The Minister may prescribe in the general permit regulations conditions, restrictions and obligations that will apply to those who are registered, all or some, in accordance with the types of services and their characteristics. In this way, the amendment of the law allows any person interested in providing a Bezeq service, to know in advance what the conditions are for its activities, and to start operating without requesting and without obtaining a license. In addition, the Minister may issue an administrative order to a person registered in the registry in matters in the authority of whom it is 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 given an opportunity to make his claims. In addition, the definition of "Bezeq service" subject to the regulation will be changed, to reduce the services subject to the 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) Bezeq service provided through a mobile-phone radio system for the purpose of which in accordance with the Order, a radio frequency in the field of frequencies presecribed in the Second Schedule is assigned to the service provider; (B) Bezeq service provided through a Bezeq network in which the number of users or subscribers or the number of network end points or terminals 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 Article 5 (a) of the Law; (C) Bezeq service provided through a Bezeq network, in which one of the following is met: (1) It includes a landline or mobile ground station in Israel for communication with satellite; (2) It includes a satellite located at or using the orbit, registered in the name of the State of Israel in the International Telecommunication Association (ITU). (D) Performance of a Bezeq operation at a land Bezeq facility that connects a point in Israel and a point outside Israel (except in Judea and Samaria). Also, a local authority (including a municipal company or a municipal subsidiary) will not provide a Bezeq service whether it requires a license or registration,, unless it has 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 in the circumstances, regulation by registration is not sufficient to meet one or more of the following considerations: (a) Maintaining state security or public peace; (B) Efficient utilization of a scarce resource; (c) Promotion of competition. In addition, the Minister may, due to one or more of the considerations listed above, order a Bezeq service provider registered in the registry that the provision of a Bezeq service by it will be subject to the receipt of a license for any Bezeq service that it provides or regarding a Bezeq service of the type that decided thereby.

1.7.4.11 Data demand hearing - Consumption of communication services

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

1.7.4.12 Decision by hearing regarding licensing for new operators for the provision of Internet access infrastructure services – for this matter, see Section 2.6.3.6.

1.7.4.13 Inactive subscribers

On September 10, 2020, the Ministry of Communications contacted the telecommunications operators (including Bezeq, Pelephone and Bezeq International) in a letter in which it raised concerns that some of the subscribers to the operators' services are not using them and are not even aware of it. The Ministry recommended in its appeal to operators to act to notify and stop charging subscribers who do not use these services, and also requested periodic reports on the matter, over the next 6 months. It was also stated that the Ministry will consider in the future whether to set binding provisions in the matter, in case proactive actions will not lead to a significant reduction therein. Regarding the handling and consequences of the Ministry of Communications' request to Bezeq International, see Section 4.4 and Note 10.6 to the 2021 statements. On January 14, 2021, a preliminary request was also sent to DBS by the Cable and Satellite Broadcasting Council regarding "Demand for information about "dormant" subscribers as well as about services that subscribers pay for and do not use". In March 2021, DBS replied that due notice was given to its subscribers, and that it could not provide the requested information due in part to the lack of established information in its hands, due to the Council's lack of authority in at least some of its requests, and due to additional difficulties inherent in the Council's application**.**

1.7.4.14 Hearing - Preparations for the management of cyber defense

On August 11, 2021, the Ministry of Communications issued a hearing regarding the amendment of the licenses of the communications companies (including licenses of Group companies) and the determination of instructions regarding preparations for the management of cyber defense. The main points of the proposed amendment deal, among other things, with the protection of the communications network; Maintaining the relevance and up-to-dateness of systems; Dealing with the licensee with cyber incidents; And situations in which the licensee is required to report and share information. Bezeq, Pelephone and Bezeq International submitted their position as part of the hearing procedure.

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

For the sake of convenience, the following are references to sections in the 2021 periodic report that relate to the restrictions that apply to the Group companies in the lien on their assets and the main restrictions:

1.7.5.1 <u>Regulatory restrictions</u> - The Communications Law, the Communications Order (applicable to Bezeq) and some of the communications licenses of the Group companies include restrictions on the granting of rights to third parties in the assets used to provide the essential service or in the license assets.[18], as the case may be, including the need to obtain regulatory approvals to create liens on these assets. In some cases, for example Pelephone's mobile radio telephone license and Bezeq International's unified license, there are exceptions that allow the creation of liens in favor of a banking corporation without the need for advance regulatory approval, provided that the lien agreement includes provisions

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

ensuring that the exercise of the lien by the banking corporation will not impair the provision of the services under the license. In addition, according to the provisions of the law and the media licenses, the license and the rights under it are not transferable, and cannot be encumbered or foreclosed (subject to exceptions). See also sections 2.16.3.7, 3.14.2 and 5.15.1.7.

1.7.5.2 Restrictions under agreements- Bezeq undertook to certain financiers in an undertaking not to encumber its assets unless, at the same time, it creates in favor of those financing bodies a lien of the same type, rank and amount (negative lien), subject to certain exceptions. see also Note 13.3 to the 2021 statements.

1.7.6. Pandemic - Outbreak of COVID-19

At the beginning of 2020, a global outbreak of the Coronavirus (COVID-19) began, which is an incident with many implications, including macroeconomic ("**the Incident**"). Following the Incident, many countries, including Israel, have taken and are taking significant steps in an attempt to prevent the spread of the virus, such as restrictions on the movement of citizens, gatherings, transport restrictions on passengers and goods, closing borders between countries, and so on. As a result, the Incident and the actions taken as aforesaid have significant implications for many economies as well as for the capital markets in the world, including a general decline in the levels of business activity in the economy (see section 2.20.10), leading to payment problems in certain segments.

In view of the effects of the pandemic on the whole economy, on the world and on the Group companies, which also involve a great deal of uncertainty, there may be 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 epidemic on the Group's activities in 2021 were mainly reflected in the damage to Pelephone's revenues from roaming services, as a result of the effects of the epidemic's spread to the aviation and international tourism segments, without significant negative effects in other areas of activity. 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 COVID. In addition, the global chip shortage and disruptions in the supply chain cause, among other things, shortages and difficulties in the supply of, and sometimes price increases in, equipment from the Group's main suppliers,. The Group companies are taking various meaures in light of the aforesaid to reduce the harm to their activities.

The Group companies take various actions to deal with the risks and exposures arising from the consequences of the Incident, including remote work, training for employees required to be in contact with the public, purchase of required accessories, activities to increase equipment inventory and expanding core product supply sources.

Bezeq's estimates as aforesaid are forward-looking information and may vary depending on various developments regarding the COVID-19 pandemic and its effects, in particular the duration and extent of the Incident, the nature and extent of the economic and other restrictions associated with it, and the intensity and duration of the economic recession.

For the purposes of this section, see also section __ of the Board of Directors' Report and Note 1.4 to the 2021 statements.

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

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

1.8. Bezeq Group Business Strategy

Group vision

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

Group strategy

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

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

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

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

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

1.8.2. Focusing growth strategy by theaters

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

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

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

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

1.8.3. Additional strategic moves

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

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

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

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

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

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

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

For details on additional strategic objectives in relation to each of the Group companies, see sections 2.19, 3.17, 4.13 and 5.18.

In respect of decisions by Bezeq's Board of Directors and DBS's Board of Directors regarding an outline for a gradual transition from satellite broadcasts to transmission via the Internet (OTT) see section 5.19.

The assessments described 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 moves to be made in Bezeq and its subsidiaries, regulatory changes, Bezeq's competitive position, etc. The above may be affected by the materialization of some of the risk factors listed in the sections 2.20, 3.19, 4.14 and 5.19.

1.9. Incident outside the scope of the corporation's business

As part of the preparation of the quarterly report and as part of the process of preparing and closing the financial statements for the period ended September 30, 2020, Bezeq International found that there are discrepancies between the assets and liabilities listed in its books and the actual assets and liabilities, due, among other things, from the non-imputation of costs from previous years in respect of payment of advances to suppliers to the income statement and improper recognition of advance expenses. Following the discovery of the discrepancies, Bezeq International's Management began an immediate examination of the issue and carried out compensatory actions, tests and procedures, while investing a great deal of effort and resources, in order to prepare the financial statements lawfully.

Bezeq's Board of Directors has appointed an independent external examiner[19] for an in-depth investigation of the incidents and circumstances. On February 4, 2021, the external auditor presented his findings to Bezeq's Board of Directors as part of an examination report prepared by him (the "**Examination Report**"). The findings mainly referred to: payable balances of suppliers that were not reflected in Bezeq International's statement of income in 2001-2003 (as part of the audit, documentation was found that some of Bezeq International's CFOs had known for years about unexplained debit balances); Lack of recognition of expenses in parallel to revenue in service agreements with customers between the years 2018-2019; Failures in the control systems that enabled the occurrence of the incidents and their duration; And disruption of data presented to the auditor. The executive summary of the Examination Report is attached as an appendix to Bezeq's immediate report dated February 7, 2021, which is included in this report by way of reference. After rediscussing the findings of the Examination Report and its conclusions, Bezeq's Board of Directors and Bezeq International's Board of Directors decided to adopt the external examiner's recommendations included in the Examination Report and complete the implementation of the recommendations from the Examination Report, as part of the deficiencies correction plan that Bezeq International's Management began to carry out immediately upon its discovery of the discrepancies. Bezeq International's Board of Directors also decided to act in accordance with the law to terminate the employment of a number of employees in the Finance Division at Bezeq International who were involved in the incidents subject to the investigation (who are not officers therein). It should be noted that the Examination Report states that from the examination results and the samples made by the external examiner, no indications were found that raise suspicion of the occurrence of an embezzlement incident during the examined period. In addition, Bezeq's Board of Directors decided to authorize Bezeq's Audit Committee to continue discussing the findings and recommendations of the report, including monitoring the implementation of the recommendations, discussing implications for audit and control issues and examining the need to draw conclusions and take further action.

Accordingly, at the request of Bezeq's Audit Committee, the external examiner presented complementary work findings to the Audit Committee, and subsequently received the Bezeq Board's recommendations from the Audit Committee, mainly in implementing period controls and analyzes that Bezeq International must perform as part of the financial statements. Adoption of a professional standard for executives engaged in controls, and their work, in Bezeq and in each of its material subsidiaries, as well as conferring supervisory and control powers on Bezeq Accounting Division on the work of finance and accounting employees in each of the subsidiaries' financial statements; Adoption of certain tests for the purpose of increasing the effectiveness of super-controls (entity-level

[19] An investigation team from the firm of Fahn Kanne & Co. headed by CPA Mickey Blumenthal.

controls) in Bezeq as well as in each of its significant subsidiaries; As well as recommendations for examining and improving Bezeq and Bezeq International's contracts with external service providers.

For further details on this matter, including the details of the effect of the discrepancy corrections on the Group's equity and the recognition of an additional impairment loss as a result of the update of the value of the activity and the book value of Bezeq International, as well as adjsutment by way of restatement of the Group's financial statements made in light of the examintion results as stated above, see also immediate reports by Bezeq and the Company dated Septmber 11, 2020, November 18, 2020, November 19, 2020, November 30, 2020 and December 3, 2020 included in this report by way of reference. Also, regarding legal proceedings related to this matter see Section 2.18.2.

Up to the date of the current report, Bezeq International's Management, Bezeq International's Board of Directors and Bezeq's Board of Directors have carried out various operations, inspections and compensatory procedures, while investing many efforts and resources to strengthen Bezeq's internal control. The deficiency correction plan, which was adopted by Bezeq's Board of Directors and Bezeq International's Board of Directors, also includes the recommendations of the external examiner. For some of the actions, the companies used 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 statements.

1.10. Corporate accountability (ESG)

On February 24, 2022, Bezeq's Board of Directors approved the expansion of its activity in the field of corporate accountability (ESG), following Bezeq's existing activity in the field. In this context, the Board of Directors approved a sustainability vision for Bezeq - "Bezeq connects Israel to a sustainable future", as well as setting ESG targets, including long-term targets that include reducing net greenhouse gas emissions to zero by 2050 (Net zero 2050); Increasing the rate of representation of women in the management ranks of Bezeq employees to 50% by 2030 (in Bezeq's Board of Directors - at least 40%); Increasing the rate of diversified populations to 20% by 2030. Bezeq's Board of Directors also approved the establishment of Bezeq's corporate responsibility policy documents on various issues that will be brought individually for discussion and approval by Bezeq's Board of Directors.

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

2. Bezeq – Landline interior communications

2.1. General information about the field of activity

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

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

2.1.2. Legislative and regulatory constraints and special constraints

2.1.2.1 Communications Law and Bezeq's NIO license

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

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

2.1.2.2 Laws of Economic Competition

Bezeq has been declared a monopoly in the main areas of its operations, and it is also subject to supervision and restrictions under the Economic Competition Law (see section 2.16.8).

2.1.2.3 Environmental law and planning and construction law

Some of Bezeq's activities involve the use of wireless frequencies and the operation of facilities that emit electromagnetic radiation, which are subject, respectively, to the Telegraph Order (see section 2.16.9), to the Non-Ionizing Radiation Law (see section 2.15.2), and to National Outline Plan 36 and National Outline Plan 56 (see section 2.16.10).

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

For key data on the scope of activity in the field of landline interior communications and its profitability in 2020 and 2021, see section 1.5.4.1. The following is a description of the main changes in the scope of activity in this field during the reported period[20]:

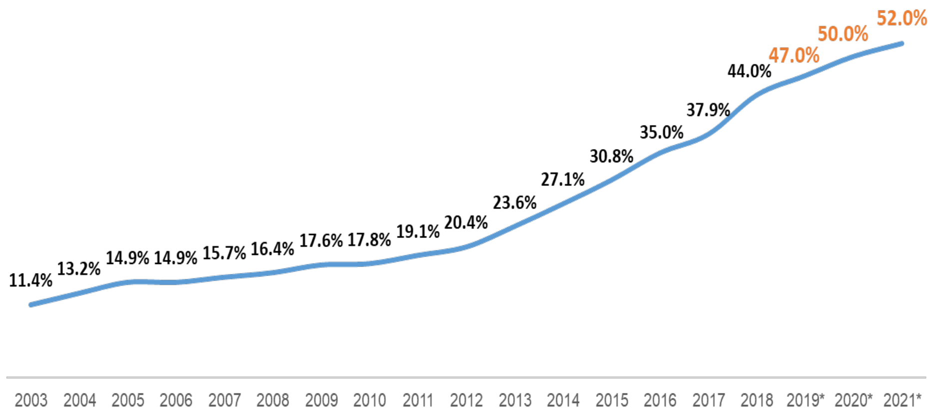
2.1.3.1 Wholesale market - At the beginning of 2015, Bezeq began providing a wholesale BSA service for service providers, when as of the end of 2021, the number of wholesale Internet subscribers on the Company’s network was approximately 501K subscribers, constituting approximately 33% of all Bezeq's Internet subscribers. In this context, it should be noted that within these subscribers there are also subscribers that were not on the Company’s network in the first place (new or from a competing network). There is no demand for wholesale telephony services (zero subscriptions as of the date of publication of the report). For this matter see section 2.16.4.

2.1.3.2 The field of landline telephony - in recent years, the field of landline telephony has been characterized by a decrease in demand, which is reflected in a decrease in the rate of landline telephone subscribers and a gradual erosion in the number of calls originating in landline networks. In Bezeq's estimation, this trend is mainly due to the increase in the use of cell phones in light of large-scale

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

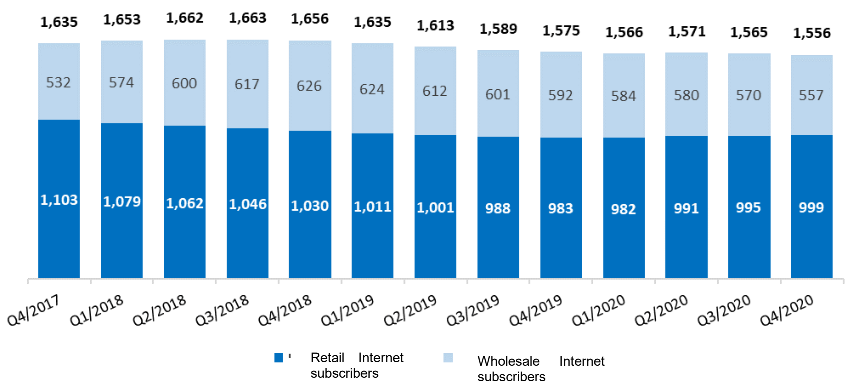
call packages that cellular companies have marketed extensively in recent years and a decrease in prices in the field (Bezeq estimates that 86% of all calls originate in the cellular network), as well as an increase in the number of calls over the Internet (See section2.1.4). In 2021, there was a decrease of about 3% in the number of Bezeq subscribers compared to 2020.

Diagram - Rate of households without a landline telephone line[21]



2.1.3.3 The field of Internet access - in the Internet market, there has been growth in recent years in terms of the number of customers. In addition, the Internet field is characterized by an increase in browsing rates and the adoption of advanced services and value-added applications. During 2021, Bezeq estimates that there will be a 2% increase in the number of landline Internet subscribers in Israel compared to 2020. In 2021, there was a 2% decrease in the number of Bezeq Internet subscribers (retail and wholesale) compared to 2020. In 2021, there was an increase in Internet subscribers through fiber optic infrastructures of competing companies. Bezeq began marketing the 200Mb speed in November 2020 to potential customers using VDSL35B technology. In March 2021, Bezeq also began marketing fiber services at rates of up to 600 Mbs, 1 Gb, 2.5 Gb in statistical areas. (See section 2.7.2.2).

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



2.1.3.4 Data transmission and communication services

The areas of transmission and communication data for business customers and communication providers are characterized by a rapid increase in customers' bandwidth needs, but generally a decrease in the price of a given volume of traffic, which stems from the development of technology to increase bandwidth at lower costs than in the past (see section 2.6.4). In addition, there is a shift to the

21 The data were taken from the publications of the Central Bureau of Statistics (press releases, preliminary findings from the Household Expenditure Survey 2018) dated November 26, 2019 and October 29, 2020. In relation to the data for the years 2019-2021 - in accordance with Bezeq's assessment based on surveys by the Central Bureau of Statistics from previous years.

use of the telecommunications providers' own infrastructure, including within the wholesale market. For this matter see section 2.16.4.3.

2.1.3.5 Use of physical infrastructure - for the purpose of wholesale service and for the provision of the possibility to competitors with infrastructure to use Bezeq's passive infrastructure, see section 2.16.4.

2.1.3.6 Service packages

For an increase in the rate of consumption of packages and baskets of services, see section 1.7.1. Regarding Bezeq's shared service baskets, see section 1.7.2.

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

2.1.4.1 In the communications market, a trend has been established towards IP-based technologies, which promote the phenomenon of "technological convergence" between the various communication systems (such as telephony and DATA). There has also been an increase in the penetration of integrated end devices that enable the consumption of various communication solutions on the same device (such as cellular and Wi-Fi services). These two, together with the increase in the availability of IP protocol-based technologies and the continuing trend of increasing bandwidth, enable the customer, including the business customer, a wide range of applications and services on IP based infrastructures, such as telephony services, including private exchange services, video transmission services , TV, private networks, network services with enterprise applications on the Internet infrastructure (ERP, CRM, etc.), cloud services and services on the cloud. These developments are leading to an increase in bandwidth demand by Bezeq's Internet infrastructure, transmission and data communications customers. For the deployment of optical cables and ultra-fast browsing speeds, see section 2.7.2. Technological developments and declining equipment prices may even allow other operators to provide services similar to those provided by Bezeq at lower costs.

Technological changes can also lead to the cannibalization of services. An example of this is a decrease in the consumption of the Group's traditional landline telephony services (for competition in the field of telephony through the provision of services on Bezeq's Internet infrastructure (VoB), see section 2.6.2). The increase in the speedds of the cellular service enables the cellular operators to compete with Bezeq's telephony and Internet services, and to market greater bandwidths to their customers at lower prices than in the past. In the Bezeq’s opinion, as of the date of the report, the increase in the number of customers browsing the cellular Internet did not materially affect the scope of Bezeq's Internet activity. However, the potential for increase in the use of cellular networks at the expense of the use of the Bezeq network exists and may increase with the establishment of 5G (see section 3.1.5), since it will also be able to provide ultra-fast internet at the customer's home.

The COVID-19 crisis has highlighted the need for greater bandwidth in home browsing. The competitors who have fiber optic infrastructure and cable infrastructure of up to 500Mb took advantage of this to recruit subscribers to their infrastructure, while Bezeq began marketing broadband services on fiber after them in March 2021.

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

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

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

2.1.5.2 Regulatory decisions and the ability to deal with them.

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

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

2.1.5.5 Effectiveness of sales and service systems.

2.1.5.6 Informed pricing policy management, subject to regulatory restrictions.

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

Activities in the field of landline interior communications require the receipt of appropriate licenses. For a memorandum of understanding of the bill regarding a change in the format of the regulation and transfer to the issuance of communication services through registration in the registry only, see Section 1.7.4.10.

Traditionally, the main barrier to entry into this field has stemmed from the need for heavy investments in technological infrastructure and enveloping systems to achieve size advantages, and high costs associated with setting up marketing, sales, collection and customer support systems and brand building. Over the years, the traditional barriers to entry into Bezeq's areas of activity have been significantly reduced, as a result of the following factors: technological improvements, declining prices of infrastructure and equipment, changes in the rules of regulation (see sections 2.7.2 and 2.16.12), regulatory relief granted to new competitors, obligation to allow the use of Bezeq (and Hot) infrastructure and services - including within the wholesale market and the use of VoB technology that enables telephony services over another operator's broadband infrastructure, without the need for independent landline telephony infrastructure.

The main barriers to exit stem from the following: Bezeq's obligation, set forth in its license, to provide its services on a universal basis (to the general public in Israel, except in relation to fiber as specified in section 2.16.12); Its subordination to the provisions of the Communications Order, regulations under the Communications Law, as well as provisions under Article 13a of the Communications Law regarding emergency activities; Its commitment to some of its employees employed under collective agreements; Large investments that require a long return on investment; And a commitment to repay long-term debentures and loans taken to finance investments. Some of these exit barriers are unique to Bezeq and are not relevant to other operators operating in this field of activity.

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

Cellular communication services are a substitute product for Bezeq services, both in the field of telephony, Including through apps and in IP technologies such as VoB (see section 2.6.2), and in the field of the Internet (see sections 2.6.2 and 2.6.3), transmission and data communication. Technological developments (such as 4G and 5G in cellular, fiber-optic-based infrastructure, millimeter waves and advanced cable Internet protocols) enable the provision of new services at high speeds and at competitive prices.

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

The field of interior landline communications is regulated and supervised by the Ministry of Communications, among other things, through the issuance of licenses to bodies operating in the field.

In the communications market there are two licensees for the provision of landline interior communications services obligated to provide service to everyone, nationwide deployment and universal service (except in relation to fiber): Bezeq, and Hot Telecom. IBC is also indebted for deployment, so that at the end of 5 years from March 7, 211, 1.7 million households in Israel will be accessible to the network[22]. The three companies compete with each other. At the same time, they were allowed to make mutual use of each other’s physical infrastructure (except for infrastructure owned by the IEC needed to provide essential service) and other NIO infrastructure, so that in fact the competition could be through physical infrastructure of another licensee, and in practice, mainly on Bezeq's infrastructure (see Section 2.16.4.4 in this regard).

The companies Cellcom and Partner, which have unique NIO licenses (which do not require universal deployment), are deploying an independent fiber network, including Bezeq's physical infrastructure (regarding Cellcom and Hot joining IBC, see Section 2.6.3.5).

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

The Internet field is characterized by high penetration rates attributed to the deployment of national access infrastructure. Bezeq's main competitor in this field is Hot. With the implementation of the wholesale market, Internet access service providers (ISPs) have become Bezeq's competitors that provide a package of services that includes broadband Internet access infrastructure through Bezeq infrastructure which they use in wholesale services, and Partner and Cellcom are competing with Bezeq through broadband fiber infrastructure they deployed. In addition, Bezeq is also exposed to competition from the cellular networks (see Section 2.1.4).

The field of landline telephony is in competition, and Bezeq's competitors, some of whom are within the framework of communication groups (see Section 1.7.1), are the cellular companies (see Section 2.6.2.2), Hot Telecom, as well as VoB service providers operating under licenses without universal service obligation for several years, without their own independent access infrastructure. For details on wholesale telephony services see section 2.16.4.

For the decision on the elimination of the separation between the Internet infrastructure service and the access service (ISP) - see Section 1.7.2.2.

In the field of wholesale services, Hot competes with Bezeq as an infrastructure owner obligated to provide wholesale services. In practice, BSA services started on Hot's network in the second half of 2018 (see also Section 2.16.4).

In the field of data transmission and communication, Bezeq's main competitors are Hot Telecom, Cellcom and Partner, operating within the framework of communication groups and offering a complete communication solution to the customer.

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

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

2.2. Products and services

2.2.1. General

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

2.2.2. Telephony

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

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

Bezeq operates a unified call center[23], under the code (1344) established by the Ministry of Communications also for operators of landline and cellular telephony, as well as a unified website free of charge, in addition to Bezeq's 144 service.

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

2.2.3. Internet access infrastructure services

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

For details regarding changes in the number of Bezeq Internet subscribers and the average

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

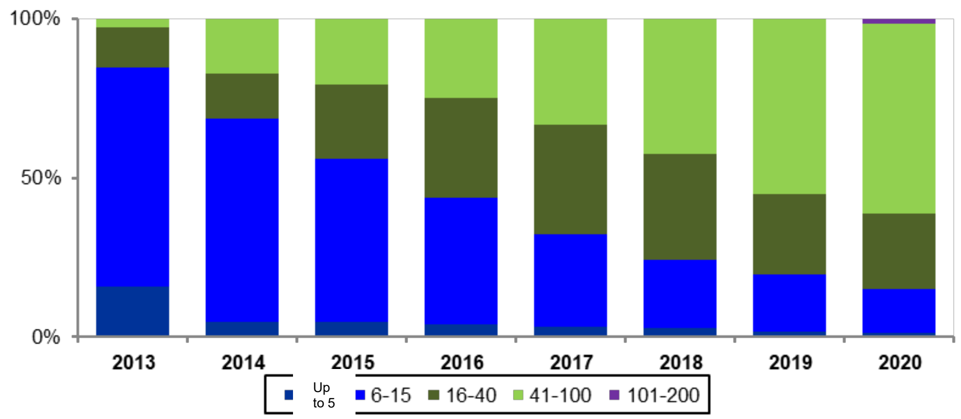
monthly income per Internet subscriber, see section 1.5.4. For details regarding Bezeq's market share in this field, see section 2.6.3.

The Internet service is one of Bezeq's main occupations and a major route in its investments in technologies, marketing, advertising and customer acquisition and upgrade. The average package speed of Bezeq's Internet subscribers[24] At the end of 2021 amounted to about 129.6Mbps, compared to an average package speed of 74.2Mbps at the end of 2020. The minimum package provided in the service to new customers is usually at a maximum speed of 15Mbps. In December 2021, the minimum package rate for sale was updated to 100Mbps.

xDSL service is also provided on a subscriber line without telephony at no extra charge for the access line. It should be noted that in accordance with the decision of the Ministry of Communications, Bezeq may not discriminate in the price of the xDSL service between a subscriber who consumes the service together with a telephony service and a subscriber who consumes only the xDSL service.

Bezeq is committed to providing a broadband Internet access service in the BSA wholesale format to service providers who provide their customers with an end-to-end Internet service in this manner, including infrastructure. For this service see section 2.16.4.

Diagram - Changes in the package speeds of Bezeq Internet subscribers in the years 2013-2020 (Mbps, as of the end of each year)*:



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

2.2.4. Data transmission and communication services

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

Bezeq offers transmission services, including at high speeds, to communications operators, international parites and its business customers in a variety of interfaces (see Section 2.6.4).

2.2.5. Cloud and digital services

This category includes, among others, virtual server services, Bcyber service, "smart home", "smart business" and smart complexes services, virtual private hub services (IP Centrex), as well as the B144 service which is Bezeq's advertising platform for digital advertising and marketing for small businesses, BCAM, SMS, WiFi and remote backup.

2.2.6. Other services

2.2.6.1 Additional services for communications operators

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

[24] Including revenue from service providers in wholesale service..

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

For the provision of wholesale services to communications operators and for the possibility of using Bezeq's physical infrastructure also for infrastructure owners, see section 1.7.3. In this regard, it should be noted that as of 2019, there has been a certain deterioration in the payment ethics of communications operators, deferral of payments and an increase in the volume of dispute claims. This state of affairs, in parallel with the erosion in the financial strength of various operators, increases the risk of having to recognize loan-loss and bad debt. However, as of this date, this deterioration does not have a material effect on Bezeq. On April 27, 2020, Bezeq, through its attorney, contacted the Ministry of Communications and announced that it does not intend to allow the continued provision of wholesale services to service providers who do not pay for these services.

Following an investigation by the Ministry of Communications and a hearing it published on the subject, on March 25, 2021, the Ministry decided to establish a procedure for dealing with the issue, stating, among other things, that the staff handling complaints in the Ministry of Communications can recommend to the authorized factor within the Ministry that the Ministry will not prevent the affected licensees from taking steps such as stopping the provision of service, not connecting new subscribers and more, depending on the circumstances and the severity of the case. Despite this, there are still operator debts in legal proceedings.

2.2.6.2 Broadcast services

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

2.2.6.3 Contractor work

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

2.2.6.4 Electricity supply license

On September 1, 2021, Bezeq received a license from the Electricity Authority to supply electricity without means of production. Bezeq intends to examine in the first phase of a pilot supply and sale of electricity to various consumers in accordance with the terms of the license.

2.2.7. Sale of end equipment and devices

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

2.3. Revenue segmentation of products and services

The following is data about the distribution of Bezeq's revenues according to the main products and services in its field of activity in the years 2019-2021 (in NIS million):

	2021	2020	2019
Revenue from Internet infrastructure services	1,624	1,622	1,578
Rate out of the total Company revenue in the field of activity	38.83%	39.0%	38.74%
Revenue from landline telephony	913	1,008	1,039
Rate out of the total Company revenue in the field of activity	21.83%	24.24%	25.50%
Revenue from transmission and data	1,087	1,011	948

communication services			
Rate out of the total Company revenue in the field of activity	26.0%	24.31%	23.27%
Revenue from Cloud and digital services	318	288	274
Rate out of the total Company revenue in the field of activity	7.6%	6.92%	6.73%
Revenue from other services and sale of end equipment	240	230	234
Rate out of the total Company revenue in the field of activity	5.74%	5.53%	5.74%
Total revenues from the field of landline interior communications	**4,182**	**4,159**	**4,073**

2.4. Customers

Bezeq is not dependent on a single customer, and there is no customer Bezeq's revenues from whom constitute 10% or more of its total revenues. Bezeq's revenues are divided into two main types of customers: private customers (approximately 50%) and business customers (approximately 50%).[25]. The aforesaid distribution is according to revenue, as detailed in the table below (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 revenue	4,182	**4,159**	**4,073**

2.5. Marketing, distribution and service

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

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

The Company's infrastructure is also included in packages marketed by Internet providers (ISPs) most of which, with the establishment of a wholesale market, market mainly end-to-end service packages based on Bezeq's BSA wholesale service, and as of April 3, 2022 will not be able to market Internet infrastructure to private customers outside the wholesale market.

2.6. Competition

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

2.6.1. Wholesale market (see also section 2.16.4)

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

In June 2017, rates for some of the wholesale market services were published on the Hot network. To the best of Bezeq's knowledge, the volume of wholesale subscribers on the Hot network is not large (see in this regard section 2.16.4).

2.6.2. The field of telephony

The field of private landline telephony is characterized by a decrease in the number of owners of a landline telephone line and a gradual erosion in the number of calls originating from landline networks (see section 2.1.3.2). Bezeq estimates that in 2021 the entire telephony market continued to erode at a similar rate to 2020 and at a higher rate compared to previous years. For this matter, see also section 2.3.In Bezeq's estimation, as of the end

[25] Including revenue from wholesale service providers.

of 2021, its market share in the landline telephony market was about 54% in the private market and about 70% in the business market, unchanged compared to 2020 in the private market and unchanged compared to 2020 in the business market[26].

2.6.2.1 Competition from additional NIO licensees

Bezeq and Hot Group have a fixed telephony infrastructure nationwide, and there is competition between them, which is reflected, among other things, in the fact that Hot Group markets a "Triple" (which combines Internet infrastructure, telephony and cable television), and possibly also cellular services, especially for households (regarding the marketing of a business service basket by Hot Group as well as the marketing of service baskets by Bezeq Group, See Section 1.7.2.3). In addition, Hot Group markets telephony services for business customers.

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

As of July 2017, Bezeq allows holders of unified licenses who are authorized to provide NIO services, reselleing telephony service over Bezeq's network. As of August 2018, Bezeq offers a wholesale telephony service available in a format similar to that of the service portfolio in the rates of use regulations, and as of January 2019, a service that also passes through the service provider switch. As of the date of the report, there is no demand for service. For the wholesale telephony service, see Section 2.16.4.

2.6.2.2 Telephony competition from cellular companies

According to Bezeq, the high penetration rate, combined with low airtime rates compared to the rest of the world and packages that include call minutes with no effective limit on a fixed monthly fee, have made cellular telephony a substitute for landline telephony. In Bezeq's estimation, the deepening of the interchangeability between a landline and a mobile line is one of the main reasons for the decrease in the average traffic per line, and the high rate of removal of telephone lines (see section 2.1.3).

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

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

2.6.3. The field of Internet infrastructure

In Bezeq's estimation, as of the end of the 2021, its market share in the Internet infrastructure market (retail and wholesale customers) amount to about 57% (compared to approx. 61% at the end of 2020). In addition, Bezeq estimates that its market share in terms of retail customers as of the end of 2021 amount to approx. 38%[27].

There is fierce competition in the field of Internet infrastructure:

2.6.3.1 Competition from Hot Group - Hot has nationwide Internet infrastructure through which a variety of communication services and interactive applications can be provided.

Hot's network is currently a major alternative competing with Bezeq infrastructure in the private segment. Hot was obliged to provide wholesale services, including BSA service, and to the best of Bezeq's knowledge, wholesale BSA service on

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

27 Bezeq's assessment of its market share in the field of Internet infrastructure services at the end of 2021 is based on the number of customers consuming services on Bezeq infrastructure (retail and wholesale) and on publications regarding the number of Partner and Cellcom subscribers. It should be noted that HOT and smaller companies operating in the market are not reporting corporations and their data are not public, and accordingly, it is difficult to give accurate data regarding market shares, and these are only estimates.

the HOT network has been marketed since the middle of 2018. For that matter, see also Section 2.6.1.

According to media reports, during the months of 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 Bezeq's knowledge, after a number of postponements and facilitations given to Hot over the years in implementing its universal service obligation, on Kuly 28, 2019, the Minister of Communications adopted the recommendations of the Advisory Committee and approved Hot to provide its services in infrastructure-free areas in the form of technological neutrality, i.e., without being required to deploy wired infrastructure, but being allowed to use any cellular network to provide its services at download speeds of up to 12/30Mbps, immediately. The adopted recommendations also set out, among other things, milestones for upgrading the network for the cellular network alternative, minimum service quality and reporting obligations.

2.6.3.2 Competition from ISPs and communication groups based on wholesale BSA service – the activation of the wholesale market allows Internet providers and related companies (with a unified license) to offer customers service packages that also include Internet infrastructure based on Bezeq's infrastructure and its services (in exchange for regulated rates to be paid by the communications providers to Bezeq). If and to the extent that a "margin reduction" prevention mechanism is activated, similar to that described in the Ministry of Communications hearing (see Section 2.16.4.2), at the same time, Bezeq's ability to market marketing offers of its retail services will be impaired - both in terms of timing (Time to Market) and regarding the prices at which the services are offered. Also, regarding Bezeq's bundles, see Section 1.7.2.1.

2.6.3.3 Competition by the Partner and Cellcom communication groups on the basis of an independent fiber network that enables the provision of an ultra-fast Internet service.

In addition to what is stated in Section 2.6.3.2, the Partner and Cellcom communication groups provide, on an increasing scale, ultra-broadband Internet services over an independent fiber infrastructure, while also using Bezeq's passive infrastructure within the wholesale market. In addition, service providers may provide a BSA service over Bezeq's fiber infrastructure as well.

2.6.3.4 Competition from cellular operators - cellular companies have deepened their activity in the field of the Internet on the cellular medium in both the private segment and the business segment. In contrast to the field of landline communications (where there is a separation between the provision of access infrastructure services and the provision of Internet access services), the cellular internet service is provided as one piece. Browsing services are provided both from the cellular device and through a cellular modem that connects to laptops and desktops.

2.6.3.5 Competition from IBC - IBC is setting up a fiber infrastructure to provide Internet over the electricity grid (and has started commercial operations). In accordance with the decision of the Minister of Communications dated August 8, 2018, the deployment duty of IBC was reduced and has been determined as no less than 40% of households in Israel within 10 years, when only after the "Cherry Picking" period (of three and a half years), the new licensee will be required to make at least one household accessible in the periphery for every household accessible in the center (for this matter, see also Section 2.1.8).

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

IBC is held by the Israel Electric Corporation (30%) and by Hot, Cellcom and the Israel Infrastrcure Fund, 23.3% each, to the best of Bezeq's knowledge, after the acquisition of control of IBC by Cellcom and another investor (Israel Infrastructure Fund) was completed on July 31, 2019, in which Cellcom sold the fiber-optic infrastructure to IBC, and after an investment agreement was signed in September 2020 under which Hot will enter into a partnership in the IBC fiber venture and an IRU agreement between Hot and IBC under which Hot will acquire the right to use the infrastructure to be established by IBC, at the beginning of 2021 the approvals of the Competition Commissioner and the Ministry of

Communications were received. In addition, the Ministry of Communications made an amendment to Hot's license, which allows, among other things, the marketing of a shared basket of services on the IBC network and the IBC license, which requires it to submit to the Ministry for approval a shelf offer to purchase its services (in IRU format) at a reduced rate.

2.6.3.6 Licensing for new operators for the prvoisoin of Internet access infrastructure service

2.6.3.7 On October 13, 2020, a decision was issued by the Minister of Communications in a hearing (published in March 2020) in which the threshold requirements for obtaining a license that allows the provision of broadband infrastructure services were significantly reduced, while this reduction will be made temporarily by providing an option to obtain a special license (for a period of thirty-six months from the date of the decision) instead of a unified license. The special license will be granted subject to the conditions set out in the decision, including that through the special license a service will be provided to no more than 8k private subscribers and to no more than 800 network endpoints of business subscribers. *Prima facie*, Bezeq believes that in certain circumstances the Minister's decision may lead to a possible harm to Bezeq's business, the extent of which Bezeq cannot assess at this stage. For this matter, see 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 Draft Amendment 76 to the Communications Law, the provision of communications services wil be allowed through registration in the registry in accordance with general permit regulations or the directives of the Ministry's General Manager, and this will be the basic regulation format in which broadband infrastructure services can also be provided. Certain services will still be subject to a license, including a Bezeq service provided through a Bezeq network in which the number of users or subscribers or the number of end points or terminals in the network 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).

On the Minister of Communications' decision regarding the abolition of the separation between broadband infrastructure service and Internet access service (ISP), see Section 1.7.2.4.

2.6.4. The field of transmission and data communication

In addition to Bezeq, operating in this field are mainly Cellcom and Partner, as well as ISP companies.

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

Cellcom and Partner use Bezeq's physical infrastructure as part of the wholesale service (see Section 2.16.4.3)[28], *inter alia*, in order to compete with Bezeq in this field and / or for its own needs.

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

According to IBC's license, IBC will contact the IEC for the right to use its fiber optic network, and will be the operator of the network. In addition, IBC has a special license (which does not impose a universal obligation) for the provision of landline interior data communication services, under which it is eligible to provide IPVPN services and broadband data communication lines.

2.6.5. Additional competing infrastructures[29]

In addition, there are currently a number of infrastructures in Israel that have the potential

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

[29] Beyond Hot and IBC infrastructure.

to serve as communications infrastructures, which are based on fiber optics and mostly owned by companies and government bodies, such as: Israel Railways, Mekorot, Oil Infrastructure Company and Trans-Israel Highway. Some local authorities are also trying to create an alternative for laying pipes or fibers using the infrastructure of these local authorities. It should be noted that the amendment of the Communications Law regarding the deployment of fibers and the decision of the Ministry regarding the granting of special licenses that allow for a limited deployment may accelerate the deployment by such bodies.

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

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

2.6.6.1 Bezeq launches communication services and new value-added applications (such as a smart home, smart business, smart complexes, integration services and more) as well as product and service packages and shared baskets (equivalent to certain baskets marketed by its competitors, although under a detachability limit, see section 1.7.2), in order to expand the scope of use of subscriber lines, to meet customer needs and strengthen its image of technological innovation. Bezeq is investing in the improvement and modernization of Bezeq's infrastructure, in order to enable the provision of advanced services and products to its subscribers.

Bezeq is working to introduce the high-speed Internet infrastructure service, as well as to increase the number of its customers in this field and create added value for the customer by expanding the option for 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). Bezeq also has service over VBAND, and a browsing package up to 200 MB, over 35B technology, under feasibility conditions.

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

2.6.6.3 Bezeq offers alternative payment baskets to telephony customers (until April 2022) (see Section 2.16.1.4), packages, consumption-adjusted routes and promotions.

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

2.6.6.5 As of 2018, Bezeq has been marketing its Be router. This is an advanced router with an innovative design, and with advanced capabilities that include, among other things, Smart Wi-Fi that enables quality and continuous browsing over the home Internet and Cyber protection. The router and services are managed by a dedicated app. As of the end of 2021, Bezeq's customer base using the Be router is approximately 666K customers (approximately 65% of Bezeq's retail Internet customers). Bezeq also markets products to improve the reception range of the Be spot and Be mesh home Internet networks, while as of the end of 2021, about 357K units of these products were marketed by Bezeq. With the advent of Internet services on the fiber, a router was launched that improves the reception range that is compatible with the fiber network at ultra-fast speeds.

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

2.6.7.1 Positive factors

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

b. Presence in most businesses and households.

c. A well-known and strong brand.

d. Technological innovation.

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

f. Extensive service infrastructure and diverse customer interfaces.

g. Professional, experienced and skilled personnel.

2.6.7.2 Negative factors

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

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

b. Limited rate flexibility

Bezeq is limited in its ability to provide discounts on its main services and offer differential rates. For this matter as well as for the decision by hearing regarding setting maximum prices for the Company's retail telephony services, see also Section 2.16.1.

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

c. Structural separation obligation

Regarding the obligation of structural separation applicable to Bezeq, see section 1.7.2.

d. The universal service and fiber deployment obligation

Bezeq has an obligation to provide service to the general public in Israel at a uniform price (universal service), except in relation to advanced network (fiber) for private customers. By virtue of this obligation, Bezeq is required to provide services even in non-economic circumstances (subject to the possibility of obtaining an exemption in exceptional circumstances). Regarding the scope of the obligation in relation to the provision of services on an ultra-broadband fiber infrastructure, see section 2.7.22.16.12. This obligation does not apply to unique NIO license holders, who can offer their services to Bezeq's profitable customers only, who constitute a substantial source of income for Bezeq. These companies has carried out and are carrying out an accelerated deployment of fibers in economically viable areas. In addition, Hot, which has a universal service obligation, received various reliefs in the implementation of full deployment obligation, significant exemptions and reliefs were granted to IBC, and Bezeq is committed to allowing Hot and IBC to use Bezeq's passive infrastructure. (see section 2.16.4).

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

See section 1.7.2.1.

f. The nature of end equipment in landline telephony

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

2.7. Property, plant and equipment and facilities

2.7.1. General

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

2.7.2. Infrastructure and stationary interior communications equipment

2.7.2.1 Telephony network

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

2.7.2.2 Internet

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

2.7.2.3 Ultra-broadband fiber infrastructure

On September 14, 2020 (in light of developments in the matter and further to the State’s approval prior to the legislative procedures detailed in Section 2.16.2), the Company’s Board of Directors approved the launch of the Bezeq plan for the deployment of ultra-broadband landline infrastructure (“**the Fiber Project**"). The Fiber Project is a complex and resource-intensive project that involves significant investments of billions of NIS by Bezeq over the years of the project.

Following Bezeq's above-mentioned decision of the Board of Directors, Bezeq began deploying fiber to buildings, including the deployment of vertical GPON equipment in buildings, and on March 14, 2021, Bezeq announced the launch of services to its customers over its fiber optic network.

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

As of the date of publication of the report, Bezeq has completed the physical deployment of the fiber network to approximately 1.174 million households throughout the country that are available for commercial connection, and as of the date of publication of the report, about 120K subscribers were connected to the Bezeq network.

2.7.3. Computing

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

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

2.7.4. Real estate

2.7.4.1 General

Bezeq has real estate assets from four sources: assets transferred to Bezeq by the State in 1984 as part of the asset transfer agreement (see Section 2.17.2.1), assets in which rights were acquired or received by Bezeq after this date, assets that it leases from third parties, and communication-only assets in which Bezeq has a right-of-use for a limited period.

The real estate assets are used by Bezeq for communications activities (switchboards, concentration rooms, broadcasting sites, etc.) and for other activities (offices, warehouses, etc.). Some of Bezeq's assets are owned or leased, are assets with potential for improvement.

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

The essence of the right	Number of assets	Lot area (sqm. thousands)	Built-up area (sqm. thousands)	Notes
Ownership, lease or right to lease	Approx. 302	Approx. 834	Approx. 181	From this, approx.. 300 field assets in the area approx. 815k thousand sqm. of plots, approx. 71k sqm. built-up are assets for communication needs and the rest are for administrative needs.
Possession (authorized by right / right of possession according to law)	Approx. 40	Approx. 1.5	Approx. 0.8	Properties in Israeli localities in Judea and Samaria, all for communication purposes. There is no written series of contractual rights, but in Bezeq's opinion this does not create material exposure.
rent	Approx. 332	Approx. 31	Approx. 64	Approx. 314 assets, of which a built-up area of about 16k sqm. are for communication needs and the rest for administrative needs. Approx. 2k sqm. built-up of which are sublet.
Various rights in "concentration rooms"	Approx. 2,510	Irrelevant	Approx. 27 (based on an estimate)	These are cable rooms and facilities for neighborhood communication needs. As for most of the properties, this is a right-of-use granted to Bezeq in accordance with the Communications Law and regulations thereunder, and there is no written rights arrangement with the asset owners. In Bezeq's opinion and based on past experience, this does not create material exposure.

2.7.4.2 Registration

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

2.7.4.3 Settlement agreement regarding the real estate

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

As of the date of publication of this periodic report, Bezeq returned to ILA 15 assets. Two additional assets will be returned to ILA after Bezeq receives alternative assets in their place in accordance with the Settlement Agreement.

2.7.4.4 Real estate exercise

General

Subject to the approval of Bezeq’s Board of Directors, Bezeq continues to act for the sale of assets that are inactive and / or that can be vacated relatively easily and without significant expenses, in accordance with the lists presented to Bezeq’s Board of Directors from time to time.

In recent years, Bezeq has sold real estate that was inactive or could have been vacated relatively easily and without significant expenses, and / or for which the consideration justifies providing another worthy alternative, while recording capital gains on these sales, which in some years were significant (during 2021, Bezeq sold real estate for a total of approximately NIS 273 million.

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

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

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

The asset in Sakia

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

On May 21, 2018, Bezeq received a demand from ILA for the payment of a permit fee in the amount of NIS 148 million plus VAT, in respect of a property improvement plan (“**the Improvement Plan**”) that was approved prior to the signing of the agreement (“**the Demand**"). On January 20, 2019, ILA rejected all of Bezeq's claims in the legal attainment, however, the parties conducted contacts within the framework of the dispute resolution mechanism set forth in the Settlement Agreement. At the same time, Bezeq submitted an appraisal contention on the Demand. On August 5, 2018, Bezeq received a demand from the Or Yehuda Local Planning and Construction Committee to pay an improvements levy in the amount of NIS 143.5 million due to the sale of the asset by way of a sale ("**the Improvements Levy Demand**”). On September 17, 2018, Bezeq filed an appeal against the Improvements Levy Demand, and sent ILA a demand for payment of the full improvements levy in accordance with the Authority's obligation under the Settlement Agreement. On January 20, 2019, ILA rejected Bezeq's demand for payment of the said improvement levy. Upon completion of the sale transaction as stated above and receipt of the full consideration, Bezeq paid half of the improvements levy in the amount of NIS 75 million and provided a bank guarantee for the other half of the levy, without detracting from or harming the proceedings that Bezeq has taken or will take in order to cause the cancellation or reduction of this levy. It should be noted that the amount of the permit fee to be determined at the end of the proceedings can also affect the amount of the improvements levy that Bezeq will have to pay to the Planning Committee. In Bezeq's estimation, the amount of the permit fee and the improvements levy that it will be required to pay is expected to be low and may even be significantly lower than the total amount of the demands. Following Bezeq's request, an attempt was made between it and the Accountant General's Division of the Ministry of Finance and the Israel Land Authority in early 2020 to clarify and resolve the above disputes within the framework of the dispute settlement mechanism set forth in the settlement agreement. In March 2021, Bezeq received a notice from the Accountant General and the Israel Land Authority that given the significant differences in positions between the parties that do not seem to be possible to bridge, they accept the Company's request to end the dispute resolution process and allow the dispute to be transferred to the courts. Subsequently, on June 27, 2021, Bezeq filed a lawsuit with the Tel Aviv District Court against the Israel Land Authority for the return of the full amount it paid as a permit fee and improvement levy in the total amount of NIS 217 million and for declaratory relief according to which the Israel Land Authority must pay Bezeq any amount foreclosed, if any, from the bank guarantee in the amount of NIS 75 million provided by Bezeq to the Or Yehuda Local Planning and Construction Committee to secure the balance of the improvement levy . As part of the lawsuit, Bezeq claimed that it was not liable to pay the permit fee and improvement levy because in accordance with the provisions of the settlement agreement signed between Bezeq and the Israel Land Authority and the State of Israel, it was entitled to receive the lease contract that refers to the property in Sakia when it is improved in accordance with the plan and without payment of a permit fee to the Israel Land Authority, and that in accordance with the provisions of the settlement agreement, the liability to pay an improvement levy in respect of the plan applies to the Israel Land Authority.

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

In its financial statements for the second quarter of 2019, Bezeq recorded a capital gain of NIS 403 million. The capital gain recorded as aforesaid is on the basis of Bezeq's assessment regarding the amount of the permit fee and the improvements levy that it will be required to pay as aforesaid. To the extent that Bezeq’s aforesaid estimates do not materialize, the final capital gain will range from approximately NIS 250 million to approximately NIS 450 million. For this matter see also Note 6.6 to the 2021 statements.

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

Sale of a Bezeq asset at 8 Harakevet Street in Tel Aviv

On February 25, 221, Bezeq entered into an agreement for the sale of a real estate asset located at 8 Harakevet Street, Tel Aviv ("**the Asset**") to the Azrieli Group Ltd. ("**The Buyer**") in exchange for a total amount of NIS 180 million + VAT. It should be noted that the Asset was jointly owned by Bezeq and the Israel Postal Company and that the sale transaction includes the purchase of the Israel Postal Company’s share by Bezeq and the sale of this share together with Bezeq's share to the Buyer. The full consideration was paid by the Buyer at the time of signing the agreement. Bezeq recorded in its financial statements for the first quarter of 2021 a capital gain in the amount of NIS 125 million before tax for the sale of the Asset (after deducting the cost of purchasing the Israel Postal Company's share, purchase tax, expenses and reduced cost value to Bezeq).

2.8. Intangible assets

2.8.1. Bezeq's NIO license

Bezeq operates under an NIO license, which, among other things, forms the basis for its activity in the field of landline interior communications (for a description of the main points of the NIO license, see section 2.16.2).

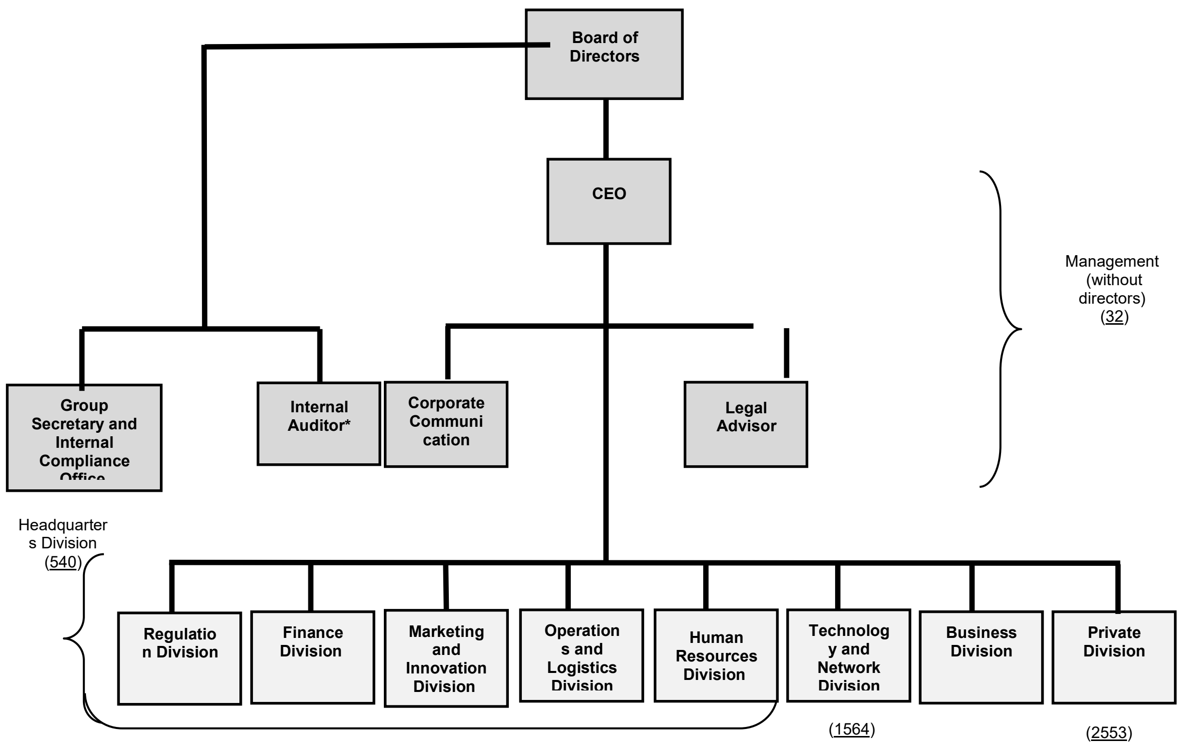
2.8.2. Trademarks

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

2.9. Human capital

2.9.1. Organizational structure and employee base according to organizational structure

The following is a diagram of Bezeq's general organizational structure as of December 31, 2021:



2.9.2. Number of Bezeq employees and employment frameworks

The number of employees at Bezeq as of December 31, 2021 was 5,475 employees (compared to 5,408 employees at the end of 2020). About 93% of Bezeq employees are employees employed under collective agreements (of which approximately 57% of Bezeq's employees are permanent employees and the rest are non-permanent employees). The rest of Bezeq's employees (approximately 7%) are employed under individual agreements not within the framework of the collective agreements.

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

2.9.3. Early retirement plans for employees

During 2021, 125 permanent Bezeq employees retired in accordance with the retirement plan in Bezeq.

In this sframework, the retirement of all Bezeq employees that were transferred to Bezeq from the Ministry of Communications), except for a few individual employees whose retirement was postponed during 2022 due to Bezeq's administrative needs).

On November 29, 2021, as part of the implementation of Bezeq's streamlining plan and under the collective agreement in Bezeq of the retirement of approximately 50 veteran permanent employees in the early retirement track at a total cost of approximately NIS 71 million (the cost includes a reserve of 5% of the estimated retirement costs). In light of the aforesaid, Bezeq recorded in its financial statements for the fourth quarter of 2020 an expense in the amount of NIS 67.5 million.

For this matter see also Note 16.5 to the 2021 statements.

2.9.4. The nature of the employment agreements with Bezeq

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

In December 2006, following the transfer of control of Bezeq from the State of Israel to AP.SB.AR Holdings Ltd. (the former controlling shareholder in Bezeq), a special collective agreement was signed between Bezeq and the employees' organization and the Histadrut that regulates labor relations in Bezeq. The following are the main points of the collective agreement and the amendments to it that have been signed over the years (jointly referred to in this section as: "**the Agreement**"):

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

According to the Agreement, during the period of validity of the Agreement, two directors from among the employees will serve on Bezeq's Board of Directors[30] which will be proposed by the employees' organization (subject to the approval of their identity by the Chairman of the Board and their election to the general meeting). The directors from among the employees will not be entitled to payment for their office as directors and will not participate in Board discussions regarding the terms of employment of senior executives.

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

As part of the retirement arrangements, Bezeq will be entitled to terminate at its discretion the employment of up to 203 permanent employees (including a new permanents) each year (the figure is relevant for the years 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 31.12.2025 and the retirement arrangement in the collective agreement until 31.12.2026.

2.9.4.2 As part of its retirement arrangements, Bezeq may, at its discretion, terminate the employment of up to 80 permanent employees (including a new permanent) each year (in addition to the retirement quota of approximately 300 permanent employees remaining from the previous agreement, which Bezeq may terminate at the end of the agreement).

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

2.9.4.3 The estimated cost of the Agreement, not including the retirement of employees subject to Bezeq's discretion (but including the additional retirement cost of employees that were transferred from the Ministry of Communication) is approximately NIS 65 million throughout the period of the Agreement.

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

2.9.5. Officers and employees of Bezeq's senior management

As of the date of publication of the periodic report, Bezeq has 9 directors (out of a composition of 9 directors decided by Bezeq's Board of Directors), of which three are external directors, one independent director (who is not an external director) and 5 directors who are not independent directors (including one director from among the employees). In addition, Bezeq has 10 senior management members.

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

For details regarding benefits for officers, see Section 7 of Chapter D of this periodic report and Note 29 to the 2021 statements.

On May 23, 2019, the general meeting re-approved Bezeq's remuneration policy in accordance with Article 267A of the Companies Law, including the update thereof, for a period of 3 years, starting on January 1, 2019.

on June 2, 2020 the general meeting of Bezeq's shareholders approved, *inter alia*, amendment to the letters of indemnification and exemption granted to Bezeq's officers and directors who serve at Bezeq and / or who will serve at Bezeq from time to time (including those who are Bezeq's controlling shareholders and / or relatives and / or offciers in the controlling shareholders' companies), as well as amendments to Bezeq's regulations and its Remuneration Policy.

On May 14, 2020, the general meeting of Bezeq's shareholders approved, among other things, additional amendments to the Remuneration Policy of Bezeq's officers as detailed in Bezeq's immediate reports of April 2, 2020 and May 14, 2020 regarding the convening and results of the meeting included in this report.

On December 10, 2020, Bezeq's Board of Directors approved a capital compensation plan ("**the Plan**") under which options will be allotted which are exercisable into up to 84,000,000 ordinary shares, constituting approximately 2.94% of Bezeq's issued and paid-up equity fully diluted after exercise, for which an outline was published on December 12, 2020 (as amended on January 14, 2021) ("**the Outline**"). As part of the approval, an allocation of up to 58,735,000 options was approved for up to 117 executives, managers and employees in Bezeq and in the subsidiaries, including Bezeq's Chairman of the Board and Bezeq's CEO, by virtue of the outline and a material private offer report. On February 10, 2021, Bezeq's Board of Directors approved the allocation of up to 2,580,000 additional options by virtue of the Outline to 4 officers and / or employees in Bezeq and in the subsidiaries.

Also on January 18, 2021, the general meeting of Bezeq shareholders approved:

A. Increasing Bezeq's registered share equity by 24,485,753 ordinary shares of NIS 1 par value each, in order to enable future allocation of capital remuneration up to the maximum possible volume for allocation under the Plan.

B. Mr. Gil Sharon's term of office and employment as Chairman of Bezeq's Board of Directors, which will apply retroactively from August 27, 2020, and the effective date of his entry into office (including the allocation of 12,000,000 options in accordance with the Plan).

C. Allocation to Mr. Dudu Mizrahi, CEO of Bezeq, of 9,000,000 options in accordance with the Plan.

D. Amendments and updates to Bezeq's Remuneration Policy.

For further details on this matter, see Bezeq's amended immediate reports dated January 14, 2021 regarding the convening of a special general meeting of Bezeq's shareholders and regarding an outline for the issuance of options to employees included in this report by way of reference.

On April 22, 2021, the General Meeting of Bezeq's shareholders approved an amendment to Bezeq's remuneration policy, according to which the limit of liability in the officers' insurance policy was limited to a maximum ceiling of US USD 250 million (replacing the liability limit of US USD 100-250 million), and the inclusion of the possibility of renewing the insurance policy by extending or entering into a new policy at any time.

On March 22, 2022, Bezeq's Board of Directors approved the convening of a general meeting, the agenda of which includes, among other things, the approval of an updated remuneration policy for a period of three (3) years, effective from January 1, 2022, which includes, among other things, clarifying amendments regarding the return of remuneration given on the basis of incorrect financial information, adjusting the remuneration policy in a manner that allows for variable remuneration depending on performance to the Chairman of the Bezeq Board of Directors, as well as drafting amendments and other technical amendments..

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

2.10. Equipment and suppliers

2.10.1. Equipment

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

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

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

During 2021, Bezeq had no major supplier as defined above.

2.10.3. Dependence on suppliers

Most of the equipment purchased in the fields of data communications, branding, transmission and radio systems is unique equipment and throughout all its years of operation the possibility of receiving support, other than from the manufacturer, is limited.

In Bezeq's opinion, given the importance of the manufacturer's support for certain systems used by Bezeq, it may be dependent on the following suppliers:

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

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

2.11. Working equity

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

2.12. Investments

For information on investments in investee companies, see Note 12 to the 2021 statements, and also see sections 3 and 4 of Chapter D of this periodic report.

2.13. Funding

2.13.1. The average and effective interest rate on loans

As of December 31, 2021, Bezeq is not financed by short-term credit (less than a year). The following is the distribution of long-term loans (including current liabilities):

Loan period	Source of funding	The principal amount (NIS millions)	Currency or linkage type	Type of interest rate and change mechanism	Average interest rate	Effective interest rate	Interest rate range in 2021
Long-term loans	Banks	711	NIS unlinked	Fixed	3.43%	3.36%	-3.20% 4.30%
	Banks	300	NIS unlinked	Variable on the basis of the short-term loan interest rate per year *	2.13%	2.20%	2.13%
	Non-banking sources	36	NIS unlinked	Variable on the basis of the short-term loan interest rate per year **	1.38%	1.57%	-1.38% 1.43%
	Non-banking sources	4,073	NIS unlinked	Fixed	3.06%	3.15%	-2.79% 4.00%
	Non-banking sources	2,916	CPI-linked NIS	Fixed	1.72%	1.76%	-0.58% 3.70%

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

** Short-term loan annual yield for the year (223) - minus 0.38200% (average of the last 5 trading days of February 2022) for the interest period that began on March 1, 2022.

For more details about Bezeq loans, see Note 13 to the 2021 statements.

2.13.2. Credti receipt limitations

2.13.2.1 Limitations included in Bezeq loans

See Note 14 to the 2020 statements. As of the date of publication of the statements and as of the date publication of of this periodic report, Bezeq meets all the restrictions that apply to it.

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

The directives of the Supervisor of Banks in Israel include restrictions on the liability of a borrower and a group of borrowers towards the banks. The Supervisor of Banks' instructions may from time to time influence the ability of banking corporations to grant additional credit to Bezeq. Regarding the authorization to set restrictions on the provision of credit to a business group in the Centralization Law, see section 1.7.4.7.

2.13.3. Reportable credit

As of December 31, 2021, Bezeq's reportable credit, in accordance with legal position 104-15 of the Securities Authority (reportable credit incident) is Bezeq's debentures from series 6, 9, 10, 11 and 12, all as specified Note 13 to the 2021 statements and in section 4 of the Board of Directors' report.

2.13.4. Amounts of credit received during the reporting period

On April 7, 2020, Bezeq published a prospectus of registration for trading and unblocking of Bezeq debentures (Series 11 and 12) and a shelf prospectus (dated April 8, 2020) (“**the Prospectus**").

On December 23, 2021, Bezeq completed a placement of new debentures (Series 13 and 14) according to a shelf offer report from December 21, 2021, which was published according to the Prospectus. In this framework, 200,000,000 debentures (Series 13) were issued in exchange for an amount of approximately NIS 200,000,000, and 200,000,000 debentures (Series 14) in exchange for an amount of approximately NIS 200,000,000 were issued. For further details regarding these debentures, see Bezeq's off-the-shelf offer report dated December 21, 2021, Bezeq'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, Bezeq took out a loan in the amount of NIS 300 million from a banking corporation.

On Jnuary 23, 2021, Bezeq made a partial early repayment, on its own intiative, of Bezeq’s debentures (Series 9) in the amount of approx. NIS 370 million par value.

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

2.13.5. Bezeq's debentures

For details regarding the debentures issued by the Company and by Bezeq see Note 13 to the 2021 statements and Section 4 of the Board of Directors' Report. Also, see section 2.13.4.

2.13.6. Credit rating

Bezeq's debentures are rated by Standard & Force Maalot Ltd. as il/AA-/Stable and by Midroog Ltd. as Aa3.il rating with a stable rating horizon. On May 2, 2021, Midroog issued the rating of Bezeq's debentures (which had negative consequences) and approved the Aa3.il rating of Bezeq's debentures, with a stable rating horizon, and on December 1, 2021 Midroog announced the granting of the same rating to Series 13-14 debentures, which Bezeq will issue in the amount of up to NIS 400 million par value. On May 12, 2021, Maalot confirmed Bezeq's ilAA-/Stable rating 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, through the issuance of two new series, 13 and 14.

For details regarding the history of Bezeq ratings in the last two years, see Bezeq's immediate reports dated May 4, 2020, May 26, 2020, May 12, 2021 and November 30, 2021 (Standard & Poors Maalot Ltd.), as well as from April 22, 2020, May 26, 2020, December 22, 2020, May 2, 2021 and December 1, 2021 (Midroog Ltd.) included in this report by way of reference.

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

2.13.7. Bezeq's assessment in relation to debt raising in the coming year (2022) and the sources of raising

During 2022, Bezeq is expected to repay a total of NIS 1.55 billion for the principal and the interest on its loans, including debentures (this amount includes an early repayment of Series 9 debentures executed as specified in Section 2.13.4).

Bezeq raises funds from time to time for the purpose of managing its cash flow. The financing options available to Bezeq are: Raising debt through new loans from banking corporations and / or through raising private or negotiable debt.

2.13.8. Liens and collateral

For information regarding Bezeq's liens and collateral, see Note 19 to the 2021 statements.

2.14. Taxation

For information on taxation, including losses carried forward for tax purposes in DBS, see Note 7 to the 2021 statements.

On December 26, 2021, Bezeq received a letter from the Tax Authority extending, at Bezeq's request, the validity of the taxation decision for one year, i.e., until December 31, 2022. It should be noted that the Tax Authority's letter states that in light of the fact that there were no material developments regarding the abolition of the structural separation between Bezeq and

DBS from the date of the taxation decision until the date of this extension, and in light of the long time elapsed from the taxation on the subject, the Tax Authority will consider not extending the validity of the taxation decision beyond December 31, 2022, as long as there are no significant developments in 2022 regarding the abolition of the structural separation between Bezeq and DBS. According to Bezeq's position, it is entitled to an extension of the Tax Authority's approval in accordance with the terms of the tax decision, according to which the Tax Authority will extend the validity of this tax decision annually in writing each year, subject to the companies' declaration that there has been no material change in their business and the terms of this tax decision and subject to the interpretation given to the law, provided that such interpretation is published in writing". Furthermore, even if the validity of the taxation decision is not extended, this does not prevent Bezeq from requesting from the Tax Authority at any relevant time in the future a new taxation decision instead of the said taxation decision. It should also be noted that Bezeq continues to work with the various regulatory bodies to abolish the structural separation.

2.15. Environmental risks and their ways of management

2.15.1. General

Some Bezeq facilities, such as broadcasting facilities, wireless communication facilities, or high-voltage facilities[31] are sources of electromagnetic radiation which are included in the definition of "radiation source" in the Non-Ionizing Radiation Law.

2.15.2. Non-Ionizing Radiation Law

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

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

It should be noted that the Commissioner requires building permits as a condition for the continued validity of operating permits for communication facilities (including broadcasting facilities) issued by him, as well as the existence of additional conditions, *inter alia*, in relation to "wireless access facilities" that have a "type certificate" issued by the Commissioner . See also section 2.16.10.

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

2.15.3. Permits

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

2.15.4. Bezeq policy regarding radiation risk management

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

2.16. Restrictions and supervision of Bezeq operations

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

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

2.16.1. Supervision of Bezeq rates

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

Bezeq rates supervision (as detailed below) has several implications - Bezeq rates are subject to regulatory intervention (even if not provided for in regulations), and from time to time, Bezeq is exposed to significant changes in its rate structure and rate level. Rate control creates or may create difficulties for Bezeq in providing an appropriate competitive response to changes in the market and competitors' offers in short schedules. In addition, the restrictions on the granting of discounts in rates limit Bezeq's participation in certain tenders.

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

2.16.1.1 In accordance with the Communications Law, the Minister of Communications may, with the consent of the Minister of Finance, determine payments (including maximum or minimum) for licensee services. Determination of payments can be made, *inter alia*, based on (1) cost according to a calculation method ordered by the Minister plus a reasonable profit; Or (2) by reference points derived from the following: payment for services provided by the licensee, payment for comparable services, payments in other countries for such services.

2.16.1.2 Rates set by regulations (FIX) (until April 1, 2022) - Bezeq's supervised service rates (telephony and other services) set in the regulations were updated according to the linkage formula minus a reduction coefficient as stipulated in the regulations, so that on average Bezeq's supervised rates were eroded in real terms. On December 12, 2021, the Communications Regulations (Bezeq and Broadcasting) (Calculation and Linkage of Payments for Bezeq Services), 5767-2007, where the formula for the update was determined, as part of the decision at the hearing regarding the determination of maximum rates for Bezeq's retail telephony services. The cancellation will take effect on April 1, 2022 (see Section 2.16.1.4).

2.16.1.3 The Minister of Communications and Finance have the authority (according to Article 5 of the Communications Law) to determine payments for interconnectivity or for a licensee's use of another licensee's Bezeq facilities and to issue instructions (including in relation to ancillary arrangements), *inter alia*, based on the parameters stated in section 2.16.1.1. For the hearing on rates and interconnectivity accounting, see Section 1.7.4.1.

2.16.1.4 For a service for which no payment has been determined or for which a maximum or minimum payment has been determined according to Article 5 or 15 of the Communication Law, Bezeq may demand a reasonable payment. The Minister of Communications may order Bezeq to inform him of a payment that it intends to demand as aforesaid and of any change in payment before the service is provided or the change is made. If the Minister of Communications sees that Bezeq intends to demand an unreasonable payment, or a payment that raises concerns in respect of competition, he will be entitled to order Bezeq (for a period not exceeding one year) the amount of payment it may demand for the service, or order the separation of the payment for a service from the payment for the group of services. The Minister's examination of whether a payment is unreasonable may be made, *inter alia*, in accordance with the parameters as stated in section 2.16.1.1(1), and the Minister may examine the payment based on what is stated in section 2.16.1.1(2).

2.16.1.5 On December 30, 2021, the Minister of Communications issued a decision at a hearing (a hearing dated December 15, 2020 regarding the determination of maximum rates for Bezeq's retail telephony services) to reduce Bezeq's telephony rates as detailed below ("**the Decision**"). The following are the main points of the Decision.

a. Amend the relevant regulations so that the maximum payments for a subscription line[32] and for calls from a subscription line will be reduced in a graded manner on two dates: April 1, 2022 (the day the regulations come into force) and July 1, 2023..

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

Two stages	Service	Maximum rate	
		Net of VAT	VAT included
April 1, 2022 until July 1, 2023	Monthly usage fee per telephone line	29.91	35
	Rate for call minutes to landline networks[33]	Peak 0.035 Low 0.0857	Peak 0.041 Low 0.100
	Rate for call minutes to mobile networks[34]	0.1093	0.128
Starting from July 1, 2023	Monthly usage fee per telephone line	20.82	24.36
	Rate for call minutes to landline networks[35]	0.0142	0.017
	Rate for call minutes to mobile networks[36]	0.074	0.086

c. Upon the transition to a mechanism of maximum payments, the existing alternative payment baskets that Bezeq markets in accordance with the provision of Article 15A of the Communications Law will be eliminated. At the same time, Bezeq will be able to market telephony service packages that include a telephone line and call minutes, at rates set by it in accordance with Article 17 of the Communications Law, provided that the payments in these packages are lower than the payments derived from the maximum rates set.

Starting from April 1, 2022 and until July 1, 2023, the maximum payment of subscribers who paid for a group of services on the eve of the entry into force of an alternative payment basket, will be according to the conditions set in that alternative payment basket or according to the regulations after the amendment, whichever is lower. The Ministry of Communications estimates that such a change in rates is expected to reduce telephony expenses of Bezeq's discrete line subscribers and reduce Bezeq's landline telephony consumers' expenses by 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 landline telephony service and changes in the competitive situation, whatever the situation, the Minister of Communications intends to Bezeq's landline telephony service.

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

According to Bezeq estimates, if the number of telephony lines and call minutes in the Bezeq network had remained at their level as of the date of this report, the reduction in rates would have led to a decrease in Bezeq's revenues in 2022 of NIS 70 million; a decrease in Bezeq's revenues in 2023 in the amount of

32 "Subscription 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 through the active dial-up service.

33 Including interconnectivity rate to landline destinations.

34 Including interconnectivity rate to mobile networks.

35 Including interconnectivity rate to landline destinations.

36 Including interconnectivity rate to mobile networks.

approximately NIS 150 million; and from 2024 onwards, to a decrease in Bezeq's revenues in the amount of approximately NIS 200 million per year. However, in light of the continuing declining trend in both the number of Bezeq telephony lines and the number of call minutes, which led to an erosion in Bezeq's revenues from telephony services[37], the impact of the decision alone on Bezeq's revenues is expected to be smaller compared to this section.

Some of the information contained in this section is forward-looking information as defined in the Securities Law based on assessments, assumptions and expectations, including the demands for Bezeq services and the behavior of various communications operators. Accordingly, the information may not materialize or materialize differently from what is stated depending on the materialization of the above assessments.

Upon the entry into force on April 1, 2022 of maximum payments (instead of FIX payments) for telephony services as determined by the Ministry, Bezeq will not market alternative payment baskets under Article 15A (a) of the Law, as they are relevant when no maximum or minimum rates have been set. However, if maximum or minimum payments have been determined under Articles 5 or 15 of the Communications Law for Bezeq services provided to another licensee, Bezeq may, in a non-discriminatory manner, offer each other licensee both an alternative payment basket for a group of services in maximum or minimum payments, and such services together with services for which payment has not bee determined under Articles 5 or 15 of the Communications Law, insofar as the Ministers do not object.

For the hearing dated August 29, 2017 regarding the mechanism for preventing margin reduction, and the submission of marketing proposals for approval by the Ministry of Communications, as well as for wholesale service rates and for updating the wholesale rates for the years 2019-2021 - see section 2.16.4.

Regarding wholesale market rates in the BSA service - on February 20, 2020, the Minister of Communications decided to amend the Communications (Bezeq and Broadcasting) Regulations (Use of an NIO Public Network), 5774-2014 (“**the Amendment**" and “**the Regulations**", respectively) as detailed below:

a. The amendment includes formulas for updating the maximum payments to which Bezeq is entitled for use of its network (wholesale BSA service) on January 1 of each year, between the years 2019 and 2022, and also stipulates that the Minister of Communications will publish on November 15 each year the demand forecast index, which is a component of the update formula. The demand indices for the years 2019 and 2020 were determined in the Minister's announcement which was attached to the Minister's decision. The amendment will apply retroactively from January 1, 2019.

b. It was further determined that with the entry into force of the regulations, a reduction of certain payment components will apply in a manner that will offset Bezeq and another licensee, who consumed the services between February 2017 (the date of the decision to update the maximum payments) and July 2018 (the date of updating the regulations) until the end of the offsetting for that period.

On November 29, 2020, Communication Notice (Bezeq and Broadcasting) (Use of an NIO’s Public Bezeq Network) was published, as part of which, the demand forecast indices for 2021 were updated (the demand forecast indices for a landline connection to a traditional network in the Bezeq network, for data capacity at the core of the network used by the traditional network, and Bezeq's managed broadband access service through a traditional network), from which the rates of use of the Bezeq network for Bezeq's wholesale services are derived in accordance with the formulas in the Bezeq network usage rates regulations for Bezeq wholesale services. Bezeq's revenues in respect of said services are affected by both the rates and the extent of the actual use of the Bezeq network, which depends on the behavior of the various communications operators. The updated rates had a material adverse effect on Bezeq's results for 2021. On December 30, 2021, Communication Notice (Bezeq and Broadcasting) (Use of an NIO’s Public Bezeq Network) (No. 2), 2021 was published, in which the

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

wholesale rates for use were updated. In Bezeq's traditional network, due to changes in the index and the above demand forecast indices for 2022 and in accordance with the formulas in the regulations for the use as in force since January 1, 2022.

Some of the information contained in the above paragraph is forward-looking information as defined in the Securities Law based on Bezeq's assessments, assumptions and expectations, including the scope of use of the Company's network and the behavior of the various communications operators. Accordingly, the information may not materialize or materialize differently from what is stated depending on the materialization of the above assessments.

For wholesale market rates on Hot's network, see section 2.16.4.

On February 21, 2022, a hearing was published by the Ministry of Communications to set a maximum rate for passive infrastructure access service (barrel access service) and dark fiber service, in accordance with the provisions of Article 14D (i) of the Communications Law, which stipulates that the Minister may set a reduced rate for the use of Bezeq's passive infrastructure in the incentive areas[38] and in the use areas[39]. 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 Contracting considers setting maximum supervised rates in the incentive areas and use areas for the following services: Passive infrastructure access service – NIS 195 per km per month (compared to a rate of NIS 409); dark fiber service - NIS 195 per km per month (compared to a rate of NIS 501). According to what is stated in the hearing documents, as part of a new pricing process for all wholesale rates planned for 2022, the determination of the above supervised tariffs will also be examined. From an initial point of view of the hearing documents, Bezeq estimates that the direct financial impact as a result of determining the reduced tariffs is not expected to be material. Bezeq continues to examine the hearing documents and its implications.

2.16.2. Bezeq's NIO license

Bezeq operates, among other things, under the NIO license[40]. The NIO license contains provisions that mainly concern:

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

Bezeq must provide its services to everyone on equal terms for each type of service, regardless of location or unique cost. The license is not limited in time; The Minister may change, revoke, and suspend the license; The license and any part thereof may not be transferred, encumbered or foreclosed. Regarding the addition of wholesale services to the Bezeq license, see section 1.7.3. Regarding the deployment and universal service obligation in connection with advanced infrastructure (fibers), see Section 2.7.2.

2.16.2.2 Rules of structural separation

For a description of the structural separation rules applicable to Bezeq, see Section 1.7.2.

2.16.2.3 Rates

Bezeq will provide a service or package of services for which no rate has been set (and from April 1, 2022 - for which no maximum rate has been set) under Articles 15 or 15A of the Communications Law at a reasonable price, under Aarticle 17 of the Law, and will offer it to everyone, throughout Israel and in the matter of 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.

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[38] Areas where Bezeq has chosen not to deploy an advanced network and where it will be deployed by other licensees.

[39] Other areas that are not Bezeq's deployment areas, and which are not used by Bezeq for the deployment of an advanced network and the use of the service in them for the purpose of deployment in the incentive areas.

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

As of April 1, 2022, Bezeq will be entitled to determine telephony packages according to the quota of minutes included in the packages. Bezeq was entitled to provide telephony packages for which no tariff was set under Article 15 or 15A of the Law, would demand a reasonable price for them under Article 17 of the Law and would offer them to any claimant without discrimination on equal terms and at a uniform tariff according to types of services. The price for such a telephony package will not exceed the maximum payment under the Payments for a Telephone Line Regulations, plus the maximum payment for call minutes under the Payments Regulations. The telephony package will be subject to Article 9.7A of the License, according to which Bezeq will allow the subscriber to separately purchase each service or package of services included in the shared service basket with other licensees under the same conditions as the service or package of services in the shared service basket (detachability).

2.16.2.4 Marketing shared service baskets

For the provisions in the NIO license that allow Bezeq to apply to market baskets of shared services subject to restrictions, see section 1.7.2.1.

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

Bezeq must maintain and operate the network, and maintain its services at all times, including in times of emergency, in a proper and regular manner, in accordance with the technical requirements and the quality of service requirements, and act to improve its services. The license includes an appendix regarding the "level of service to the subscriber", which was determined to be amended after Bezeq provides the Ministry with data. Bezeq forwarded proposals to the Ministry to amend the appendix while adapting it to the reality and licenses of other operators, but as of the publication of the report, the amendment has not yet been made. For the amendment to the license regarding answering at the call centers, see section 1.7.4.4 a).

2.16.2.6 Interconnectivity and use

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

2.16.2.7 Arrangements in the field of security

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

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

Bezeq must appoint a security officer and strictly comply with the security provisions in the appendix to the license.

2.16.2.8 Supervision and reporting

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

2.16.2.9 Miscellaneous matters

a. The NIO license includes restrictions on the acquisition, possession and transfer of means of control in accordance with the provisions of the Communications Order (see section 2.16.3), as well as restrictions on "cross-ownership", the main principle of which is the prohibition on cross-holding by entities that have an affiliation with another material NIO[41] as stated in the license, and restrictions on cross-holding by entities with NIO licenses or general licenses in the same segment of activity.

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

c. The Director General of the Ministry of Communications is authorized to impose a financial sanction for violating the terms of the license (for this matter, see also section 1.7.4.6).

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

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

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

Regarding the amendment of Bezeq’s license regarding the determination of advanced network deployment obligations - see Section 2.16.12

2.16.3. The Communication Order

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

Main additional provisions in the Communication Order:

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

2.16.3.2 The transfer or acquisition of control of Bezeq requires the approval of the Ministers ("**Control Permit**"). The Control Permit will determine a minimum holding rate in each of Bezeq's means of control by the Control Permit holder, with the transfer of shares or the issuance of shares by a company, as a result of which the controlling shareholder's holdings fall below the minimum rate – is prohibited without the Minsiters’ prior approval, subject to permissible exceptions (including public offering under a prospectus or sale or private allotment to institutional investors)[42].

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

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

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

excess holdings.

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

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

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

It should be noted that on March 8, 2020, Bezeq received hearing documents published by the Ministry of Communications regarding "changing the requirement for a minimum percentage of means of control of a general licensee held by an Israeli entity". During the hearing, it was proposed to amend the Communications Order as well as additional legislation stipulating Israeliness requirements in relation to additional holders of communications licenses, so that it will be possible to convert the Israeliness requirement in the legislation under Article 13 of the Communications Law and the procedure set forth therein. The date for reference to the hearing is set for March 29, 2020. On July 8, 2020, an amendment was published in Reshumot to some of the communications regulations that stipulate an Israeli requirement so that the possibility of converting the Israeliness requirement into a provision under Article 13 of the Communications Law and in the procedure set forth therein, which will apply to the relevant licensee alternative provisions to the Israeliness requirement. The date for reference to the hearing is set for March 29, 2020. On July 8, 2020, an amendment was published to some of the Communications Regulations stipulating the requirement of Israeliness, so that the possibility of converting the requirement of Israeliness into a provision under Article 13 of the Communications Law, which will apply alternative provisions to the Israeliness requirement on the relevant licensee. To the best of Bezeq's knowledge, no parallel amendment has yet been made to the Communications Order.

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

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

2.16.4. Wholesale market

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

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

2.16.4.1 Policy document

The wholesale services are set out futher to the policy document dated May 2, 2012, in which the Minister of Communications adopted the main recommendations of the committee for examining the structure of Bezeq's rates and updating them and for determining rates for wholesale services in the field of communications (Hayek Committee). The policy document stipulates, *inter alia*, that owners of landline interior access infrastructures, which provide retail services, including Bezeq, will be required to sell wholesale services to communications license holders, on the basis of non-discriminatory conditions and no size discounts. The document set out conditions for the elimination of structural separation (See Section 1.7.2.2) and that the Minister will work to move to the method of controlling Bezeq rates by setting a maximum price, within 6 months of publishing a "shelf offer" for the sale of services by infrastructure owners, and that the Ministry will formulate a regulation within 9 months aimed at increasing investment in Israel's fixed communications infrastructure.

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

2.16.4.2 BSA service

Bezeq began providing the service on February 17, 2015. This service enables infrastructure-less service providers to offer their customers an Internet servicefull (end to end) which includes both an Internet connection service and Bezeq's infrastructure service[43]. Since the launch of the service, hundreds of thousands of customers have moved to receive service through such service providers, in this regard, see sections 1.5.4.1 and- 2.1.3.

On August 29, 2017, the Ministry of Communications issued a secondary hearing (to a hearing published on November 17, 2014), regarding the determination of a format for examining the margin squeeze by owners of broadband fixed communications infrastructure in marketing proposals. Margin squeeze is an operation in which the infrastructure owner lowers his retail prices and thereby reduces the gap between his retail prices and the wholesale price at which he sells the infrastructure inputs to service providers in a way that reduces the profit of service providers to economic inefficiency. According to the secondary hearing, the Ministry is considering allowing an independent examination track to rule out margin squeeze, using testing tools that will be approved by the Ministry (in addition to the limited testing track). According to the considerations, the effective rate of the tested service or the group of tested services will not be lower than the minimum price threshold set for the marketing of those services tested by the licensee. The "licensee" at the hearing includes Bezeq, Bezeq International, DBS, Hot Broadcasting, Hot Telecom and Hot Net. Bezeq submitted its response to the hearing, according to which there is no need to determine a format for examining the margin squeeze, but insofar such is detemined determines, the mechanism of self-examination proposed at the hearing should be expanded. In Bezeq's estimation, the format of examining the margin squeeze, insofar as it is implemented, may impair Bezeq's and the Group's ability to market packages in terms of the timing of the offers and the prices they can offer.

For service rates BSA on fibers, see Section 2.16.12.2.

2.16.4.3 Wholesale service use of physical infrastructure

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

The "Use of Physical Infrastructure" service portfolio came into force on the July 31, 2015 and accordingly allows Bezeq for infrastructure-less suppliers to use Bezeq's available physical infrastructure for the passage of communication cables, as well as to use available dark fiber from Bezeq's available optical cable, Maximum rates for this in the regulations of use. Subsequently, the obligation to provide use of Bezeq's passive infrastructure (with the exception of dark fiber and optical wavelength service) was extended in relation to infrastructure owners - IBC and Hot. At the same time, NIO licensees were required to allow other NIO licensees to use their passive infrastructure[44], and then a service portfolio was established for "mutual use" of passive infrastructure, in which the obligation imposed in the original service portfolio on an operator using infrastructure infrastructure to establish a passive infrastructure facility near Bezeq's passive infrastructure facility was abolished.

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

As part of Draft Amendment 76 to the Communications Law (see Section 1.7.4.8), it is intended to allow those registered in the registry to also use Bezeq's passive infrastructure for the purpose of providing any Bezeq service in accordance with the general permit regulations or an administrative directive issued to it.

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

The Minister has the authority to reduce the tariffs for the use of Bezeq infrastructure in mainly incentive areas, and for a hearing on the matter - see Section 2.16.12.

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

2.16.4.4 Wholesale telephony service

This service enables service providers who do not have the infrastructure to offer their customers telephony service at wholesale rates through the Bezeq network. On May 18, 2017, a decision was issued by the then Minister of Communications, according to which Bezeq will provide, starting on July 31, 2017 and for a year thereafter, telephony services in a resale format at prices set by him (higher than the wholesale rates in light of the content of the service). The aforesaid decision is the result of a petition filed by Bezeq to the High Court, *inter alia*, against the Minister of Communications' decision of November 14, 2014 regarding the provision of a wholesale telephony service in the format of the service file as of May 17, 2015. The petition included, among other things, allegations of lack of applicability of the service in the format of the service portfolio and lack of authority.

The temporary arrangement was valid until August 2018, according to which Bezeq offered the service in a resale format, a format in which the service provider purchases a Bezeq line and call minutes and receives a package of services (including technician services) from Bezeq. According to the Ministry of Communications' announcement, as of August 2018, Bezeq is obligated to provide the service in a "wholesale" format, i.e., a service format in which the service is provided via Bezeq's switch, but the call also passes through the service provider's switch, both as a discrete service and as an additional service to the BSA service. As of August 2018, Bezeq was prepared to provide resale services at wholesale rates (excluding technician services) - although in this service the call does not pass through the service provider switch, and from the beginning of 2019 Bezeq is prepared to provide a wholesale telephony service solution through the service provider switch, and is based on both Bezeq's

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

subscription switch and an additional component external to the switch, and currently on Bezeq's new subscription switch (see also Sections 2.1.8 and 2.7.2). As it became clear after discussions that took place, among other places, in the Ministry of Communications, the service providers are not prepared to act according to the format of the service portfolio. On May 27, 2020, Bezeq received a letter from the Ministry of Communications regarding the minutes of a telephony service, including a settlement of a dispute between Bezeq and the service providers Partner and Cellcom regarding the interpretation of the service portfolio on the provision of ancillary services. The Ministry accepted Bezeq's position on the matter, and determined that the telephony service that Bezeq will offer to the service providers is a service that will allow the service provider to receive incoming calls and create outgoing calls, and will enable the provision of all services that are ancillary to the basic telephony services provided by the infrastructure owner to its customers, while the ancillary services under the service portfolio will be provided through the service provider's switch[45]. According to the Ministry's announcement, after performing all the actions required to provide the telephony service, Bezeq is required to update the Ministry on the date when it will be prepared to provide the service as required in the service portfolio. As Bezeq noted in its reports, as of the beginning of 2019, Bezeq is prepared to provide a wholesale telephony service in a manner consistent with the firm's decision in its announcement. Bezeq is also prepared to provide the service over its new switch in the format of the service portfolio.

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

2.16.5. Powers in respect of real estate

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

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

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

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

According to the Planning and Construction Regulations (Application for a Permit, its Terms and Fees), 5730-1970, an applicant for a permit for the construction of a residential building, it is mandatory to install infrastructure for telephone, radio, television and Internet services so that the customer can choose a provider of his choice. In commercial buildings, if communication facilities are installed, underground infrastructure will be laid. At the same time, Bezeq’s license (as well as the Hot Telecom and DBS licenses) was amended so that as long as Bezeq uses the internal threading (the part of the access network, installed in a person's premises and common premises, and intended to serve that person's premises

[45] It should be noted that the Ministry's letter states that the Ninistry's decision does not express a position regarding the Company's compliance with the service portfolio's provisions regarding the telephony service, and does not prevent the Ministry from taking supervision and enforcement measures in this matter.

only), it is obligated to provide a maintenance service for the internal threading installed by the permit applicant, without giving it any property rights in the internal threading. Regarding the draft amendment of these regulations for the purpose of imposing an obligation on the laying of infrastructure in favor of fiber, see section 2.16.12.

2.16.6. Immunities and limitations of liability

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

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

2.16.7. Regulations and rules under the Communications Law

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

2.16.8. Laws of Economic Competition

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

a. Basic telephone services, provision of communication infrastructure services, and transmission and transmission services of public broadcasts[46].

b. Providing fast-access services through subscriber access network[47].

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

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

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

2.16.8.3 In accordance with the conditions set forth in the approval of the Competition Authority dated March 26, 2014 for the merger (as defined in the Economic Competition Law) between Bezeq and DBS, the following restrictions apply in relation to Bezeq and DBS:

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

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

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

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

46 Announcement dated 30.7.1995.

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

those who have a broadcasting license at the time of the decision) from acquiring rights in original productions (does not apply to new productions).

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

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

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

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

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

2.16.9. Telegraph Order

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

The Telegraph Order regulates the use of the electromagnetic spectrum, and applies, among other things, to Bezeq's use of radio frequencies, as part of its infrastructure.

Establishment and operation of a system that uses radio frequencies is subject, under the Telegraph Order, to licensing, and the use of radio frequencies is subject to the commission and allocation of an appropriate frequency. According to the Telegraph Order, license fees and fees are imposed for the Frequencies Committee and their allocation.

2.16.10. Establishment of communication facilities

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

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

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

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

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

2.16.10.2 National Outline Plan 56 - Communication facilities in the Territories

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

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

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

2.16.10.3 Radiation permits

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

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

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

2.16.11. Consumer legislation

Regarding consumer legislation applicable to Bezeq, see section 1.7.4.5.

2.16.12. Fiber - Ultra-broadband landline infrastructure

2.16.12.1 Amendment to the Communications Law to regulate the "advanced network" deployment

Following a public appeal and hearings published by the Ministry of Communications, the recommendations of the report of the inter-ministerial team on examining the policy of deploying ultra-broadband landline infrastructure in Israel, and their adoption with a number of changes by the Minister of Communications and a government decision on the matter – on December 24, 2020, an amendment to the Communications Law was published. The following are the main points of the amendment to the law:

a. Obligation to deploy and provide service to non-general public throughout Israel:

Bezeq may select the statistical areas in which it seeks to deploy an advanced network (which is not based on its metallic network) and provide it with an Internet access service even though not to the general public throughout Israel. This, in a notice that Bezeq will submit to the Minister of Communications within five months from January 1, 2021.

"Advanced network" - a network based on fiber optics that reaches the end point of a network in an end user's apartment, or an equivalent network in terms of the level of service that can be provided according to criteria ordered by the Minister and published on the Ministry of Communications' website; For this purpose, "apartment" - a room or compartment, or a system of rooms or compartments intended to serve as a complete and separate unit for residence, business or any other need, including a ground-level apartment;

Bezeq will meet the deployment obligation in all areas listed in its announcement no later than the end of six years from (1) the date on which Bezeq began providing paid Internet access service over the advanced network, (2) the date of determination of the Bezeq license obligation, whichever is earlier.

Once the obligation in the Bezeq license has been determined regarding the said service area, a holder of a general NIO license other than Bezeq (for example Hot) will be entitled to deploy an advanced network (which is not based on his metallic access network) and to provide Bezeq service collection not to the general public throughout Israel and not least in the service area. The Minister may prescribe conditions for deployment and the provision of the service in licenses.

The Minister may permit, in Bezeq licenses and general NIO licenses, the provision of service on their metallic access network that has been upgraded to an advanced network, not to the general public throughout Israel and not least in the service area, provided it contributes to competition and service.

b. Incentives for deployment in the incentive areas

After determining the obligation as stated in the Bezeq license, an incentive fund will be opened, which will be managed by the Accountant General in the Ministry of Finance, in order to encourage deployment while participating in statistics in areas not chosen by Bezeq for deployment ("incentive zones").

In the fund will be deposited annual mandatory payments from obligated bodies, including Bezeq, at a rate of 0.5% of the annual income of such bodies. The Minister of Communications, with the consent of the Minister of Finance and with the approval of the Economy Committee, can change this rate.

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

c. Tenders for the allocation of incentive fund money

The allocation of the incentive fund money will be through tenders. Under the terms of the tenders, the Tenders Committee may determine a threshold condition for participation in the tender, including a condition according to which the tenderer must be a licensee.

The only criterion for selecting winners in the tenders will be the ratio between the number of households in the incentive areas in the bidders' proposals and the amounts from the incentive fund that will be allocated as part of the tenders. No weight will be given to the geographical location of the incentive areas in the bidders' proposals or to the characteristics of the households in the incentive areas.

In the first three years of the incentive fund's activity, the Minister may order that the minimum percentage of households in the incentive areas to be included in the bidders' proposals - which does not exceed 15% of the households to be distributed in incentive areas per year - be in geographical areas; Lack of economic and social resilience and level of services in the field; Low population density in the same field; Its geographical location or distance from population centers and the center of Israel; The need to reduce disparities.

The license of the winner of the tender will stipulate an obligation to deploy an advanced network in a service area that includes the incentive areas which it won, including an obligation to provide Internet access service on the network to any one who requests them in the area (even if it is a holder of a unique general license). With regard to the determination of an obligation as aforesaid in the area of Judea and Samaria, the provisions of the law in this matter applicable in the area of Judea and Samaria shall apply.

d. Prohibitions on Bezeq and an affiliated corporation in relation to the incentive areas

Bezeq and any corporation with an affiliation to Bezeq are not allowed to participate in the tender for the allocation of the incentive fund's money, and will be able to deploy and provide service in the incentive area on an advanced network that deployed only five years after the obligation to deploy.

Bezeq and an affiliated corporation may not deploy an advanced network in the incentive areas and provide Bezeq services on an advanced network they deployed, unless the Minister allowed Bezeq, at its request, to do so in incentive areas for which the fund money have not yet been allocated, provided that 10% of households in areas included in the statistical areas selected by Bezeq.

The above limitations do not detract from the possibility for Bezeq or an affiliated corporation to deploy an advanced network in the incentive area in order to provide a Bezeq service to a business subscriber, or to provide a service to a business subscriber on an advanced network deployed.

e. Internal threading

Ownership of the internal threading shall be that of the subscriber whose threading is used for his premises only. A licensee may demand a reasonable fee for its installation.

f. Sanctions

The authority of the Director General of the Ministry of Communications to impose a financial sanction of up to 10 times the basic amount for violating a license provision regarding the obligation to deploy an advanced network or provide a service for it.

On May 25, 2021, Bezeq's Board of Directors approved Bezeq's plan for the deployment of fibers and its submission to the Ministry of Communications in accordance with Article 14B (a) of the Communications Law. Under Bezeq’s plan, Bezeq is expected to retire and operate an ultra-fast fiber network that will cover about 76% of Israel’s population (Bezeq estimates that about 80% of households), and on May 31, 2021, Bezeq submitted to the Ministry of Communications the list of statistical areas where it chose to deploy as aforesaid.

On June 15, 2021, following a hearing on April 13, 2021, the Company received an amendment to Bezeq’s license regarding the determination of advanced network deployment obligations ("**the Amendment to the License**"). The Amendment to the License includes changes to the existing provisions in the license in aspects in which there is a distinction between Bezeq's traditional network and its advanced network, and the addition of an appendix that includes Bezeq's advanced network deployment obligation, including the list of statistical areas selected by Bezeq, as well as milestones for completing the advanced network deployment as follows:

a. Completion of deployment for buildings in which the cumulative proportion of households is 60% of the total number of households in the service area (all statistical areas selected by Bezeq) - no later than the end of two years from the determining date (March 14, 2021);

b. Completion of deployment for buildings in which the cumulative rate of households is 80% of the total number of households in the service area - no later than the end of three years from the Effective Day;

c. Completion of deployment for buildings in which the cumulative rate of households is 95% of the total number of households in the service area - no later than the end of five years from the Effective Day;

b. Completion of deployment for all buildings in the service area no later than the end of six years from the Effective Day.

On October 13, 2021, the Ministry of Communications issued a tender "for the extension of a license to deploy an advanced network and to receive financial grants to encourage the deployment of advanced landline networks in areas with no economic viability", i.e., in the incentive areas. Subsequently, an announcement by the Ministry was published on the Ministry of Communications website on March 7, 2022, including the names of the areas in which communications companies that won the tender for an advanced fiber-based network will be deployed. According to the announcement, the winning areas constitute about 60% of the incentive areas and the winning companies in the tender will be given a period of one year and three months from the date their license is amended, to complete the deployment obligations and provide services to anyone who wants them in these areas.

2.16.12.2 Rates in service over ultra-broadband fiber infrastructure

The usage regulations set the maximum rates for an ultra-broadband access service managed on Bezeq's fiber network, as the maximum rates for accessibility and data transfer services at a cumulative rate of up to 550 megabits / second and over 550 megabits / second and up to 1,100 megabits / second. The regulations do not set a supervised rate for the initial installation of an internal cable to the subscriber's premises, and Bezeq may demand a reasonable payment for this service. The rates will be updated once a year on January 1, starting in 2021 in accordance with changes in the consumer price index. According to the recommendation of the professional staff in the Ministry, which formed the basis for the decision regarding the tariffs, the said rates will be valid for a period of three years and will then be replaced by a fixed rate.

Regarding the determination of a uniform price for fiber-optic-based Internet services (FTTP) - in providing fiber-optic Internet access services to the residential building (FTTH) for private subscribers, licensees are prohibited from offering subscribers offers on different terms or at different rates, depending on In the proposed infrastructure, and the type of infrastructure offered would constitute a reasonable characteristic justifying the differentiation of one subscriber group from another in respect of non-fiber internet access services to the residential building.

2.16.12.3 Joint use of fiber optic infrastructure in existing residential buildings

On July 27, 2020, a decision of the Ministry of Communications was issued, according to which a directive was issued regarding the manner of sharing fiber-optic infrastructure in existing residential buildings, which includes, among other things, the principles for shared use (including the obligation to contact an interior operator that lays the fiber infrastructure in a residential building where there is no fiber infrastructure for any other interior operator in the proposal to make joint use of the fiber infrastructure to be deployed in the building), the procedure for making shared use, principles for determining payment for shared use (based on the cost of establishing the fiber infrastructure plus a reasonable premium for the participating operator), the need to reach an agreement between the interior operators regarding the level of service and maintenance of the fiber and the prohibition of discrimination. The decision also states that the determination of an arrangement for the joint use of existing buildings in which fiber-optic infrastructure has already been deployed will be examined by the Ministry 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, as part of which a section will be added to the directive according to which the co-operator and the other NIO will each develop an API for the transmission of information about the existence or non-existence of an internal thread, which is a fiber-optic infrastructure up to the user's apartment, as well as information regarding the date of its deployment (before January 1, 2021 or after this date). This is in accordance to the schedule specified in the section. Bezeq forwarded its response to the hearing according to which it opposes the possibility of requiring that it or any other company share such sensitive and detailed business information when there is an effective and less offensive alternative proposed in the response.

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

Within the framework of the Economic Plan Law (Amendments to Legislation for the Implementation of Economic Policy for Budget Years 2021 and 2022) (5721-2021) approved on November 4, 2021 ("**the Arrangements Law**"), the provisions of the Communications Law were amended regarding the conditions for laying an advanced network in a shared residential building, even in the absence of consent of the majority of the apartment owners.

2.16.12.4 Hearing to amend the arrangement for mutual use of passive infrastructure.

On February 6, 2022, the Ministry of Communications decided at a hearing to amend the arrangement for mutual use of passive infrastructure, according to which it will also be possible for holders of special broadband infrastructure licenses (in addition to general licensees) to use the passive infrastructure of a general NIO (including Bezeq) only in incentive areas (areas in which Bezeq has chosen not to deploy an advanced network and in which, for the purpose of financing deployment, funds will be allocated from the incentive fund). Keep in mind that holders of general licenses may use Bezeq's passive infrastructure outside the incentive areas as well. This decision is further to the Minister of Communications' decision of October 13, 2020, in which the threshold requirements for obtaining a license enabling the provision of broadband infrastructure services were reduced, following which the Ministry began granting special broadband infrastructure licenses (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 NIO was used, and the Minister of Communications was recommended to amend the Communications Regulations (Bezeq and Broadcasting) (Use of an NIO’s Bezeq Public Network), 5774-2014.

Allowing special license holders of broadband infrastructure to make use of Bezeq's passive infrastructure may increase the rate of deployment of broadband infrastructure by special licensees and the transfer of customers to them in the incentive areas. On the other hand, the use of Bezeq's passive infrastructure by the special licensees will involve a fee to Bezeq (even if reduced, see Section 2.16.1.8). Accordingly, Bezeq is unable to assess at this stage the overall effect of amending the said 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 decided at a hearing regarding the amendment of the BSA wholesale service portfolio and telephony, which included the addition of a chapter in the service portfolio regarding the provision of BSA service on an advanced network and the draft license amendments for unified general licensees and special licensees in providing Internet access and broadband infrastructure services. In accordance with the decision, the said amendment to the service portfolio was approved. The amendment of the service portfolio is not expected to have a material effect on Bezeq.

2.16.12.6 Obligation to provide service and supervised maximum rates for the BSA service through 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 service as well as supervised maximum rates for the BSA service using fiber to be provided in the incentive areas by the tender winner (which are identical to those determined for BSA service based on Bezeq's advanced network), and that the difference between the retail prices and the maximum BSA rate to be determined will be required to meet the margin reduction test in a way that will allow for a retail margin of 20% of its national retail price.

The regulations for use set maximum fees for the use and ancillary service for the use of a deployer’s network in the incentive areas. The maximum payment that a deployer in an incentive area may require another licensee for a broadband access service managed at a nationwide connection level is identical to that which Bezeq may require

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2.16.12.7 Hearing to determine maximum rate for passive infrastructure access service (barrel access service) and dark fiber service

For this matter see section 2.16.1.8.

2.17. Material agreements

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

2.17.1. The trust deeds in respect of debentures (Series 6, 7, 9, 10, 11, 12, 13, 14) issued by Bezeq.

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

2.17.2. Real estate

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

An agreement between the state and Bezeq, according to which Bezeq was granted the State’s rights in assets available to the Ministry of Communications for the provision of Bezeq services, and Bezeq replaced the state with respect to the rights in the said assets and regarding the obligations and duties relating to those rights on the eve of the agreement. In addition, according to the said agreement, Bezeq was transferred the rights, powers, obligations and duties of the State under the agreements, as well as the agreements and transactions that were valid in the field of Bezeq services on the eve of the beginning of the agreement.

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

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

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

2.17.3. Labor agreements

2.17.3.1 Special collective agreement from December 2006

For this agreement and amendments thereto, see Section 2.9.4.

2.17.3.2 Agreements with alternative entities instead of a comprehensive fund in everything related to early retirement arrangements for Bezeq employees.

As of 2005, early retirement arrangements for Bezeq employees are carried out through alternative entities instead of a comprehensive fund.

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

2.18. Legal Proceedings

Bezeq's reporting policy is based on qualitative considerations and quantitative considerations. Bezeq decided that the quantitative materiality threshold in relation to events affecting the net profit would be an effect of about 5% and more on Bezeq's average adjusted net profit (as defined in Section 1.6) according to Bezeq's consolidated annual statements from the past three years (2019-2022). Therefore, in the absence of relevant qualitative considerations, this section describes legal proceedings to the extent of NIS 70 million or more[48], before tax, as well as legal proceedings in which the amount claimed is not specified in the statement of claim, unless it is a claim that does not reach the aforementioned quantitative threshold (and all - unless Bezeq assesses additional aspects or consequences of the procedure beyond its financial scope)[49]. With regard to class actions, attention is drawn to the fact that the filing of class actions in Israel does not involve the payment of a fee as a derivative of the amount of the claim. Thus, the claim amounts in such claims may be significantly higher than the actual exposure volume in respect of those claims.

2.18.1. Procedures are pending

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
a.	January 2015	Shareholder vs. Bezeq and former Bezeq executives	District (Tel Aviv - Economics Department)	Motion for approval of a class action	Claim for compensation of shareholders for losses alleged to have been caused by "Bezeq's failure to report to the Tel Aviv Stock Exchange and concealment of material information from the investing public" regarding two significant and material moves: "Reduction of reciprocal link fees" and "Wholesale market reform". On August 27, 2018, the decision of the Economic Department of the Tel Aviv District Court was approved, approving the claim as a class action ("**the Approval Decision**"). With regard to the cause in the wholesale market matter, the Group was defined as having	687

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

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

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					purchased Bezeq shares as of June 9, 2013 and holding Bezeq shares (in whole or in part) until the date of filing the lawsuit. In this matter, the Court ruled that the petitioner proved the existence of alleged damage, due to the fact that during the period of the discovery, Bezeq shares fell by 10%, but the calculation of the damage itself will be made during the hearing in the main case. With regard to the reason for the reduction of the connectivity fee, the Group was defined as the one that purchased Bezeq shares as of February 28, 2013 and held them until May 29, 2014. In this matter, the Court ruled that no impairment was recorded that could be attributed to the discovery of the deception, but that the applicant should be allowed to prove the damage alleged by her in the main case. On October 28, 2018, Bezeq and the defendants submitted to the Economic Department of the Tel Aviv District Court a request for a reconsideration of the approval decision in which the Court was requested to revoke the approval decision and reject the application for approval of a class action. On December 1, 2019, a ruling was given in the retrial, which stated as follows: 1. <u>In the matter of reducing the interconnectivity fee</u> - the Court granted the motion as far as claims concerning reports of reduction of the interconnectivity fee were concerned, after concluding that the plaintiff had not even ostensibly proved the existence of damage as a result of the reduction of the reciprocal link fee, and therefore there was no need to approve the class action on this ground. 2. <u>In the matter of wholesale market reform</u> - the Court denied the motion in relation to the defendants' claims regarding the reports about the wholesale market reform. At the same time, regarding the definition of the group of plaintiffs, the Court accepted the defendants' claim that the date June 9, 2013 is irrelevant in relation to the alleged misrepresentation in the report dated Janury 16, 2014 (reporting the decision on the list of services and the price hearing document) and ruled that a distinction must be made between the ground relating to this report and the ground relating to the allegation of lack of reporting regarding the receipt of a hearing document for the list of services dated June 9, 2013. Accordingly, the Court reduced the definition of the group of plaintiffs in relation to the report dated January 16, 2014 for all those who purchased Company shares (except the respondents and / or those on their behalf) as of January 16, 2014 (instead of June 9, 2013) and held these shares (in whole or in part) during the period between January 15 and 20, 2014. Following the Court's proposal and with the consent of the parties, the case was referred to mediation but the mediation was unsuccessful. On July 12, 2020, an amended statement of claim was filed that includes amendments, including deletion of the matter of reducing the interconnectivity fee and reducing the definition of the group of plaintiffs regarding the wholesale market reform, following the Court ruling in the retrial. In addition, the total amount of the claim was amended and it is estimated by the plaintiff in the amount of NIS 687 million (instead of a total amount of NIS 2 billion according to the "financial damage" method or alternatively NIS 1.1 billion according to the "approximate financial damage" method. The statement of claim has not been amended). It should be noted that the amended statement of claim was not accompanied by an economic opinion.	
b.	March 2015	Shareholder vs. Bezeq and former Bezeq executives	District (Tel Aviv - Economics Department)	Motion for approval of a claim as a derivative claim together with a derivative claim statement	Motion against Bezeq, as well as against Mr. Shaul Elovich, former controlling shareholder and chairman of the board of Bezeq against directors of Bezeq at the relevant times who voted in favor of Bezeq's engagement in the transaction that is the subject of the motion as detailed below ("**the Respondents**"). The matter of the application, according to what is alleged in it, IS Bezeq's decision, through the respondents, to enter into a transaction for the purchase of full holdings and shareholder loans of Eurocom DBS (a company under the indirect control of Bezeq's controlling shareholder) in DBS for NIS 680 million in Cash and contingent consideration of up to an additional NIS 370 million. According to the applicant, the consideration that was expected to be paid for the transaction is excessive, and the Respondents' decisions to enter into the transaction caused Bezeq a great deal of damage after they violated their duties of care and reliability to Bezeq, and were negligent in their role. It was also alleged by the applicant that Bezeq's controlling shareholder had breached its duty of fairness, and that Bezeq had breached the duty of disclosure and	502

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					reporting regarding the trustee's commitment to Eurocom DBS's holdings in DBS to sell the holdings beginning at the end of March 2015. In light of the aforesaid, the petitioner requests that the Court approve the filing of a derivative claim on behalf of Bezeq against the Respondents for the claim for damage caused to us by Bezeq as a result of the Respondents' decisions regarding the transaction in the amount of NIS 502 million. on July 3, 2017, the Court approved the filing of an amended motion by the applicant, which includes additional allegations relating, *inter alia*, to the independence of the entities that advised Bezeq, alleged defects in the work of the Audit Committee, the Board of Directors and the general meeting, and alleged defects resulting from Eurocom being represented by Bezeq directors. In light of the Securities Authority's investigation, *inter alia*, regarding the engagement that is the subject of this lawsuit (see Section 1.1.6) and the position of the Securities Authority that it was improper to delay the proceedings, the Court decided to delay the proceedings in this case. On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings). Following the Attorney General's request, the procedure is delayed at this stage until July 10, 2022, in light of the Securities Authority's investigation and indictments filed later in it (see Section 1.1.7). Regarding motions for disclosure of documents before submitting an application for approval of a derivative claim that the Court ordered to unite in April 2018, see Subsection H.	
c.	November 2015 And March 2018	Customer against Bezeq	Central District Court	Two claims together with motions for approval as class actions	<u>The motion from November 2015</u> - It is alleged that Bezeq abused its monopolistic position, *inter alia*, by "preventing and blocking the existence of competition in general and the existence of effective competition in the communications market in Israel" and acted to delay and thwart the wholesale market reform, thereby harming the Israeli public and earning unreasonable profits as a result of the abuse of power as a monopoly. According to the plaintiffs, the damage caused by Bezeq to the communications market in Israel is reflected in Bezeq's excess and unreasonable profitability, and they seek to claim damage in the amount of NIS 800 million, which they claim is based on 10% of Bezeq's excess operating profit due to abuse of monopolistic power. The plaintiffs set the amount of the claim at NIS 556 million, after a reduction of the amount claimed in another proceeding (which in the meantime ended in departure). In December 2017, the Court approved the attachment as evidence in the case of an immediate report published by Bezeq on October 22, 2017, in which Bezeq reported on a final inspection report by the Ministry of Communications regarding the implementation of a wholesale telephony service and an announcement of an intention to impose a financial sanction. In December 2018, the Ministry of Communications imposed a financial sanction in the amount of NIS 11 million on Bezeq. On March 3, 2019, Bezeq informed the Court that in light of the expected change of case in the case as soon as the request for approval is received, it agrees to the Court's proposal to approve the motion to conduct the class action without a reasoned decision by the Court and preserving all its claims. It should be noted that in the same announcement, Bezeq informed the Court that on February 25, 2019, it filed an administrative petition against the decision of the Director General of the Ministry of Communications from December 2018 described above. Subsequently, on March 5, 2019, the Court approved the motion to conduct the class action lawsuit and clarified that all the parties' claims are reserved for them to discuss the lawsuit itself and that all evidence and investigations heard in the motion for approval will form part of the evidence in the class action lawsuit. On November 1, 2021, the Attorney General announced his appearance in this proceeding and asked for an order of stay of proceedings in this proceeding until July 20, 2022. The Attorney General will then update on the need to further delay the proceedings, in view of the conduct of criminal proceedings ("**4,000 Case** ") related to this proceeding. <u>The motion from March 2018</u>- a motion similar to the November 2015 motion submitted by the same applicants in which it was also alleged that Bezeq abused its monopolistic position, *inter alia*, by preventing competition in the communications market, thereby harming the Israeli public and gaining unreasonable profits as a result of abusing its monopoly power. While in the motion from November 2015 the remedies and damages claimed related to the	556 in the motion from November 2015 and 258 in the motion from March 2018

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					date of filing the same motion, in this motion the remedies and damages defendants relate to the period from the date of filing the application from November 2015 to the end of 2017, in view of the plaintiffs' claim In addition to the abuse of power by Bezeq, there were also "acts of corruption and unlawful acts and foreign and improper purposes of the Director General of the Ministry of Communications". According to the plaintiffs, the damage caused by Bezeq to the communications market in Israel is reflected in Bezeq's excess and unreasonable profitability. The damage claimed in the amount of NIS 258 million is also based in this motion on 10% of Bezeq's excess operating profit resulting from the claim regarding the abuse of its monopolistic power (in addition to the damage claimed in the previous application). On May 31, 2018, Bezeq submitted a request to delay the procedure in light of the Securities Authority's investigation and indictments filed subsequently, the Court approved a motion on behalf of the Attorney General to continue the stay in the proceedings in the case until July 10, 2022. In September 2019, the applicants submitted a request for the submission of a new motion for approval of a class action (a request filed against Bezeq in September 2019 following the determination dated Septemebr 4, 2019 of the Competition Commissioner regarding the abuse of Bezeq's status - see description below subsection H) to the Court where this proceeding is conducted and to the deletion of that motion on the ground that it was a similar late motion. In addition, on October 23, 2019, Bezeq was submitted a request from the applicants for the motion for approval to order the amendment of the motion for approval by adding respondents (directors and officers from the relevant period, some of whom still serve at Bezeq) and to attach additional evidence to the motion for approval. On October 30, 2019, the Court announced that in view of its decision to delay the proceedings in the case, it does not consider it appropriate at this time to order the transfer of the request to amend the motion for approval for Bezeq's response, and that upon termination of the proceedings in the case, the applicants must petition for appropriate instructions.	
d.	June 2017	Bezeq shareholders Against Bezeq, Chairman of the Board of Bezeq and former members of the Board of Bezeq, as well as members of the Eurocom Group (the first application also against the former CEO of Bezeq and the former CEO and CFO of DBS)	In the District Court (Economic Department) in Tel Aviv	Two motions for approval of class actions	The interest in the requests in the 2015 transaction in which Bezeq acquired from Eurocom DBS (a company controlled by Bezeq's controlling shareholders at the time) the balance of DBS shares held by it (in this section: "**the Transaction**"): The first motion was submitted on behalf of everyone who purchased the Bezeq shares from February 11, 2015 until June 19, 2017 (except for the respondents and / or those on their behalf and / or related to them). The motion alleges misleading and / or missing reporting in connection with the Transaction, and that following an open investigation by the Securities Authority regarding the Transaction, the public became aware of details regarding the transaction and its implementation, which led to a decline in Bezeq's share price. According to the applicant, the respondents acted in violation of the provisions of the Securities Law and in violation of other legal provisions, causing Bezeq's securities holders heavy financial damages, amounting to hundreds of millions of NIS, if not more than that. The second motion was submitted on behalf of three sub-groups - anyone who purchased on the Tel Aviv Stock Exchange from May 21, 2015 to June 19, 2017 (1) the Bezeq shares, (2) the Company's shares and (3) the Internet Gold shares. According to the applicant, a serious misrepresentation of the investors who invested in the shares of the aforementioned companies was made, which was revealed following the opening of an open investigation into the Securities Authority on June 20, 2017, by increasing the increase in DBS' cash flow reported in Bezeq According to the claim, artificially misleading the reasonable investor who relied on DBS' cash flow data to estimate its value, which led to overpricing of the above companies. The applicant also claims additional damages caused to groups of Company and Internet Gold shareholders. Pursuant to a hearing arrangement approved earlier by the Court, the petitioners have agreed in the above petitions on their joint management and they are to file a consolidated petition on their behalf. Following the request of the Attorney General (who announced in 2017 his appearance in the proceedings regarding the delay of the proceedings and not the body of the proceedings), the proceedings	About 1,240 in the first application and-568 in the second application

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					are delayed at this stage until July 20, 2022 in light of the Securities Authority investigation and indictments filed further thereto (see section 1.1.7)	
e.	June - August 2017 and June 2018	Bezeq shareholders against Bezeq and DBS	Tel Aviv District Court	Various motions for disclosure of documents before submitting a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law	An amended and consolidated motion submitted following the Court's decision of April 15, 2018 regarding the consolidation of four applications filed in the same matter. The Court is requested to order Bezeq (and DBS, as the case may be) to provide the applicants with certain documents in connection with a stakeholder transaction between DBS and Space from 2013 as amended at the beginning of 2017 (in this section: "**DBS-Space Transaction**")[50]. On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings). Following the Attorney General's request, the procedure is delayed at this stage until July 20, 2022, in light of the Securities Authority's investigation and indictments filed later in it (see section 1.1.6).	
f.	February 2018	Bezeq shareholders against Bezeq as a formal respondent, as well as against Bezeq directors at times relevant to the motion and against Bezeq's controlling shareholders at the times relevant to the motion, Mr. Shaul Elovich and Mr. Yosef Elovich (the "Respondents").	Tel Aviv District Court - Economic Department	Motion for approval of a derivative claim	The matter of the motion, according to what is claimed in it, is Bezeq's conclusion in an assessment agreement with the Tax Authority which was signed on September 15, 2016 ("**the Assessment Agreement**") and according to which Bezeq paid tax to the Tax Authority on financing income from loans to DBS in the amount of NIS 462 million, while on the other hand, it was agreed, among other things, that DBS' losses in respect of financing expenses in respect of Bezeq's owner loans to DBS will be fully recognized to Bezeq after the merger between Bezeq and DBS.. According to the applicants, as a result of the signing of the assessment agreement, Bezeq paid a total of NIS 660 million. Of this total, NIS 462 million was paid to the Tax Authority and approximately NIS 198 million was paid to Bezeq's controlling shareholders as a **conditional consideration** stipulated in the agreement for the acquisition of full holdings and shareholder loans of Eurocom DBS, a company under the indirect control of the controlling owner of Bezeq, in DBS ("**DBS Transaction**"). According to the petitioners, Bezeq's engagement in the assessment agreement constituted an exceptional transaction of a public company in which Bezeq's controlling shareholders have a personal interest, and was carried out illegally because it was contrary to the Company's benefit and because the required legal approvals were not obtained. According to the plaintiffs, the damage caused to Bezeq following the conclusion of the Assessment Agreement ranges from a minimum threshold of NIS 65 million (as long as all DBS losses in respect of financing expenses are allowed to be offset by Bezeq) to a maximum threshold of NIS 219 million (to the extent that all DBS losses in respect of financing expenses are not allowed to be offset by Bezeq). The alleged damage was estimated by comparing the payments charged to Bezeq (tax liability and contingent consideration) and the tax asset created for it in the Assessment Agreement, compared to the payments it could have been liable for and the tax asset it would have created had it entered into a settlement agreement with the tax authorities which was proposed by the tax authorities at the time of approval of the DBS Transaction. According to the plaintiffs, the respondents who are directors violated, *inter alia*, the duties of care and trust (and with regard to the respondents controlling Bezeq, also the duty of fairness), and accordingly the plaintiffs motion that the Court approve the filing of a derivative claim on behalf of Bezeq and Yes, because it will oblige them to compensate Bezeq for the said damages caused to it, according to them, as a result of the breach of their obligations to Bezeq.	65 Minimum threshold 219 Maximum threshold

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

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					At the request of the Securities Authority, the procedure was delayed in light of the investigation and its derivatives. On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings) and on that date a motion was submitted by the State Attorney's Office to continue the proceedings until September 6, 2021. Following the Attorney General's motion, the procedure is delayed at this stage until July 20, 2022, in light of the Securities Authority's investigation and indictments filed later there (see section 1.1.6).	
g.	June 2018	Shareholder against Bezeq, DBS, Mr. Shaul Elovich, and Mr. Or Elovich	Tel Aviv District Court (Economic Department)	Motion for disclosure and review of documents under Article 198A of the Companies Law	It is requested that the Court order Bezeq, DBS, the former controlling shareholder in Bezeq, Mr. Shaul Elovich, and his son, Mr. Or Elovich (hereinafter collectively "**Elovich**"), to submit to the applicant, as a shareholder in Bezeq, various documents for examination Filing an application for approval of a derivative claim in the name of Bezeq. According to the applicant, the controlling shareholder of Bezeq, the Company, and Elovich violated their fairness and fiduciary obligations to Bezeq by selling 115 million Bezeq shares on February 2, 2016 by the Company using Bezeq's company and Elovich's insider information, and at a value significantly higher than the true value of the shares. According to the applicant, this sale provided the Company with illegitimate profits in the amount of approximately NIS 313 million.. The insider information that was allegedly used in the application is, among other things, that the financial statements of DBS and Bezeq do not reflect Bezeq's *de facto* financial position, but rather a "free cash flow" inflated for the purpose of increasing the consideration as part of the transaction in which Bezeq acquired the shares of Eurocom Communications in DBS ("**the Yes Transaction**"). It should be noted that Bezeq is pending another motion for approval of a derivative claim in the matter of the Yes Transaction (see Section 2.18.1b). According to the applicant in the motion that is the subject of this report, although his motion is based in part on the same factual background, its matter is different from the existing procedures in the matter. At the request of the Securities Authority, the procedure is delayed, at this stage until July 20, 2022, in light of the Securities Authority's investigation and the indictments filed thereafter (see Section 1.1.6). On January 17, 2021, the Attorney General announced his appearance in the proceedings (regarding the delay of the proceedings and not the body of the proceedings).	
h.	(1) September 2019	Customers against Bezeq	Tel Aviv District Court	Application for approval of a class action	Motion submitted following the determination dated September 4, 2019 of the Competition Commissioner regarding the abuse of Bezeq's status ("**the Determination**") (for this matter, see section 2.16.8.5) in which it was alleged that Bezeq's acts and omissions as described in the Determination (blocking the transition of Bezeq competitors from Bezeq's infrastructure to the building access section, as well as refusing to thread cables in the continuous method and conditioning the deployment in an inferior, expensive and problematic threading method) caused substantial damage to consumers. The definition of the group in whose name the class action will be conducted is anyone who purchased landline communication services in Israel, in the period between July 2015 and March 2018, whether or not he purchased these communication services from Bezeq. Damage is claimed due to the loss from the decrease in the rate for communications packages, which was prevented from the group members due to Bezeq's alleged acts or omissions. Regarding a request for the transfer of this motion and its cancellation due to the fact that it is a similar late motion that was submitted by the applicants in another motion for approval of a class action in March 2018 - see subsection C. On June 25, 2020, the Court ruled that the parties will petition for the provision of appropriate instructions in the proceedings upon termination of the stay of proceedings in the same motion for approval of a class action from March 2018.	400
	(2) March 2020	Shareholders against Bezeq	Haifa District Court	Consolidated request for disclosure of documents prior to request for approval	Two motions (unified) for the disclosure of documents under Article 198A of the Companies Law for the purpose of examining the submission of a motion for approval of a derivative claim regarding the exercise of Bezeq's rights against officers in connection with the Determination. It is alleged that the findings and violations included in the Determination give Bezeq cause of action against Bezeq's officers and that Bezeq is entitled to compensation from the officers for the damages that were caused and that will be caused to it. On June 23, 2020, Bezeq submitted a request to delay the proceedings in the motions for disclosure, until the work of the Claims Committee established for the purpose and the submission of its recommendations to Bezeq's Board of Directors. On July 19, 2020,	

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
				of a derivative claim	Bezeq submitted its response to the motions. The Attorney General submitted a notice of his appearance in the proceedings, and at the same time submitted his position, according to which a decision to appeal the deterrmination that the petitioners claim constitutes the damage caused to Bezeq, may be a derivative proceeding as long as the above decision is not final. On April 4, 2021, the plaintiffs accepted the Court's proposal to delay the proceedings until after the completion of the work of the Claims Committee established by Bezeq and a decision on Bezeq's request to delay the proceedings. Subsequently, on October 13, 2021, Bezeq's Board of Directors decided to adopt the Claims Committee's recommendation of October 7, 2021, according to which in the circumstances Bezeq does not have a good cause of action against officers and other officials who served during the relevant periods, and that conducting legal proceedings will not promote Bezeq benefit. The Committee came to this conclusion after examining the implications, benefits, damages, costs and gains involved in conducting such legal proceedings, and came to the conclusion that their conduct would harm Bezeq. Bezeq submitted a notice to the Court.	
i.	November 2020	Shareholder of Bezeq against Bezeq and Bezeq International	The Jerusalem District Court	Motion for disclosure and review of documents prior to filing a derivative claim	Motion for disclosure and review of documents before filing a derivative claim in the framework of which an order is requested addressed to the respondents for disclosure and review of various documents regarding asset balances in Bezeq International's books (see section 1.9) Following the immediate report published by Bezeq on 9.11.2020.	
j.	November 2020	Bezeq shareholders Against Bezeq, the Company, Bezeq's CEO and members of Bezeq's board of directors	Tel Aviv District Court - Economic Department	Motion for approval of a class action	A motion concerning the approval of a class action for compensation of the applicant and members of the represented group for damages caused to them, according to the motion, due to Bezeq's failure to report and disclose material information from the investing public, in connection with public reporting "about the Ministry of Communications' moves to eradicate the phenomenon of dual subscribers in the field of ISP Internet services, about the extensive and substantial scope of the phenomenon of dual subscribers in Bezeq's subsidiary Bezeq International (hereinafter: "**Bezeq International**") and their significant negative impact on Bezeq's subsidiary and Bezeq's business". The definition of the group according to the application is anyone who purchased the Bezeq shares from August 17, 2020 until Octoebr 30, 2020 and held the above shares or some of them on Octoebr 30, 2020, except for the respondents and / or those on their behalf and / or entities related to them.	55-65
k.	January 2021	Bezeq shareholders v Bezeq et al.	Tel Aviv District Court - Economic Department	Motion for approval of a class action	A consolidated motion (filed *in lieu* of two similar motions in the same matter that was deleted) against Bezeq, the Company, and 90 other respondents, including past and present officers at Bezeq, the Company and Bezeq International, as well as the auditor firm (the "**Respondents**"). The motion deals, as alleged in it, with damages caused to the applicants and members of the represented groups (as detailed below) as a result of acts and omissions of the respondents who violated the provisions of the law, including that Bezeq and the Company included misleading details in their reports. In accordance with the provisions of the law, in connection with Bezeq's and the Company's report dated November 9, 2020, according to which Bezeq International's books contain discrepancies in the amounts of hundreds of millions of NIS. The definition of the groups according to the application is: (a) Everyone who purchased Bezeq shares as of March 9, 2003 (date of publication of the annual report for the year 2002) until November 9, 2020, and held them on November 9, 2020, except for the respondents or those on their behalf and (b) anyone who purchased the Company's shares on the Tel Aviv Stock Exchange from October 25, 2009 until November 9, 2020, and held them on November 9, 2020, except for the respondents or those on their behalf. In accordance with the economic opinion attached to the motion, it was alleged that following the publication of the immediate report dated November 9, 2020 published by Bezeq and BCOM, the Company's share price decreased by 5.26%-5.40% (it should be noted that the motion also claims, in accordance with another opinion attached to it, that compared to Bezeq's benchmark indices, the damage to Bezeq's shareholders is higher than the decrease in the value of the shares, and is about 7%), and the Company's share price decreased in the range of 9.07%-9.36%. Accordingly, it was argued that the damage caused to the applicants is in the amount obtained from doubling the amount of shares held by the members of the groups as aforesaid at the rate of the aforesaid decrease in	"Over NIS 2.5 million (for the purposes of substantive authority)"

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
					the shares of Bezeq and the Company.	
l	April 2021	Customer VS Bezeq	Central District Court	Motion for approval of a class action	It was alleged that Bezeq caused pecuniary and non-pecuniary damages to the class members who paid an increased amount for a higher level of browsing speed than they could actually use, for upgrading the modem so that they could browse at this rate, as well as for harassment, inconvenience, mental distress and impaired autonomy. According to the motion, the class of plaintiffs must include anyone who used Bezeq's Internet infrastructure in the seven years prior to the date of submission of the motion for approval until the date of its approval of the class action, and paid for a certain speed level, while the infrastructure in his home is capable of providing speed that matches a lower speed level.	* The amount of the class action cannot be estimated. It was stated that these are damages amounting to NIS million, which fall within the jurisdiction of the Court.
m	May 2021	Customers VS Bezeq	Tel Aviv District Court	Motion for approval of a class action	A motion for approval of a class action lawsuit replacing a similar motion from May 2020 was filed and ended (see section 2.18.2). It was alleged that Bezeq misled customers who joined an online business advertising service through B144 ("**the Service**") into thinking that the cost of the service depends on actual use,, up to a billing ceiling, while in fact Bezeq charged its customers the amount of the billing ceiling even if in practice a lower amount was used. Accordingly, the new motion is required to include in the definition of the class of plaintiffs, on whose behalf the class action will be conducted, all Bezeq customers and / or subscribers who have registered and joined service packages of all kinds since Bezeq began marketing the service, and was overcharged.	* The amount of the personal claim is "NIS 8,112 per applicant and any future amount that will be formed for all members of the class". The total amount of the claim is not specified, but it is stated that it is assessed in the substantive jurisdiction of the Court.
n	August 2021	Customer VS Bezeq	Tel Aviv District Court	Motion for approval of a class action	It was alleged that during the COVID crisis Bezeq charged its telephony customers in excess of the amounts determined and approved by the Ministry of Communications under arrangements established in view of the increase in landline telephone use during the COVID crisis, which were valid for two periods (March 1, 2020 to June 14, 2020 and September 21, 2020 to June 30, 2021). According to the motion, the class of plaintiffs must include "all Bezeq customers in landline telephony who were charged excess amounts in violation of the binding arrangements during the COVID period as determined by the Minister of Communications". The applicant estimates that the size of the class is over one million of the Company's landline telephony subscribers (subscribers who use alternative payment baskets).	* The amount of aggregate damage is estimated at more than NIS 2.5 million.

2.19. Targets and business strategy

2.19.1. Forward-looking information

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

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

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

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

2.19.2.1 Vision and purpose

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

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

a. Preservation of leadership in the aggravating competitive environment (service leadership and strengthening perceived values - product innovation, reliability, price perception);

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

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

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

2.19.2.2 Means

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

2.19.3. Major projects in planning or execution

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

2.20. Discussion of risk factors

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

2.20.1. Competition

Competition in the field of landline interior communications increasing in recent years by other telecommunications groups, both by other interior operators, including HOT (with a general license), and by cellular operators, has significantly increased with the application of the wholesale market, through which telecommunications groups and other telecommunications operators (with a special or unified license) compete with Bezeq in the sale of end-to-end service packages, based on Bezeq infrastructure at prices set by the regulator (see Section 1.7.3 and SectioN 2.16.4). A large number of customers receive wholesale Internet services, which are provided on the Bezeq network, when Bezeq does not have contact with those customers. There is also competition from infrastructure owners (see Section 2.6). Increased competition in the field of interior communications causes the abandonment of some of Bezeq's customers and leads to lower prices of some of Bezeq's services and an increase in the costs of recruiting new customers and retaining existing customers. The entities that compete with Bezeq at present, or may compete with it in the future, enjoy greater business flexibility than Bezeq, including the ability to cooperate with subsidiaries and affiliates and market shared service packages with them (see Section 1.7.2 and Section 1.7.3). The ability of competitors to market service packages with rate flexibility, in the face of Bezeq's limitations to do so as of this date, impairs Bezeq's competitive ability.

2.20.2. Governmental supervision and regulation

Bezeq is subject to governmental supervision and regulation relating, *inter alia*, to licensing activities, determining permitted areas of activity, determining rates, operations, competition, payment of royalties, universal service obligation, the possibility of holding its shares, the relationship between Bezeq and its subsidiaries and prohibiting cessation or restriction of its services (which may oblige Bezeq to provide services even in non-economic circumstances) - for details, see Section 2.16. The aforesaid supervision and regulation sometimes causes government intervention, which in Bezeq's opinion burdens its business activities. In this context, Bezeq is exposed to the imposition of various sanctions by the Ministry of Communications, including the imposition of financial sanctions (for this matter, see Section 1.7.4.6).

In addition, the Minister of Communications may revoke Bezeq's license, restrict it or suspend it as appropriate, in accordance with the conditions set forth in the Communications Law, and is authorized to change the terms of Bezeq's license, interfere with existing rates and marketing proposals and issue instructions. Substantial changes in the rules of regulation that apply in the field of communications in general, and to Bezeq in particular, may oblige Bezeq to make changes to its strategic plans and impair its ability to carry out long-term planning of its business activities. For possible changes following the wholesale market reform, see section 2.16.4. For possible restrictions under the Centralization Law on the renewal of licenses and the allocation of new licenses, see section 1.7.4.7.

2.20.3. Rates supervision

Bezeq rates for a key part of its services (including rates for reciprocal linking and use of Bezeq infrastructure and its network) are subject to government supervision and intervention. The Minister of Communications has the authority to intervene in existing rates and marketing proposals and to give it instructions (see section 2.16.1). On average, supervised Bezeq rates are eroding in real terms. Substantial changes in Bezeq's regulated rates, if implemented, could have a material adverse effect on its business and its results. Regarding the supervision of the supervised Bezeq rates and their updating, see sections 2.16.1 (Including regarding a hearing on the determination of maximum rates for Bezeq's retail telephony services) and 2.16.4. In addition, the restrictions that apply to Bezeq in marketing alternative payment baskets may create difficulties for Bezeq in providing an appropriate competitive response to changes in the market and are significantly reflected in Bezeq's competitors on the basis of its infrastructure in selling end-to-end service packages through Bezeq's wholesale service. This is also the case as long as a mechanism is established that will be determined by the Ministry of Communications for approval and inspection regarding the reduction of intervals in Bezeq packages and routes (see section 2.16.4.2). As part of the application of a wholesale market, the Ministry of Communications updated the rates for wholesale services according to which Bezeq will sell its services to licensees. The update of the rates leads to lower prices in a way that could adversely affect Bezeq's level of revenue and its profitability (for the wholesale market, see section 2.16.4).

2.20.4. Streamlining procedures and labor relations

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

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

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

Structural separation - Bezeq's NIO license requires that its relations with the main companies in the Group held by it be without their preference over their competitors. A separation is required between the managements of Bezeq and the said companies, as well as a separation in the business systems, finances and marketing, assets and employees, which causes duplication, high overheads and also makes it difficult to manage strategy at the Group level. Also, at this stage, Bezeq's ability to offer shared service packages of Bezeq and the said companies is limited (see section 1.7.2).

In light of the increase in competition based on the provision of a basket of services to the customer and the ability of competitors, given wholesale services, to offer customers end-to-end services, the effect of this risk factor on Bezeq's operations and its results has increased. Regarding the possibility that in the future the Group will be granted a permit for the provision of non-detachable service packages and the elimination of structural separation and for further possible changes following the wholesale market, see sections 1.7.2 and 2.16.4.

2.20.6. Legal Proceedings

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

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

Bezeq measures exposure to changes in currency and inflation according to surplus or lack of assets versus liabilities, as well as according to cash flow forecasts, according to the type of linkage. Bezeq's exposure to changes in inflation is high and Bezeq's exposure to changes in the exchange rate against the shekel is low. Bezeq is hedging some of its exposure to inflation and foreign exchange. In addition, Bezeq has exposure to changes in interest rates in relation to the credit it receives. For this matter, see also Note 30 to the 2021 statements.

2.20.8. Electromagnetic radiation and licensing of transmission facilities

The issue of electromagnetic radiation emitted from transmission facilities is regulated mainly in the Non-Ionizing Radiation Law (see sections 2.15 and 2.16.10). Bezeq works for the existence of permits for the construction and operation of its various transmission facilities, but the difficulties encountered by Bezeq in this activity, including difficulties arising from changing the policy of the relevant parties and changes in legislation and regulations, may adversely affect the infrastructure of the said facilities, the regularity of the provision of the services through them, and consequently also the Bezeq revenues from these services. Bezeq's third party insurance policy does not currently cover warranty for electromagnetic radiation.

2.20.9. Frequent technological changes

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

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

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

2.20.11. Failure of Bezeq systems and cyber risks

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

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

Bezeq is a body guided by the State Authority for Information Security and is committed to meeting strict information security standards. In this context, Bezeq implements a defense policy that includes the most advanced security systems in the world operated in a configuration that combines effective security with Bezeq's operational needs and security circuits to protect Bezeq's infrastructure and systems designed to prevent and reduce the possibility of Bezeq data being exploited by an external or an internal party maliciously or accidentally, as well as the possibility of an outsider taking over and managing network components or abusing information about Bezeq's infrastructure and networks in any way. In this context, Bezeq 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 as part of implementing the requirements of Bezeq standards ensures the availability, integrity, reliability and confidentiality of its databases.

Bezeq monitors the implementation of its defense policy, which includes an examination of Bezeq's level of effectiveness and readiness. In this context, Bezeq conducts tests and assault drills with different frequency for different scenarios (including through external companies that specialize in the field).

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

2.20.12. Impairment of subsidiaries

In accordance with the accounting standards, Bezeq performs valuations for subsidiaries for the purpose of examining the periodic impairment of goodwill and of assets in respect of which signs of impairment have been identified. Considering the business situation of the subsidiaries and the difference between the book value of Bezeq and their recoverable amount as a cash-generating unit, a decrease in the value of the subsidiaries' activity may lead to impairment loss (write-off) in Bezeq books. Also, a significant change in circumstances that leads to a change in estimates can occur as a result of a high-intensity discrete event and / or as a result of a sequence of small changes occurring over time that have a significant cumulative effect in the long run and / or a change in estimates (even at low rates). Valuations are based on assumptions as of the date of the statements that may not materialize or materialize partially and different aspects have different intensities affecting the value of the unit measured when long-term assumptions may have a relatively large weight compared to short-term assumptions.For this matter, see also Note 11 to the 2021 statements and Section 3.1 of the Board of Directors' Report.

2.20.13. Pandemic

At the beginning of 2020, an outbreak of the COVID-19 virus began worldwide. Following this, Bezeq monitors developments in connection with this outbreak and pandemic incidents in general and examines potential implications for its business operations, with some of the implications already being reflected in Bezeq in practice. These consequences can be manifested, and some of them have already been manifested, among other things, in the damage to the supply chain and the customer service system. According to Bezeq's estimates, as of the date of the report, the COVID-19 pandemic caused an increase in demand and increased use of Bezeq's Internet and telephony services, without significant adverse effects in other areas of activity that can be attributed to the outbreak. At the same time, naturally, this is a variable event that is not under Bezeq's control, and therefore widespread spread of the virus or decisions of countries and authorities in Israel and around the world in this regard, may affect Bezeq. In this regard, see also section 2.20.10.

It should be noted that a significant part of Bezeq's operations (in a consolidated manner) is carried out in its subsidiaries. The risk factors of these companies and the assessments of their managements in relation to the risk factors are described in sections 3.19, 4.14 and 5.19.

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

Risk Factors Summary Table – Landline Interior Communications[51]

	The extent of the impact of the risk factor on Bezeq's operations		
	High effect	**Medium effect**	**Low effect**
Macro risks			
Exposure to exchange rate fluctuations, inflation and interest rates			X
Dependence on macro factors and levels of business activity in the economy		X	
Pandemic		X[52]	
Industry risks			
Growing competition	X		
Governmental supervision and regulation	X		
Rate supervision	X		
Electromagnetic radiation / licensing of transmission facilities		X	
Frequent technological changes		X	
Special risks for Bezeq			
Exposure to legal proceedings		X	

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

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

	The extent of the impact of the risk factor on Bezeq's operations		
	High effect	Medium effect	Low effect
Labor relations		X	
Restrictions regarding the relationship between Bezeq and companies in the Bezeq Group	X		
Failure of Company systems and cyber risks	X		
Impairment of subsidiaries		X	

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

3. Pelephone - Mobile radio telephone (cellular telephony)

3.1. General information about the field of activity

3.1.1. Pelephone's field of activity

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

3.1.2. Principles of legislative and regulatory restrictions unique to the field of activity

3.1.2.1 Communications Law and mobile radio telephone license

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

3.1.2.2 Rate supervision

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

3.1.2.3 Environmental law and planning and construction law

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

3.1.3. Changes in the scope of activity in the field

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

<u>Revenue from services</u>

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

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

The end equipment market is also characterized by fierce competition among cellular operators and vis-à-vis many stores that sell end equipment in parallel imports. In 2021, fierce competition continued in this area, which was exacerbated due to the consequences of the COVID virus crisis, as well as due 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. In order to reduce the damage to revenue, Pelephone is increasing the range of equipment sold by it and also sells electronic equipment that is not cellular devices.

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

3.1.4. Market developments and changes in customer characteristics

The cellular market is characterized by low growth rates due to saturation in the penetration rate[53]. The estimated penetration rate as of September 30, 2021 is approximately 120%.

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

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

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

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

In addition, Pelephone operates additional network features that include CARRIER AGGREGATION and MIMO8x8 in 5G.

Pelephone offers technology-based services IMS[54]: Voice over WiFi as an improved response for coverage within buildings, as well as Voice over LTE that enables voice calls based on 4G. This capability improves the quality of voice calls and in addition enables the evacuation of 3G frequency resources for future use of LTE. In addition, Voice over LTE enables continuity of service with Voice over WiFi.

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

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

Following the winning of the frequency tender, Pelephone began operating frequencies in the field of 700 MHz and 2600 MHz in 4G technology, and in addition operates 5G technology at a frequency of 3500 MHz in some sites (see section 3.8.2.4).

3.1.6. Critical success factors

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

3.1.6.2 Growth in the subscriber base.

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

3.1.6.4 Competitive price level.

3.1.6.5 Wide and varied distribution channels.

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

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

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

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

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

3.1.6.9 High quality and skilled personnel.

3.1.7. The main barriers to entry and exit[55]

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

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

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

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

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

3.1.7.2 The main barriers to exit from the field are:

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

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

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

3.1.8.1 General

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

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

3.1.8.2 Infrastructure sharing

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

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

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

3.1.8.3 Virtual operators MVNO

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

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

3.1.8.4 Public appeal on private networks

On December 1, 2021, the Ministry of Communications issued a public appeal regarding private networks, in which it seeks to hear the public's position, including for the purpose of understanding the needs of companies and enterprises that will enter this field, and emphasizing the issue of allocating frequencies to this service model (possibility to tender dedicated frequencies among the cellular companies as well as to other private entities that will choose

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

to enter the field). Pelephone submitted its response to the public appeal.

3.2. Services and products

3.2.1. Services

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

3.2.1.1 Package services that include:

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

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

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

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

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

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

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

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

3.2.1.6 **Additional services**

a. IoT (Internet of Things) services - Pelephone offers its customers advanced IoT solutions such as smart building networks with command and control systems, and more.

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

3.2.2. Products

End equipment devices - Pelephone offers different types of mobile phones, car devices, devices PTT, headsets and accessories that support its range of services. Pelephone also provides end equipment such as tablets, laptops, modems, speakers, smart watches, headphones and other related electronics.

3.3. Segmentation of revenues from products and services

The following is data regarding Pelephone's revenues from products and services (in NIS millions):

Products and services	2021	2020	2019
Revenue from services	1,642	1,591	1,709
Rate of Pelephon’s total revenue	71.7%	72.8%	72.4%
Revenue from products (end equipment)	647	595	653

Products and services	2021	2020	2019
Rate of Pelephon's total revenue	28.3%	27.2%	27.6%
Total revenue	**2,289**	**2,186**	**2,362**

3.4. Customers

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

Products and services	2020	2019	2018
Revenue from private customers	2021	2020	2019
Revenue from business customers (*)	1,361	1,194	1,334
Total revenue	928	992	1,028

(*) Revenue from customers in business tracks includes revenue from hosting agreements, which were received mainly from Rami Levy.

At the end of 2021, the number of Pelephone subscribers was approximately 2.6 million, including approximately 2.1 million postpaid subscribers and approximately 0.4 million prepaid subscribers.

Pelephone markets packages with an increased volume of use that are also adapted to the needs of 5G, and as of the date of publication of the report, Pelephone has about 550,000 subscribers in such packages.

3.5. Marketing, distribution and service

Pelephone's distribution system includes about 300 points of sale where you can join Pelephone services. The set of points of sale is diverse and includes stores and stalls operated by Pelephone, retail chains that market Pelephone products and about 20 Service and sales centers located throughout Israel that handle service, customer sales, repair device and customer retention. In addition, Pelephone operates an internal and external network of telephone marketers. As a rule, the remuneration to the marketers is paid as commissions from the sales.

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

3.6. Competition

3.6.1. General

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

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

Below is data, to the best of Pelephone's assessment, about the number of subscribers of Pelephone and its competitors over the years 2020 and 2021 (thousands of subscribers, approximately):

		Pelephone	Cellcom (including Golan Telecom) (3)	Partner(3)	Hot Mobile(2)	MVNO And other operators(1)	Total subscribers in the market
As of December 31, 2020	Number of subscribers	2,442	3,204	2,836	1,653	803	10,938
	Market Share	22.3%	29.3%	25.9%	15.1%	7.3%	
As of September 30, 2021	Number of subscribers	2,547	3,246	3,019	1,674	791	11,277
	Market Share	22.6%	28.8%	26.8%	14.8%	7.0%	

(1) Most of the MVNOs and the other operators (which include, among others, XFONE) are private companies that do not publish data regarding the number of their subscribers, and the said data is based on an estimate of data on mobility between companies.

(2) Hot Mobile's Q3/2021 data is based on an estimate, according to data published in Altice's reports.
(3) The number of subscribers is correct as of September 30, 2021, based on Cellcom and Partner reports to the public.

3.6.2. Infrastructure sharing and granting network use right agreements

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

Pelephone is not a party to the radio network sharing agreement, so it does not enjoy the savings resulting from the shared use of the radio network, but on the other hand it exclusively controls its cellular network, the maintenance of its technological route and the volume of investments in it.

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

3.6.3.1 Positive factors:

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

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

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

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

e. Ability to sell through sub-brands in dedicated sales channels alongside the Pelephone brand.

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

3.6.3.2 Adverse factors:

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

b. There are restrictions on joint activities with Bezeq, including the marketing of joint service packages (see section 1.7.2).

c. The costs of setting up, operating and maintaining cellular networks in Pelephone are expected to be higher compared to competitors operating through the sharing of radio segment infrastructure.

3.7. Property, plant and equipment and facilities

Pelephone's property, plant and equipment include infrastructure equipment of the network core, radio sites, electronic equipment, computers, vehicles, end equipment, office furniture and equipment, and leased improvements.

3.7.1. Infrastructure

3.7.1.1 Pelephone currently operates communication networks in three main technologies, as follows:

a. 5G - the NEW RADIO technology that uses a very broadband spectrum (100 MHz at Pelephone) and enables higher capacity and higher browsing rates for the user. In the future, the technology will enable IoT applications at significantly higher volumes than today and at a very high level of performance.

b. 4G - LTE technology from the GSM standards family. The advantages of the technology are high capacity for data communication and faster download and upload rates than those that exist in 3G. All end devices that support this technology also support 3G technology and there is a smooth transition between the technologies.

c. 3G - technology in the UMTS method based on GSM standard. This technology is very common in the world and enables subscriber identification and service through a subscriber identification card (SIM) that can be transferred from one end device to another.On December 10, 2020, the Ministry of Communications issued a hearing regarding the future closure of networks mobile radio telephone operating on old technologies, in Israel (2G and 3G networks) with state-of-the-art technologies (4G onwards), public notification, and disconnection of these devices from the network. The Ministry has not yet announced its decision at this hearing. It should be noted that Pelephone's 2G network has been shut down by it. Following a secondary hearing published by the Ministry on this issue, on June 27, 2021, the Ministry of Communications made a decision at a hearing according to which 2G and 3G networks will be shut down on December 31, 2025 (or earlier, at Pelephone's request, while meeting the set conditions), as well as setting schedules for stopping the import and connection to the network of devices that do not support new technology. Pelephone is preparing in accordance with the above decision to close its 3G network, according to the schedules set in the decision..

3.7.1.2 As of the date of the report, Pelephone's network infrastructure is mainly based on two switching farms connected to more than 2,500 sites.

3.7.1.3 Network investments

In recent years, Pelephone has invested in deploying a 4G network and upgrading it with innovative technologies (such as Beam Forming, MIMO4x4 and QAM 256 and Carrier Aggregation in the access network, and in IMS at the core of the network (see section 3.1.5).

In addition, as part of its current investments, in the next ten years, Pelephone will be required to continue to establish new transmission sites, among other things for the purpose of complying with the conditions of the mobile radio telephone license.

In addition, Pelephone is acting to implement advanced data communication services in the 5G track. The layout is designed to integrate with existing infrastructure and systems. Activating such advanced services will be based on 5G technology that Pelephone will continue to deploy, and will later be based on a new network core dedicated to 5G (see section 3.8.2.4).

Pelephone's estimates as aforesaid regarding the costs of investing in the network and the date of their formation are forward-looking information within its meaning of the Securities Law, based on Pelephone's forecasts and estimates, *inter alia*, regarding the rate of network expansion and upgrade of the network. Accordingly, the information may not fully or partially materialize or may materialize in a different format than that which was assessed, insofar as the said forecasts and assessments are not fulfilled or will be fulfilled in a different way than expected.

3.7.2. Areas used by Pelephone

Pelephone does not own real estate and it leases from others, including Bezeq, the areas it uses for its activities. The following is a description of most of the areas used by Pelephone:

3.7.2.1 The areas used by Pelephone to place communication sites and network centers as stated in the section 3.7.1 are spread throughout Israel and leased for different periods (in many cases for 5 years plus the option to extend the agreement for another 5 years). For site licensing, see section 3.14.3.

3.7.2.2 Until December 31, 2019, a license agreement was in force between Pelephone and ILA for the use of ILA real estate for the construction and operation of communication sites, which regulated, among other things, the license fee for such use for the period until December 31, 2019. On January 19, 2022, the decision of the Israel Lands Administration to extend the period of the roof agreement from December 31, 2019 to December 30, 2024 was amended, with various changes. An addendum regarding the extension and implementation of various changes to the roof agreement has not yet been signed.

3.7.2.3 Pelephone's headquarters are in Petah Tikva.

3.7.2.4 For service and sales activities, Pelephone rents about 50 service centers and sales points spread throughout Israel.

3.7.2.5 Pelephone has additional lease agreements for warehouses (including a central logistics center with a central laboratory for repairing customer devices), offices, call centers and 2 switching farms used by it for its operations.

3.8. Intangible assets

3.8.1. Licenses

For details regarding Pelephone's mobile radio telephone license and operating license in Judea and Samaria, see section 3.14.2.

3.8.2. Right to use frequencies

3.8.2.1 Shortage IN Radio frequencies

In Israel, there is a shortage of radio frequencies for public use (among other things, due to the allocation of many frequencies for security uses). As a result, the government limits the number of licenses that can be used in frequencies.

3.8.2.2 Pelephone’s frequency inventory

Pelephone has the right to use frequencies by virtue of the mobile radio telephone license and the Telegraph Order in the ranges of 850 MHz[56] and 2100 MHz for operating the network in UMTS / HSPA technology, and in the 1800 MHz, 700 MHz and 2600 MHz range for network operation in the LTE technology (see also section 3.1.5) and in the range of 3500 MHz for the purpose of operating a network with 5G technology. During 2017, Pelephone returned to the National Frequency Database 2 frequency bands with a width of 1 Mega each in the range of 850 MHz, and towards the end of April 2017, it received a temporary allocation of a band in the range of 1800 MHz with a width of 5 Mega. This allocation is limited in use and is for a fixed period.

The Ministry of Communications has reassigned a temporary allocation of this band until the end of September 30, 2022, under conditions and restrictions, in order to allow Pelephone to prepare for the expected change in the replacement of frequencies in the first Giga range (see Section 3.8.2.3).

For frequencies in the 800 MHz range allocated to Pelephone instead of the 850 MHz frequencies (see Section 3.8.2.3), Pelephone intends to use LTE technology for network deployment towards the end of 2022, and to operate it during 2023.

3.8.2.3 Switching freqencies in the first Giga range

In July 2018, the Ministry of Communications informed Pelephone that it intends to adjust cellular frequencies in Israel to European standards and the area in which the State of Israel is located, so that Pelephone and another cellular operator will be required to replace the 850 MHz frequencies with other frequencies in the first GHz. In 2020, the Ministry of Communications announced to Pelephone that it intended to implement an outline for the replacement of 850 MHz frequencies in the use of Pelephone, against the background of electromagnetic interference caused to neighboring countries due to non-compliance of cellular frequencies in Israel with European standards and the stadards of the region. According to the outline, Pelephone will receive frequencies in the range of 800 MHz instead of 850 MHz, when in the first stage and for the purpose of treating such interruptions, the amount of 850 MHz frequencies used by Pelephone will be reduced to 5 MHz (instead of 10 MHz today) and this as of May 31, 2020. Pelephone forwarded to the Ministry of Communications, following his request, its reference to a number of issues and on March 17.

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

On June 1, 2020, Pelephone returned to the Ministry of Communications frequencies in the range of 850 MHz, with a width of 5 MHz, so that the amount of 850 MHz frequencies owned by Pelephone decreased from 10 MHz to 5 MHz. On November 26, 2020, the Ministry of Communications allowed Pelephone to reuse full 2X10 MHZs in the 850 range until March 31, 2021. On June 27, 2021, a decision was made by the Ministry of Communications regarding an extension of the allocation of frequencies in 850 MHz and 2100 MHz ranges that Pelephone holds, until December 31, 2030 (it is clarified that the extension of the 850 MHz frequency is subject to description above, regarding the exchange of frequencies in the first giga field).

Pelephone's assessments as stated above are forward-looking information within its meaning of the Securities Law. These assessments may not materialize, partially materialize or materialize in a manner substantially different from what is stated, depending, among other things, on the actual implementation of the outline and the state of the Pelephone network.

3.8.2.4 Tender for advanced broadband services ("**the Tender**")

On August 12, 2020 Pelephone won the allocation of frequencies as a result of its participation in the tender for mobile radio telephone services in advanced 5G bandwidths.

The main points of the Tender in which it won, as stated, among other things, are as follows:

The Tender includes provisions regarding the coverage and quality requirements of the network that will be anchored as part of the amendment of the mobile radio telephone licenses of the existing operators (see amendment to Pelephone's license below).

The Tender including the possibility of receiveing the following incentives:

a. Possibility of discounts in the frequency fees for the first four years, subject to the approval of the Ministry of Communications and the Ministry of Finance.
b. Possibility of receiving a conditional grant for the deployment of 5G sites according to the conditions specified in the Tender (such as meeting the scope of deployment, schedules, deployment period and timing of deployment in relation to others and additional conditions set in the Tender).

For details, see also section 3.19.2.1. For details regarding exposure to interference in the frequency ranges of Pelephone, see section 3.19.3.10.

The following are the conditions under which Pelephone won the allocation of such frequencies:

a. Winning at 10 Mega in the 700 MHz range (for a period of 15 years); at 20 Mega in the 2600 MHz range (for a period of 10 years); And at 100 Mega in the field of 3500 MHz (for a period of 10 years). The license period does not change as a result of the Tender and can be renewed in accordance with the license provisions (hereinafter: "**Frequency Allocation**"). It should be noted that the frequencies won by Pelephone are used exclusively by Pelephone network. This will give a competitive advantage to the Pelephone network, and it should also be noted that companies that do not own existing networks did not win the Tender.
b. Pelephone's win in the Frequency Allocation has a total cost of NIS 88,230,000, with the payment date set for September 2022. In this context, it should be noted that the Tender further stipulates that incentives may be obtained, as specified in above, including receiving a conditional grant for the deployment of 5G sites according to the conditions specified in the Tender, the amount of which, for all the winners, can reach a total amount of NIS 200 million. As part of the update of the regulations under which the frequency fees are paid, a reduction in the amounts of the fees for 2600 and 3500 MHz frequencies was determined, as well as a conditional annual discount from the total amount of the frequency fees to be paid by Pelephone in the next four years (the discount depends on the Company's compliance with graded annual engineering targets, which will be examined by the Ministry of Communications every year). On October 27, 2021, the Ministry of Communications announced that Pelephone was entitled to a grant in the

amount of NIS 74 million for the deployment of 5G sites.

On October 1, 2020, Pelephone's license was amended in accordance with the winning results (shortly before, Pelephone was allocated the frequencies at which it won as stated). With the amendment of the license, Pelephone began operating the frequencies which it won in the Tender at the broadcast sites upgraded by it.

Said Frequency Allocation enables supporting the increase in the volume of browsing in the 4G and in the future offer services in the 5G at much higher browsing rates than today, and will allow, among other things, expanding a variety of advanced cellular uses, such as smart cities, IoT services, mission critical services with low latency, private networks and more and all in order to provide a competitive solution in the market and will involve ongoing investments.

In this regard, see also Note 11 to the 2021 statements.

3.8.3. Trademarks

Pelephone has a number of registered trademarks. The main one is the "Pelephone" brand.

3.8.4. Computer software, systems and databases

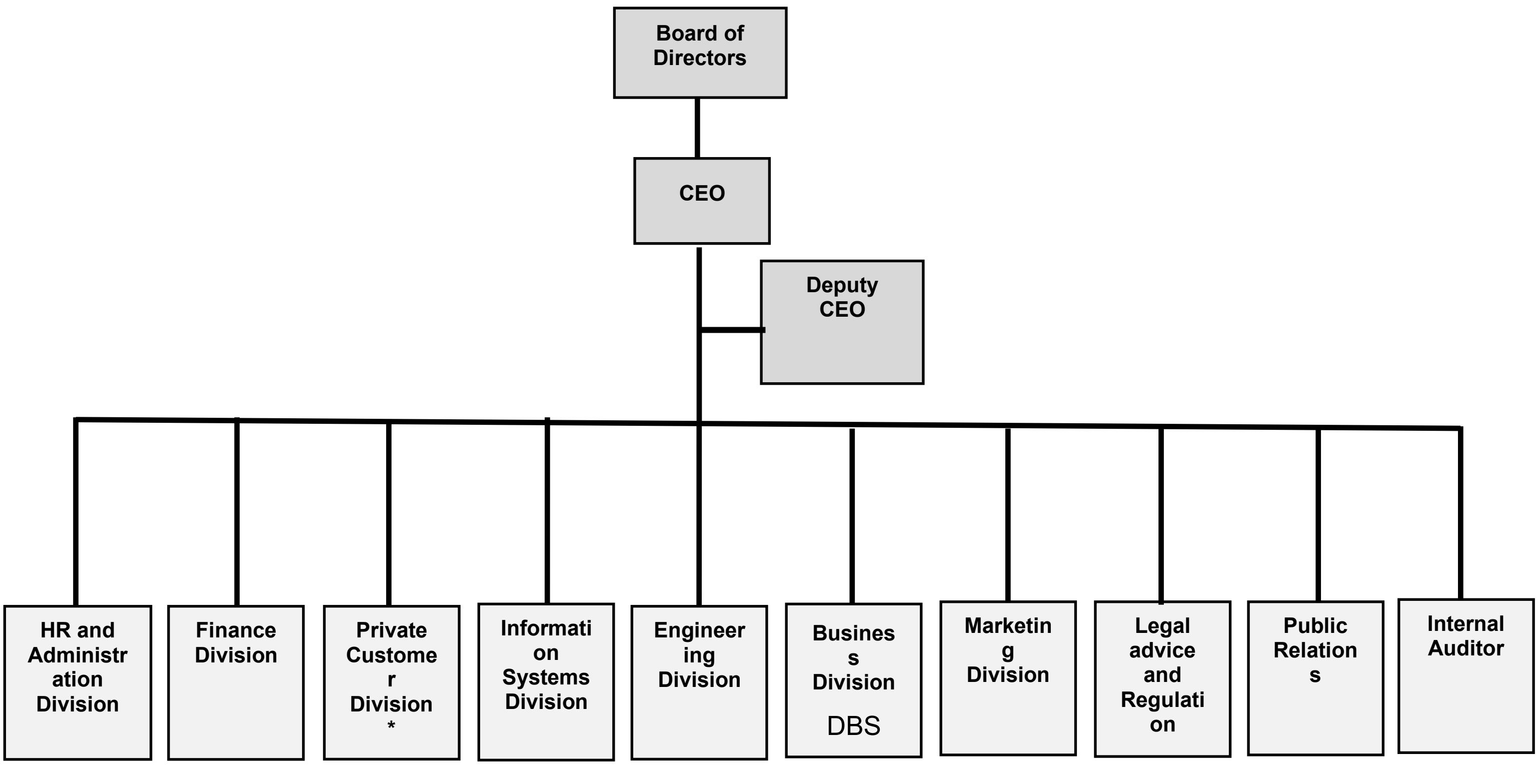
Pelephone uses software and computer systems, some based on licenses it has acquired and some developed by Pelephone's information systems division. Many of these licenses are limited in time and are renewed from time to time. The main systems used by Pelephone are an ERP system by Oracle Applications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

Pelephone is also working to upgrade the CRM (customer management) to an advanced Salesforce cloud platform together with Bezeq International and DBS. Pelephone is dependent on the Salesforce system and services, due to their importance for the purpose of managing relationships with its customers. System failures or the cessation of services by this provider are likely to cause operational difficulty until the matter is rectified or the system / provider is replaced, which may take a long time

3.9. Human capital

3.9.1. Organizational structure

The following is a diagram of Pelephone's organizational structure, as of the date of the report:



(*) The Director of the Private Customers Division is the Deputy CEO.

As part of the implementation of the synergy processes with the Group's subsidiaries, Pelephone's CEO, Mr. Ran Guron also serves as CEO of DBS and Bezeq International. In addition, most of the VPs who serve on Pelephone also serve as VPs at DBS and Bezeq International.

3.9.2. Employee base and number of jobs

The following is a breakdown of the number of employees in Pelephone according to its organizational structure:

Division	Number of employees	
	31.12.2021	31.12.2020
Management and administration divisions	192	210
Private and business customer divisions	1,190	1,290
Engineering and Information Systems Divisions	386	400
Total	**1,768**	**1,900**

The number of employees included in the table above includes employees employed part-time. The total number of jobs[57] in Pelephone as of December 31, 2021, was 1,572 (as of December 31, 2020 - 1,619).

3.9.3. Terms of employment

Most Pelephone employees are employed under a monthly agreement or an hourly agreement, according to the professions and positions in which they are engaged. Most of the service and sales staff are part-time shift workers and are employed on an hourly basis. The other Pelephone employees are employed on a monthly basis.

3.9.4. Collective agreement

The labor relations at Pelephone are regulated in a collective agreement signed between Pelephone and the new Histadrut - the Cellular, Internet and High-Tech Workers' Union ("**the Histadrut**") and the Pelephone Employees’ Committee. The agreement applies to all Pelephone employees, with the exception of senior executives and certain employees in pre-defined positions.

On November 13, 2019, a renewal of the existing collective agreement was signed between the parties, which includes streamlining and synergy procedures, for a period of up to June 30, 2022 (“the **Agreement**").

Under the Agreement, Pelephone will, among other things, terminate the employment of 210 permanent employees during the term of the Agreement, some of them as part of a voluntary retirement. Moreover, according to its plan, it will terminate the employment of 190 additional non-permanent employees, in addition to not recruiting employees instead of employees the employment oh whom will be terminated. The Agreement also includes providing a one-time bonus to employees who will not be included in the retirement plan.

3.9.5. Labor disputes

On January 31, 2018, Pelephone was notified by the Histadrut ("**the Histadrut Notice**") of the declaration of a labor dispute in accordance with the Labor Disputes Settlement Law, 5717-1957. According to the Histadrut Notice, the issues in the dispute are the employees’ requirements for consultation and negotiations regarding the sale of Bezeq's controlling shares to the new owners and the regulation of their rights as a result.

Following the Histadrut Notice, on November 28, 2019, Pelephone's offices received a notice from the Chairman of the Histadrut and the Pelephone Employees’ Committee, including a demand for collective bargaining with the employees' representatives against the background of the acquisition of control of Bezeq.

On the announcement dated June 23, 2021 on behalf of the new General Workers’ Histadrut - the Internet and High-Tech Cellular Workers’ Union on the declaration of a labor dispute, among other things, regarding the refusal of the joint management of Pelephone, Bezeq International and DBS to negotiate on various matters that was received at

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

Pelephone’s offices, see Section 4.8. On August 2, 2021, the employees' representations at Pelephone and Bezeq International began taking a variety of organizational sanctions, which according to the employees' representations have a direct connection to the synergies between Pelephone, Bezeq International and DBS. On Pelephone and Bezeq International's announcement of the protective shutdown in the companies, see Section 4.8. On November 1, 2021, the subsidiaries reached agreements in principle with the Histadrut and the employees representatives on the cessation of sanctions and the entry into negotiations. For more information on this matter, see Section 4.8.

3.10. Suppliers

3.10.1. End equipment suppliers

Pelephone purchases some of the end equipment and accessories from different providers in Israel and in the world and some it imports independently. In addition, Pelephone purchases end equipment and accessories by way of purchase consignation with the right to return to the end equipment suppliers. Contracts with some suppliers are based on framework agreements that regulate, *inter alia*, the supplier's technical support for the end equipment provided thereby, the availability of spare parts and repairs and the supplier's warranty for the products. In most cases, these agreements do not include an obligation on Pelephone's part to make purchases, and they are executed on an ongoing basis through a purchase order according to Pelephone's needs.

In the event of a termination of contract with a particular end equipment supplier, Pelephone may increase the quantity purchased from other end equipment suppliers, or purchase end equipment from a new end equipment supplier.

Pelephone’s essential suppliers are Apple, with whom there is an agreement that requires defined procurement targets and is valid until March 2024, and Samsung, with which Pelephone does not have an agreement that requires the purchase of a minimum annual quantity and the purchases are made on the basis of orders made by Pelephone from time to time.

Pelephone purchases rate from each of the suppliers Apple and Samsung in 2021 was approx.14.4% and approx.12.4% (respectively) of Pelephone’s total purchases from all of Pelephone’s suppliers[58]. The distribution of peripheral equipment purchases among suppliers is such that it does not create a material dependence on the supplier or model of equipment.

It should be noted that a global chip shortage caused, among other things, a shortage and difficulties in the supply of end equipment from Bezeq's main suppliers.

3.10.2. Infrastructure providers

Cellular infrastructure equipment in the UMTS, LTE and the 5G networks are provided by LM Ericcson Israel Ltd. ("**Ericcson**"). Ericcson is also a significant supplier of Pelephone in the field of microwave transmission. Pelephone has multi-year agreements for maintenance, support and software upgrades for the UMTS network, as well as an agreement for the purchase of 4G (LTE) and 5G equipment with Ericsson, and in its opinion it may be dependent on it in connection with network support and expansion. In addition, the cellular network uses transmission, and Bezeq is a significant supplier of Pelephone in this field.

Pelephone has a multi-year transmission agreement with Bezeq that includes use and maintenance.

3.11. Working equity

<u>Credit policy</u>

Credit in device sales transactions - Pelephone gives most of its customers who purchase mobile phones the option to spread the payments up to 36 equal payments. In order to reduce exposure that may arise as a result of providing credit to its customers, Pelephone operates in accordance with a credit policy that is reviewed from time to time. Pelephone also checks the financial strength of its customers (in accordance with the parameters set by it).

[58] All suppliers - All of Pelephone’s suppliers, including suppliers who are not suppliers of end equipment and electronic devices. The rate of purchases from suppliers Apple and Samsung out of the total purchases of the Bezeq Group from all its suppliers is approximately 7.2% and 5.8% (respectively).

Monthly billing credit for cellular services - Pelephone customers are charged once a month with billing cycles, performed on different dates throughout the month, for the consumption of last month's cellular services.

Pelephone receives credit from most of its providers for a period ranging from 30 days to end of month + 92 days.

The following are data regarding average suppliers' and customers' credit in 2020:

	Credit volume in NIS millions	Average credit days
Customers for the sale of end equipment (*)	539	260
Customers for services (*)	221	42
Suppliers	228	32

(*) Net of loan-loss

3.12. Taxation

See Note 7 to the 2021 statements.

3.13. Environmental risks and ways of managing them

3.13.1. The provisions of the law concerning the environment and apply to the activities of Pelephone

The broadcast sites used by Pelephone are "radiation sources" in accordance with the Non-Ionizing Radiation Law. The establishment and operation of these sites, with the exception of sites listed in the appendix to the law, requires the receipt of a radiation permit.

The law establishes a two-stage licensing mechanism for obtaining a permit to operate a radiation source, according to which the applicant for a permit must first obtain a permit to establish the radiation source ("**Establishment Permit**"), valid for a period not exceeding three months, which can be extended by the Commissioner by up to 9 months, followed by a permit to operate a source of radiation ("**Operating Permit**"), which is valid for a period of five years or as otherwise determined by the Minister of Environmental Protection.

With regard to the Establishment Permit, the law stipulates the granting of the permit by performing an assessment of the maximum levels of exposure of people and the environment to the radiation expected from the radiation source when it is activated, including in the event of a malfunction; And taking the necessary measures to limit the levels of exposure of humans and the environment to the radiation expected from the radiation source when it is activated, including the use of technological means in use ("**Limitation Means**").

With regard to the Operating Permit, the law stipulates the granting of the permit by the taking of measures to limit and make measurements of the levels of exposure of humans and the environment to the radiation generated during the activation of the radiation source. The law also conditions the granting of an Operating Permit by presenting a license in accordance with the Communications Law, and in some cases, also by presenting a permit under the Planning and Construction Law.

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

It will be noted that regulating the maximum permissible levels of exposure of human beings to radiation from a radiation source and the safety ranges from transmission facilities to communications, including the restriction on placing a radiation source on roof terraces, is still in the process of legislation with the Knesset's Interior Committee on the Environment, as part of an amendment proposed to the regulations under the Non-Ionizing Radiation Law, which was accompanied with disagreements between government ministries.

In January 2009, the Commissioner for Radiation at the Ministry of Environmental Protection issued guidelines regarding safety ranges and maximum permitted levels of exposure regarding radiation from radio frequencies, including cellular antennas. Discussions are taking place around these ranges against the background of the announcement by the World Health Organization (IARC) according to which radio frequency electromagnetic fields associated with cell phone use have been classified as possible carcinogens in humans (Group 2B)[59].

It should also be noted that the Ministry of Environmental Protection operates a system of continuous supervision and monitoring of the broadcasting centers to check their compliance with the requirements of the law.

Cellular services are provided through a mobile phone that emits non-ionizing radiation (also known as electromagnetic radiation). The Consumer Protection Regulations (Information on Non-Ionizing Radiation from a Mobile Phone) 5762-2002 stipulate the maximum permissible level of radiation of a cellphone measured by units SAR (Specific Absorption Rate) and informing Pelephone's customers in this context. To the best of Pelephone's knowledge, all the cellular devices it markets meet the required SAR standards. See also section 3.19.2.5.

3.13.2. Pelephone policy in environmental risk management

Pelephone conducts periodic radiation tests to ensure compliance with permitted operating standards and international standards. These tests are outsourced to companies licensed by the Ministry of Environmental Protection. Pelephone has an internal enforcement procedure for supervising the implementation of the provisions of the Non-Ionizing Radiation Law, according to which a senior administrative body has been appointed as responsible for its implementation. The purpose of the procedure is to implement the provisions of the law and to reduce the possibility of violating it.

3.13.3. Transparency to consumers

Pelephone is subject to relevant laws that stipulate advertising obligations and information about the sources of radiation that it activates and the mobile devices that it provides. Pelephone publishes information on its website regarding the level of SAR emitted from cell phones and the Ministry of Health's recommendations for precautionary measures in the use of cell phones.

3.14. Restrictions and supervision of Pelephone’s operations

3.14.1. Legislative restrictions

3.14.1.1 Communications Law

The provision of cellular services by Pelephone is subject to the provisions of the Communications Law and its regulations. For details regarding the mobile radio telephone license granted to Pelephone under the Communications Law, see section 3.14.2.

The law authorizes the Director General of the Ministry of Communications to impose financial sanctions due to various violations of the provisions of the law and of orders and provisions issued under it, as well as due to violation of conditions in the license.

3.14.1.2 Wireless Telegraph Order

The Telegraph Order regulates the use of the electromagnetic spectrum, and applies, among other things, to the use of radio frequencies made by cell phones, as part of its infrastructure. Establishment of a system that uses and operates radio frequencies is subject, under the Telegraph Order, to licensing, and the use of radio frequencies is subject to the designation and allocation of an appropriate frequency. According to the Telegraph Order, license fees and fees are imposed for the designation of frequencies and their allocation. The Order authorizes the Ministry of Communications to impose financial sanctions due to various violations of its provisions.

For radio frequencies assigned to cell phones, see section 3.8.2.

3.14.1.3 The Non-Ionizing Radiation Law

With respect to facilities that emit electromagnetic radiation see section 3.13.

3.14.1.4 Consumer legislation and privacy protection and information security laws

59 It should be noted that from time to time various documents are published on the website of the Ministry of Environmental Protection, at www.sviva.gov.il, and on the World Health Organization website, at www.who.int

As part of its activities, Pelephone is subject to the Consumer Protection Law, which regulates a dealer's obligations to consumers, as well as the laws of privacy protection and information security (see section 1.7.4.5).

3.14.1.5 Change in interconnectivity fee rates (Call Completion Fee)

Interconnectivity rates are set by the regulator. For details see section 1.7.4.1.

3.14.2. Pelephone's mobile radio telephone license

3.14.2.1 General

Pelephone's mobile radio telephone license as well as the general license to provide cellular services in the Judea and Samaria area are valid until September 9, 2022[60].

The following are the main instructions from Pelephone's mobile radio telephone license:

a. In certain circumstances, the Minister may change the terms of the license, restrict it or suspend it and, and in some cases even cancel it.

b. The license is not transferable and includes restrictions on the purchase or transfer (including by way of lien) directly or indirectly of control or of 10% or more of any means of control in Pelephone, including the lien of such means of control, unless the Minister's prior consent is given.

c. Pelephone must provide an interconnectivity service on equal terms to any other operator and must avoid any discrimination in interconnectivity.

d. Pelephone must refrain from preference of providing infrastructure services to a licensee who is an affiliated company (as defined in the license) over another licensee.

e. The license specifies the mobile radio telephone services that Pelephone may provide and states that it is not allowed to provide additional mobile radio telephone services that are not specified in the license.

f. Pelephone may not sell, rent, or mortgage property from the properties used to carry out the license without the consent of the Minister of Communications, except for certain exceptions set forth in the license.

g. In times of emergency, the person authorized by law has the authority to give Pelephone various instructions regarding the manner of its operation and / or the manner of providing the services (see section 3.19.2.9).

h. The license specifies the types of payments that Pelephone may charge its subscribers for cellular services, and the reports it must give to the Ministry of Communications. The license also stipulates the authority of the Minister to intervene in rates, in some cases.

i. The license requires Pelephone to a minimum standard of service.

j. In order to secure Pelephone's obligations and in order to compensate and compensate the State of Israel in the event that Pelephone's action causes it damage, Pelephone provided a bank guarantee to the Ministry of Communications, in the amount of NIS 72 million.

3.14.2.2 Ministry of Communications guidelines regarding license changes

The Ministry periodically updates Bezeq’s license on various issues, as part of hearings held by it.

3.14.3. Site construction licensing

Pelephone's cellular services are provided, among other things, through cellular sites that are deployed throughout Israel in accordance with engineering needs. The constant need to upgrade and improve the quality of cellular services requires the establishment of cellular sites, configuration changes, and changes to existing antenna arrays.

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60 The wording of the Pelephone’s mobile radio telephone license is published on the website of the Ministry of Communications at www.moc.gov.il. The provisions of the mobile radio telephone license applies on the license in the Judea and Samaria area (with certain changes)).

Pelephone uses transmission sites of two main types and in two tracks: macro sites that require a building permit from the Planning and Construction Committees (see reference to National Outline Plan 36A below) and wireless access facilities ("**Access Facilities**"), which are exempt from a building permit under the Communications Law and the planning and Construction Law ("**Exemption Provision**") and for which regulations were published in 2018. On January 1, 2022, a series of legislative amendments came into force 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 in part on its ability to establish cellular sites and install infrastructure equipment, including broadcasting sites. The difficulties encountered by Pelephone in obtaining the necessary permits and approvals can adversely affect the existing infrastructure, the network's performance as well as the establishment of additional cellular sites required by the network. Difficulties in deployment also exist in the Judea and Samaria area, for which a special legal system applies.

The inability to resolve these issues in a timely manner may even prevent the achievement of service quality targets set forth in the mobile radio telephone license.

Pelephone, like other cellular operators in Israel, has set up some of the cellular sites throughout Israel on properties managed by the Israel Land Authority. This, among other things, according to an umbrella contract from June 2013. It should be noted that this umbrella contract ended on December 31, 2019, and Pelephone, as well as the other cellular operators, and the Israel Land Authority have reached agreements regarding the extension of the agreement, and on January 19, 2022, the decision of the Israel Land Council was published to extend the period of the roof 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 roof agreement.

f. Building permits for the construction of a transmission facility for cellular communications by virtue of National Outline Plan 36A:

   Licensing of the construction of cellular transmission sites subject to building permits, regulated by National Outline Plan 36A, which came into force in 2002.

   The licensing procedure according to NPA 36A requires, *inter alia*, the receipt of approvals as follows: A. Approval of establishment and operation by the Ministry of Environmental Protection, as specified in section 3.13.1; B. Approval of the Civil Aviation Administration, in some cases; C. IDF approval.

   In addition, according to the law, a condition for granting a permit for the establishment of a transmission facility for cellular communications is the submission of a letter of indemnity to the local committee in respect of claims for compensation for impairment. As of the date of this report, Pelephone has deposited approximately 650 indemnity letters with various local committees.

   Despite NPA 36A in its existing format, Pelephone (and to the best of its knowledge, also from its competitors) encounters difficulties in obtaining some of the necessary approvals, especially the approvals of the planning and construction authorities.

   In view of the criticism leveled against National Outline Plan 36A by various parties, a proposal to amend National Outline Plan 36 (the "**New National Outline Plan 36/A Proposal**") was published about a decade ago, which is stricter and heavier in relation to the wording in force, and may make it difficult to license cellular sites in this route. The amendment to National Outline Plan 36A has not been implemented in recent years, but the need and desire to make amendments to National Outline Plan 36A remains in place.

g. Access Facilities exempt from building permits:

The second route in which Pelephone has deployed broadcast sites so far is the Access Facilities route. The Access Facilities are subject to the receipt of individual radiation permits but are exempt from obtaining a building permit provided that they are established under the conditions set forth in the exemption directive (Article 266C (a) of the Planning and Construction Law (installation of a wireless access facility for cellular method), 5778-2018 and the regulations. However, in view of the amendment to the Planning and Construction Law set forth in the Arrangements Law and the self-licensing route according to it (see below), the route of the Access Facilities becomes redundant.

As of the date of the report, Pelephone operates about 460 wireless access sites.

It should be noted that in spot enforcement proceedings, which are taken from time to time, additional allegations arise regarding the manner in which the exemption is used, including compliance with regulations. To the extent that there are Pelephone facilities that do not meet the conditions set forth in the regulations, there is exposure in respect thereof if the dismantling or adjusting of those facilities becomes necessary.

On March 27, 2018, an exemption provision was added to the Planning and Construction Regulations (exemption from the permit) for a "miniature transmission facility", as defined in the regulations. The regulations further stipulate, among other things, that the installation of a miniature transmission facility and its external components on an existing building or facility is exempt from a permit subject to the existence of cumulative conditions. This provision will also be repealed in light of the amendment to the Planning and Building Law set forth in the Arrangements Law (see details below).

As part of the Arrangements Law, which entered into force on January 1, 2022, an amendment was received to the Planning and Construction Law, which includes the removal of regulatory barriers regarding the establishment of sites. The main amendment is the granting of an exemption from licensing procedures for placing and using facilities up to 6m on the roof of a building, an exemption for replacing a transmission facility, an exemption for adding an antenna to a transmission facility established under the Planning and Building Law and an exemption for replacing masts up to 18m high. The amendment to the Planning and Construction Law also includes a new classification of "transmission facilities for communications using the Thai method", as defined in Article 202B of the Planning and Construction Law, as "national infrastructure", and a new classification of NAP 36A as "a detailed national master plan for national infrastructure". The amendment to the Planning and Building Law facilitates the replacement of antennas, the addition of an antenna to existing sites, and the strengthening of masts. All, under the technical and practical conditions set out in the amendment. These facilities will continue to meet all the conditions of NAP 36 and spatial guidelines of the local committees, with the actual meaning of the amendment being the possibility of a "self-licensing" route - that is, performing a self-licensing and control procedure in the above cases, and submitting documents to the Planning and Construction Committee retrospectively (after the completion of the construction of the sites). Simultaneously with this amendment, an amendment was also established to the definition of "wireless access facility" in Article 27A of the Communications Law. As part of the aforesaid amendment, a "transmission facility for communication in the cellular method as defined in Article 266C2 of the Planning and Building Law" was removed from the definition of a "wireless access facility". This means that the wireless access facilities that were set up with an exemption from a permit continue to exist, but it is no longer possible to set up new mobile sites in the "access facilities" route, which is listed above).

As part of the report of the inter-ministerial committee that served as the infrastructure for amendments to the Arrangements Law, it was also recommended to update NPA 36A, which came into force about twenty years ago.

At this stage it is not possible to estimate the future consequences as a result of the amendments.

On November 14, 2021, Pelephone signed a framework agreement to expand the local collaboration in the establishment of passive infrastructure on joint mobile sites together with Cellcom and PHI Networks (2015) Limited Partnership. This agreement may help establish joint mobile sites. To the extent that regulatory approvals are required for this agreement, Pelephone will work to obtain them.

In conclusion:

A few sites that were established years ago still lack the approvals of the Civil Aviation Administration and the IDF, although the applications for approvals have already been submitted. Also, some planning and construction committees have administrative or other delays in issuing building permits to sites. Therefore, Pelephone operates a number of broadcasting sites that have not yet been issued building permits.

The establishment of a broadcasting site without obtaining a building permit is a violation of the law and in some cases this has led to the issuance of demolition orders or the filing of indictments or the filing of civil proceedings against Pelephone and some of its officers.

As of the date of the report, Pelephone has in most cases been able to avoid demolition or delay the execution of demolition orders within the framework of arrangements reached with the planning and construction authorities, in order to try to settle the missing license. These arrangements did not require a confession of guilt and / or a conviction on the part of Pelephone officials. However, there is no certainty that this situation will continue in the future, or that there will be no further cases in which demolition orders will be issued and indictments will be filed for building permits, including against officers.

Pelephone, like the other cellular operators in Israel, may be required to dismantle transmission sites for which the necessary approvals and permits have not yet been obtained in accordance with the deadlines set by law. Pelephone uses the access facilities to provide coverage and capacity in crowded areas. If a legal constraint is created for the simultaneous dismantling of the sites in a given geographical area, there may be a deterioration in the service in that area, until the establishment of alternative broadcasting sites.

3.14.4. Economic Competition Law

In the terms of the merger of Pelephone and the Company, various restrictions are anchored regarding cooperation between the companies (see section 2.16.8.4).

For the amendment to the terms of the Competition Commissioner in connection with the merger of the Company and DBS dated April 2021, see Section 2.16.8.

3.15. Material agreements

3.15.1. For agreements with Ericsson, see section 3.10.2.

3.15.2. In July 2016, an agreement was signed between Pelephone and the Accountant General of the Ministry of Finance, according to which Pelephone will provide cellular services to state employees in an estimated 100,000 subscribers over three years. Under the agreement, Pelephone provides devices to some Accountant General subscribers.

In May 2019, the state chose to exercise the extension option granted to it in the agreement, and the agreement was extended until August 2022.

3.15.3. Regarding an agreement with ILA (which expired and has not yet been renewed) see section 3.7.2.2.

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

3.16. Legal Proceedings[61]

During the day-to-day business, lawsuits were filed against Pelephone, including motions for approval of class actions.

3.16.1. Pending legal proceedings

The following is a list of the claims in which the amount claimed is material and claims that may have material consequences for Pelephone's operations:

	Date	Parties	Instance	Proceeding type	Details	Amount of the claim (NIS millions)
a.	May 2012	Customer vs. Pelephone	District (Tel Aviv)	Class action lawsuit	It is claimed that Pelephone does not inform customers who wish to join its services with a device that was not purchased from Pelephone, that as long as the device does not support the 850 MHz frequency, they will enjoy partial reception of one frequency and not two. In March 2014, the Court approved the lawsuit as a class action, following Pelephone's announcement regarding its consent (for reasons of efficiency) to the management of the lawsuit as a class action, while maintaining its claims. The procedure is split into two stages (the stage of clarifying liability and the stage of quantifying damages, as necessary in stage two). On January 20, 2019, a decision was given in the sale case under	About 124

61 For reporting policy and materiality thresholds, see section 2.18.

	Date	Parties	Instance	Proceeding type	Details	Amount of the claim (NIS millions)
					Pelephone's responsibility for the claim in the lawsuit, on the grounds of deception under the Consumer Protection Law and on the grounds of lack of good faith in negotiations, in relation to the period up to the date of the decision to approve the claim as a class action (March 2014). Depending on the decision and previous decision in the case the next step in the hearing of the case will be on the question of the alleged damage.	
b.	November 2013	Customer vs. Pelephone	District (Tel Aviv)	Monetary claim and a motion to recognize it as a class action	It is alleged that Pelephone does not provide benefits in the same way to all its customers, thereby discriminating between customers whom Pelephone preferred, as the plaintiff claims, other customers, contrary to Pelephone's license and the law. In December 2019, a ruling was given rejecting the motion without an order for expenses. An appeal was subsequently filed with the High Court.	About 300
c.	July 2014	Customer vs. Pelephone, three other cellular companies and additional respondents	District (Tel Aviv)	Monetary claim and a motion to recognize it as a class action	It was alleged that Pelephone, along with three other cellular companies, signed up subscribers to content services without their consent and illegally, thereby creating a "platform" that led the Accutech Group to charge tens of thousands of people for illegal content services.	About 100 in relation to the cellular companies and about 300 against all the defendants
d.	May 2015	Customer vs. Pelephone	District (Tel Aviv)	Monetary claim and a motion to recognize it as a class action	It is alleged that Pelephone does not offer the "Walla Mobile" routes to all its existing and joining customers who apply to switch to another route, in a manner that violates the license provisions that require equal treatment, thus misleading its customers. The proceedings in the case were merged with another case in view of the similarities between the proceedings. In December 2019, a judgment was rendered rejecting the motion without an order of expenses and an appeal was subsequently filed with the High Court.	The amount of the lawsuit is not specified, but in the application it is estimated at NIS million
e.	October 2016	Customer vs. Pelephone and Cellcom	District (Lod)	Monetary claim and a motion to be recognized as a class action	It is argued that the defendants do not allow their customers to take advantage of the full package abroad through discriminatory conditions acording to which the package can be redeemed for a very short period (between one week and one month only) when at the end of that period, the balance of the unused package expires and no refund is given for it. The parties are awaiting a Court ruling. On April 5, 2020 a judgment was rendered dismissing the motion. On June 29, 2020, an appeal was filed against the judgment by the petitioners for approval of the class action.	The amount of the lawsuit is not specified, but in the motion it is estimated at tens of millions of NIS
f.	April 2017	Customer vs. Pelephone	District (Tel Aviv)	Monetary claim and a motion to be recognized as a class action	It is alleged that the defendant unilaterally and without consent changed the terms of the agreement between itself and the applicant, and others like it, by allowing browsing to continue after exhausting the browsing volume included in the package instead of stopping it, contrary to Pelephone's notice on the issue	About 80

	Date	Parties	Instance	Proceeding type	Details	Amount of the claim (NIS millions)
g.	October 2017	Customer vs. Pelephone and Partner	Central District	Monetary claim and a motion to be recognized as a class action	It is alleged that the defendants are illegally using the location data of their clients and thus violating the contract agreements with them, the operating licenses and various laws, including the Privacy Protection Law, 5741-1981.	About 850
h.	April 2018	Customer vs. Pelephone	District (Tel Aviv)	Monetary claim and a motion to be recognized as a class action	It is alleged that Pelephone markets and sells to its customers a repair service with a commitment for unreasonable periods of time, without there being an option in the agreement to cancel the transaction during the commitment period and / or transfer the service to another mobile device.	The amount of the claim is not specified
i.	April 2019	Customer vs. Pelephone, Bezeq International and 6 other companies	Central District	Monetary claim and a motion to be recognized as a class action	It is claimed that the respondents do not inform their customers as required about the possible dangers of using the Internet and about the possibility of joining a free content filtering service, contrary to the provisions of the Communications Law. In addition, the respondents provide a website and offensive content filtering service that they claim is not effective enough. According to the petitioners, the aforesaid constitutes, *inter alia*, a violation of the provisions of the Consumer Protection Law, a violation of debts under the Torts Order, a breach of contract and unjust enrichment.	The amount of the lawsuit is not specified, but in the motion it is estimated at tens of millions of NIS
j.	January 2020	Customer vs. Pelephone	District (Tel Aviv)	Monetary claim and a motion to be recognized as a class action	It is alleged that Pelephone forces every customer who purchases from it, through the website or in the application on the mobile phone, a communication package abroad - which includes calls and / or Internet browsing, to give its consent to receive advertising messages from it.	The amount of the action is not specified

3.16.2. Legal proceedings concluded during the reporting period

	Claim filed	Parties	Instance	Proceeding type	Details	Original claim amount (NIS millions)
a.	August 2016	Customers vs. Bezeq	Tel Aviv District Court	A claim with a motion for approval as a class action	A motion alleging that Bezeq illegally and without consent charges a monthly fee for "support and / or warranty" services as part of the use of its Internet infrastructure, and unlawfully charges customers for this service, that Bezeq charged for Internet access services even after the end of the "bundle" package, and that Bezeq has added to the track a browsing speed that is not suitable for the existing infrastructure. On March 24, 2021, the motion was denied. In the ruling that dismissed the motion, the Court ruled, among other things, that the applicant did not bear the burden of proving, even at the apparent level of things, the existence of violations and / or injustices by Bezeq that would justify approval of the class action. Moreover, given the circumstances, there is no homogeneous class that has been harmed.	* Claim in unknown amount
b.	February 2017	Customers vs. Bezeq	Central District Court	Motion for approval as a class action	A motion which claims that Bezeq charged some of its customers for "antivirus service" while in practice it does not provide them with the service, and also that it begins to charge for the provision of the service from the conclusion of the agreement with the customers and not from the in fact provision of service. Accordingly, the applicant seeks to compel Bezeq to compensate Bezeq customers who purchased the service and did not actually receive it for the damages caused to them, including restitution of amounts collected for the service. On May 26, 2021, a	* No exact estimate, estimated at tens of millions of NIS

	Claim filed	Parties	Instance	Proceeding type	Details	Original claim amount (NIS millions)
					judgment was rendered confirming a settlement agreement in the proceeding between the parties. The settlement agreement includes compensation for service customers in the amount of NIS 30 million (this amount includes compensation to the applicant and fees), as well as benefits for service subscribers at an estimated cost of an additional NIS 5 million.	
c.	April 2017 and May 2017	Customers vs. Bezeq	Tel Aviv District Court	2 motions for approval as a class action	The matter of the motions is Bezeq's B144 service, a service that allows advertising to business owners via the Internet ("**the Service**"), and according to the applicant, the respondents illegally charged the subscribers for the service. On January 25, 2018, the Court decided, following motions filed by Bezeq and other respondents, to dismiss the first motion *in limine* on the grounds that the applicant does not meet the criteria set forth in the Class Actions Law, the existence of defects in the motion, and in view of the existence of the second motion, whose matter is similar to the first motion (an appeal against this decision was dismissed). On April 4, 2021, a judgment was rendered confirming a settlement in the case. The settlement arrangement is an insignificant cost to Bezeq of approximately NIS 2 million and includes partial compensation to the members of the plaintiffs' class for the collection of exit fees from the Service.	* The amount of the claim cannot be estimated
d.	December 2019	Customer vs. Bezeq	Tel Aviv District Court	Motion for approval as a class action	It was alleged that Bezeq attached the applicant, when ordering a regular telephone line, also to another service (voicemail and caller ID) without his knowledge and without requesting it. Accordingly, the applicant seeks to include in the definition of the class of plaintiffs in whose name the class action is sought all those charged by Bezeq for ancillary service to telephone service without Bezeq receiving his request and / or express consent to order the ancillary service, in the seven years prior to approval. On May 18, 2021, the Court issued a ruling ordering the striking out of the motion for approval following the applicant's motion, after the applicant was found unsuitable to serve as a representative plaintiff in the proceedings. That ended the procedure.	Cannot be estimated at this stage, and is over NIS 2.5 million
e.	May 2020	Customers vs. Bezeq	Tel Aviv District Court	Motion for approval as a class action	It is alleged that Bezeq misled customers who joined the B144 online business service (advertising for businesses online through the B144 website) ("**the Service**") into thinking that the cost of the service depends on actual usage up to a billing ceiling, while actually charging its customers the ceiling even if they actually used less. Accordingly, it is requested to include in the definition of the class of plaintiffs, in whose name the class action will be conducted, all Bezeq customers and / or subscribers who registered and joined the service packages of all kinds from the date the service was marketed by Bezeq and who were charged in excess. The motion or the statement of claim does not include an explanation or calculation in relation to this amount, except for the indication in the body of the motions that "these are thousands or tens of thousands of consumers." In addition, non-pecuniary damage was generally claimed. On May 8, 2021 a decision was given by the Court that the applicant's request to amend the motion for approval of a class action by way of	"NIS 27,537 per applicant and any future amount to be crystallized for all members of the class" (Next to which is handwritten "NIS 908,721,000")

	Claim filed	Parties	Instance	Proceeding type	Details	Original claim amount (NIS millions)
					replacing the representative plaintiff in the motion was denied (especially after the applicant was found unsuitable to serve as a class action plaintiff) and thus ended the proceeding. It should be noted that in May 2021 a new motion was filed for approval of a class action in the same matter which was filed by another applicant with the Tel Aviv District Court (see Section 2.18.1).	
f.	October 2020	Bezeq Shareholder VS. Bezeq and Bezeq International	Jerusalem District Court	Motion for disclosure and review of documents prior to filing a derivative claim	A motion in the framework of which an order addressed to the respondents for disclosure and review of various documents regarding collection from Bezeq International customers was requested. According to the clains in the motion, the respondents made false representations that led to an inflation of Bezeq International by including in their reports "dormant subscribers" who do not use Bezeq International's services but continue to pay it a subscription fee. For this matter, see also Section 4.4. On December 29, 2021, the Court dismissed the claim in light of the applicant's notice of withdrawal.	

3.17. Targets and business strategy

Pelephone's strategic targets are continued growth in its customer base while promoting a variety of packages and solutions to customers and promoting services based on the 5G network, continuing to develop innovation and network technologies and providing excellent service and improvement in the cost structure.

3.18. Expected development in the coming year

In 2022, a number of factors are expected to affect Pelephone's activity, the main ones being:

3.18.1. Continuing competition and increasing the value to the customer

Pelephone expects that in 2022, the competition will focus on increasing the value and volume of browsing to the customer in the packages offered to him.

3.18.2. Cellular network innovation and products

In 2022, Pelephone is expected to continue to promote a number of services and products that will enable increased revenue and image advantage over competitors: private networks, cyber and IoT services and continued focus on large device launches, at the same time as the implementation of the deployment plan of the 5G network.

3.18.3. Increasing service consumption by Pelephone subscribers

Pelephone expects that as a result of an increase in the volume of browsing included in the packages, and increasing the marketing of service packages based on the 5G network, the trend of increasing the consumption of data communication volume on the network will continue.

3.18.4. Digital transformation

In 2022, Pelephone is expected to continue to develop and expand its digital service and sales channels.

3.18.5. Synergies with the subsidiaries in the Group

In 2021, Pelephone continued to implement synergy 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 the deployment of the 5G network, and promote the marketing and sale of services based on this technology.

Pelephone's assessments regarding developments in the coming year presented in this section above are forward-looking information within its meaning in the Securities Law. These assessments are based, among other things, on the state of competition in the cellular field, the existing regulatory situation and the manner in which the new regulatory changes are implemented. These assessments may not materialize, or materialize in a materially different way than described above, depending, *inter alia*, on the structure of competition in the market, changes in the consumption habits of cellular customers, technological developments and regulation begun in the field.

3.19. Discussion of risk factors

The following are risk factors arising from the macroeconomic environment, the unique characteristics of the industry in which Pelephone operates, and risk factors unique to Pelephone.

3.19.1. Macroeconomic risk factors

3.19.1.1 Exposure to changes in exchange rates - Pelephone is exposed to risks due to changes in exchange rates as most purchases of end equipment, accessories, spare parts and infrastructure are made in US dollars, while Pelephone's income is in shekels. Erosion of the shekel against the dollar could hurt Pelephone's profitability if it is not possible to adjust selling prices in the short term. Also, changes in price indices may affect site rental costs.

3.19.1.2 Epidemic and supply chain - at the beginning of 2020, an outbreak of the COVID-19 virus began worldwide, which is an incident with many consequences, including macroeconomic. Following the pandemic, many countries, including Israel, are taking significant steps in an attempt to prevent the spread of the virus, such as restrictions on civilian movement and gatherings, employment restrictions, transportation restrictions on passengers and goods, closing borders between countries and so on. As a result, the event and the actions taken as aforesaid have significant implications for many economies as well as for the capital markets in the world. During 2020, as a result of the COVID-19 crisis, there was a significant damage to revenue from migration services. Along with this decrease, Pelephone took extensive measures to reduce expenses, which partially offset the decrease in these revenues. In 2022 there was a partial recovery from this impairment, given the mitigation of the consequences of COVID-19. 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 to limit the spread of the virus will continue at varying intensities during 2022 along with a long and gradual recovery in aviation and international tourism. In accordance with and subject to the above assumptions, Pelephone anticipates that the impact of the COVID-19 pandemic on its operations will be primarily reflected in declining revenues from roaming services in relation to the same revenues in the period before the pandemic, as a result of the effects of the pandemic on aviation and international tourism, with no significant adverse effects in other areas of activity. At the same time, this is a variable incident that is not controlled by Pelephone, and therefore the continuation of the crisis or its exacerbation beyond Pelephone's assumptions as detailed above, as they occur, may have a material adverse effect on Pelephone's results. These effects may be reflected, *inter alia*, in the injury, in addition to the assessments as stated above, in income from roaming services. The prolongation or exacerbation of the crisis may also affect revenues from the sale of end equipment, employee availability, customer service and technician activity systems and the supply chain.

3.19.1.3 Damage caused by *force majeure*, war, disaster - damage to the switching farms and / or servers on which Pelephone concentrates its core activity, may adversely affect Pelephone's business and its results.

3.19.2. Industry risk factors

3.19.2.1 Infrastructure investments and technological changes - the cellular market in Israel and around the world is characterized by significant capital investments in the deployment of infrastructure. Frequent technological changes in the field of infrastructure and end equipment, as well as the difficult struggle over various market segments, impose high costs on the companies operating in the market, which are forced to update their infrastructure technologies from time to time.

3.19.2.2 Competition - the cellular market in Israel is characterized by saturation in the penetration rate, fierce competition and a high number of operators, and is also exposed to effects as a result of technological and regulatory developments. The costs of setting up, maintaining and operating the cellular network in relation to the number of subscribers are expected to be higher in Pelephone in light of the fact that it does not operate in the network sharing model. The end equipment market is also characterized by fierce competition between cellular operators and in front of stores that sell end equipment in parallel imports.

3.19.2.3 Customer credit – a significant portion of the sales of end equipment is done by granting credit. The vast majority of this credit that is not covered by collateral is at risk. It should be noted, however, that the credit is spread among a large number of customers and Pelephone has efficient and experienced collection mechanisms.

3.19.2.4 Regulatory developments - in the field of Pelephone's activities, there is a trend of legislation and standards in connection with issues such as increasing competition, setting rates, the environment, product warranty and ways of repair thereof, regulating interconnectivity rates and more. The regulatory intervention in the field of activity may materially affect the structure of competition and the operating costs of Pelephone.

3.19.2.5 Electromagnetic radiation - Pelephone operates hundreds of transmission facilities and sells end equipment that emits electromagnetic radiation (see section 3.13). Pelephone works to ensure that the levels of radiation emitted from the transmission facilities and end equipment sold by it do not exceed the permissible radiation levels according to the guidelines of the Ministry of Environmental Protection (determined in accordance with international standards). Although Pelephone operates in accordance with the guidelines of the Ministry of Environmental Protection, if it turns out that there are health risks or if there are deviations from the radiation facilities at the transmission sites or end equipment, which has a health risk, this may have an adverse effect due to reduced use of Pelephone services, difficulty in renting sites, claims for compensation for bodily and property damages to a considerable extent and attempts to implement indemnity deeds deposited by planning institutions in connection with Article 197 of the Planning and Construction Law. Pelephone's third party insurance policies do not currently cover insurance for electromagnetic radiation.

3.19.2.6 Website licensing - construction and operation of cellular antennas, requires building permits from the various planning and construction committees, a procedure that requires, among other things, obtaining a number of approvals from government bodies and series bodies. For a list of the difficulties encountered by Pelephone in setting up and licensing websites, see section 3.14.3. These difficulties can impair the quality of the existing network and even more so the deployment of a new network.

3.19.2.7 Serious faults in the information systems and engineering systems - Pelephone provides its services through various infrastructure systems, including, among others, switches, data transmission and access transmission networks, cables, computer systems, physical infrastructure and more (“the systems"). Pelephone businesses have a high dependence on these systems. Some Pelephone systems have backup, but at the same time, in the event of damage to some or all of the above systems, either due to a large-scale technical malfunction, due to a natural disaster (such as an earthquake, fire, etc.), or due to damage to physical infrastructure and due to malicious damage (such as the introduction of viruses and cyber attacks as detailed below), there may be significant difficulties in providing services, including in the event that Pelephone is unable to return the systems to service quickly.

3.19.2.8 Information security, customer data protection and cyber risks - as a leading cellular company that provides service to hundreds of thousands of customers, Pelephone is a target for cyber attacks, which aim to harm the use of information systems or the information itself. This type of assault activity or intrusion event may cause business disruption, information / money theft, damage to reputation, damage to systems and information leakage.

Pelephone is experiencing cyber attacks handled by it. Pelephone operates information security systems to protect against the intrusion of an unauthorized person into the network and / or critical systems. Pelephone monitors the implementation of its protection policy, which includes an examination of its level of effectiveness and readiness. In this context, Pelephone performs tests and assault drills for various scenarios (including through external companies that specialize in the field).

An additional risk is posed by information leaking out of the organization by a Pelephone employee, accidentally or maliciously. Pelephone implements strict internal corporate information security policies and procedures in order to reduce the risk of information leakage.

Despite Pelephone's investments in measures to reduce such risks, it is unable to guarantee that these measures will succeed in preventing damage and / or disruption to the systems and information related to them.

3.19.2.9 State of emergency - in times of emergency, certain provisions of the legislation and provisions of the mobile radio telephone license allow persons authorized under the law to take steps required to ensure state security and / or public safety, including: charging Pelephone (as a mobile radio telephone license holder) to give service to the security forces, comandeering of engineering equipment and facilities of Pelephone, and even taking control of the system.

3.19.2.10 Lack of frequencies - for details on the lack of frequencies, see section 3.8.2.1. In many cases, frequency allocation is carried out through tender procedures, in a manner that may increase the costs of purchasing the frequencies and place the cellular companies that do not receive the allocation as part of the tender at risk of competitive inferiority.

3.19.3. Risk factors of Pelephone

3.19.3.1 Property risks and liabilities - Pelephone is exposed to various property risks and liabilities. Pelephone is assisted by an external insurance consultant who is an expert in the field. Pelephone has insurance policies that cover the risks that are acceptable to them, Pelephone is subject to the limitations of the terms of the policies, such as: various property insurance, various liability insurance, loss of profits, third-party liability insurance and officers' insurance. However, Pelephone's insurance policies do not cover certain types of risks, including certain malfunctions caused by negligence or human error, radiation risks, terrorism and more.

3.19.3.2 Serious faults in the cellular network - Pelephone's cellular network is spread throughout Israel through the network's core sites, antenna sites and other systems. Pelephone’s sytems are completely dependent on these systems, which are sometimes, temporarily, in a state of partial survival. Malicious damage or malfunction on a large scale can adversely affect Pelephone’s business and its results.

3.19.3.3 Epidemic malfunctions in devices - various exposures resulting from Pelephone's liability as an importer due to manufacturer malfunctions in devices that will not be supported by the manufacturers.

3.19.3.4 Legal proceedings - Pelephone is a party to legal proceedings, including class actions, which may result in a charge of substantial amounts, which cannot be estimated, and no provision has been made for some of them in Pelephone’s financial statements. These class actions can reach large sums, as a substantial portion of the state's residents are consumers of Pelephone, and a claim relating to a small damage to a single consumer may become a material claim to Pelephone if it is recognized as a class action applicable to all or a significant portion of consumers.

3.19.3.5 Significant suppliers and customers - for agreements with significant suppliers and customers, see sections 3.10 and 3.15. Some of Pelephone's agreements, including with its key customers, are timed. There is no certainty that these agreements will be renewed at the end of their term or that options granted to customers to extend them will be exercised. In addition, Pelephone may be dependent on certain suppliers as specified in the Section 3.10.2.

3.19.3.6 Labor relations - Pelephone has a collective agreement with the Histadrut and the Employees' committee, which effects most of its workers. The collective agreement may reduce administrative flexibility and impose additional costs on Pelephone (see section 3.9.4). In addition, the implementation of personnel-related plans may cause unrest in labor relations and harm to Pelephone's ongoing operations. Regarding labor disputes at Pelephone, see Section 3.9.5.

3.19.3.7 Loss of knowledge and information - the changes that are taking place in the labor market in Israel and around the world, along with organizational changes, entail a risk of losing key employees, loss of knowledge as a result of employee turnover, difficulty in recruiting employees, etc.

3.19.3.8 Impairment of Pelephone properties- in accordance with accounting standards, Pelephone conducts a periodic examination of the impairment of assets in respect of which indications of impairment have been identified. For details on the risk factor relating to the recognition of impairment losses, see Section 2.20.12.

3.19.3.9 Frequency ranges - the 700, range 850, range 1800, range 2100, range 2600 and 3500 MHz ranges. The frequencies are exposed to interruptions that may affect the quality of service of the networks operated by Pelephone. Among the other reasons that may cause interruptions, it should be noted that the 850 range is also used for terrestrial television broadcasts, so that television stations broadcasting in the Middle East in the same range of frequencies cause interference on Pelephon's UMTS / HSPAAt 850 MHz network. In addition, the Jordanian networks also use the same frequency range of 2100 MHz that Pelephone uses and in light of the limited cooperation between the operators in Jordan and Pelephone, this may have an effect. In addition, Pelephone must avoid interfering with satellite broadcasts made at several points in Israel at 3500MHz frequencies, which limits the operation of 5G services around these points.

For details on the implications of switching frequencies in the first giga field, see section 3.8.2.3.

3.19.3.10 Maintaining a sufficient cash flow - Pelephone must maintain a sufficient cash flow in order to meet its long-term business plan. The lack of sufficient cash flow may adversely affect Pelephone's business and its ability to make large-scale online investments, and may make it difficult for it to cope with competitive threats in the field.

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

<u>Risk factors summary table - cellular telephony</u>

	The extent of the impact of the risk factor on Pelephone's operations as a whole		
	High effect	**Medium effect**	**Small effect**
Macro risks			
Exposure to changes in exchange rates		X	
Epidemic and supply chain	X		
Damage due to *force majeure*, war, disaster	X		
Industry risks			
Infrastructure investments and technological changes		X	
Competition	X		
Customer credit		X	
Regulatory developments	X		
Electromagnetic radiation			X

Website licensing		X	
Serious malfunctions in information systems and engineering systems	X		
Information security, customer data protection and cyber risks	X		
Economic emergency	X		
Lack of frequencies		X	
Risk factors of Pelephone			
Property risks and liabilities			X
Serious malfunctions in the cellular network	X		
Epidemic malfunctions in devices			X
Legal proceedings		X	
Substantial suppliers and customers		X	
Labor relations		X	
Loss of knowledge and information	X		
Impairment of Pelephone's assets			X
Frequency ranges	X		
Maintaining sufficient cash flow			X

The information contained in section 3.19 and Pelephone's assessments regarding the effect of the risk factors on Pelephone's activities and business, are forward-looking information as defined in the Securities Law. The information and assessments are based on data published by the Ministry of Communications, Pelephone's assessments of the market situation and the structure of competition in it and regarding possible developments in the Israeli market and economy. The actual results may differ materially from the estimates given above if there is a change in one of the factors taken into account in these estimates.

4. Bezeq International - Internet, international communications and network endpoint services

4.1. General

4.1.1. The structure of the field of activity and changes that apply to it

Bezeq International operates in a number of key areas: the provision of Internet access services (ISP); International telephony services; Interior telephony services; network endpoint services; as well as providing ICT solutions (information and communication systems), DATA (data communication) and PBX services (switchboards).

Regarding regulatory changes in the Internet services market for private customers, which are expected to materially affect Bezeq International's activity in this market, see section 4.11.5.4.

4.1.2. Legislative and regulatory restrictions that apply to Bezeq International

Most of Bezeq International's areas of activity are regulated mainly by the Communications Law and regulations thereunder, and the terms of the license granted to Bezeq International (see section 4.11).

Regarding major developments in the regulation applicable to Bezeq International, see section 4.11.5.

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

For data on changes in the scope of Bezeq International's operations and its profitability, see sections 1.5.4.3 and-4.3.

4.1.4. Developments in the market and in customer characteristics

The international call market in Israel has been characterized in recent years by a decrease in the number of call minutes (inbound and outbound), mainly due to the multiplicity of free apps that allow calls over the Internet. The erosion trend in the international call market continued in 2021.

4.1.5. In the field of ICT services, there was an increase in 2021 in demand for hosting services in server farms, as well as for the public cloud services of international companies.

4.1.5.1 The main barriers to entry into the international call market are the need to obtain a license under the Communications Law and make investments in infrastructure (the volume of investments required in infrastructure is lower than the investments in NIO or cellular infrastructure), affected by frequent technological changes. In IPV technology in this area, the impact of these barriers is significantly reduced.

4.1.5.2 The main barrier to entry into the DATA and Internet services market is the need for infrastructure investments (international capacity, Internet access) and a wide range of services.

4.1.5.3 The main barriers to exit from these markets stem from long-term and binding agreements with infrastructure providers and from investments that require a long time to return. In addition, Bezeq International is committed to providing service to its customers during the contract period with them.

4.1.6. Substitutes for Bezeq International products and the structure of competition in the international call market and changes that apply to it

In the international call market - the use of VoIP technology, the transfer of international calls over the Internet to other users of this technology, as well as to the users of the TDM networks, through the use of software products (such as Skype, WhatsApp or Zoom) and in the services of telecommunications providers abroad, as well as the attractive rates of use of these services (including the absence of usage fees) lead to a continuous increase in the number of users, and as a result - to harm to Bezeq International's revenues. At the same time, there are currently more than ten international operators, licensed to provide international Bezeq services by the Ministry of Communications.

4.1.7. The structure of competition in the Internet market and the changes that apply to it

In the field of Internet access services (ISP), diverse licenses have been provided so far to provide access services to 80 companies, who may also provide, *inter alia*, International operator services.

For more details regarding competition in the field of activity, see section 4.6.

4.2. Products and services

The following is a list of Bezeq International's main products and services:

4.2.1. Internet services

In the field of Internet services, Bezeq International provides: **Internet access services** (ISP) for private and business customers, including the provision of required end equipment and support based on DSL, transmissions or cables infrastructure, Internet access services are provided by Bezeq International in the following configurations: (a) "Retail market" services: Internet access service, without infrastructure services; (B) "Wholesale Market" services: an integrated package that includes an Internet access service together with the Internet infrastructure service of the infrastructure companies included in the wholesale market reform; (C) "Bundle" or "Reverse Bundle" packages: a combined package that includes an Internet access service together with Bezeq's Internet infrastructure service, provided by Bezeq International (in the case of a bundle) or by Bezeq (in the case of a reverse bundle); And (d) packages that include Bezeq International's Internet access services, Bezeq's infrastructure services and DBS's STING TV brand - a television services platform based on the Internet (along with Internet access services), and in addition, DBS markets the Internet access services of Bezeq International.

Bezeq International provides the above-mentioned Internet services mainly through a fully and exclusively owned underwater cable between Israel and Italy (JONAH) launched in December 2011, and through underwater cables owned by other companies, from which Bezeq International acquires capacities (see details in Section 4.9). Among the largest ISP providers operating in Israel, Bezeq International is the only one that owns an underwater cable. The ownership of the underwater cable frees Bezeq International from its dependence on infrastructure providers, and also enables it to offer its customers better quality browsing performance.

It should be noted that revenues from Internet services are expected to be materially harmed as a result of the Ministry of Communications' decision to abolish the separation between broadband infrastructure service and Internet access service (ISP) (see Section 4.11.5.4).

4.2.2. VOICE services (telephony)

In the field of VOICE services, Bezeq International provides: Direct international dial-up services (IDD) to business and private customers; Free international dial-up service for business customers; international calls routing and termination services (Hubbing) - Transferring international calls between foreign communication providers (world-world); Calling card service, which allows dialing from Israel to abroad and from abroad to Israel. In addition, Bezeq International provides interior telephony services.

4.2.3. International data Services

Providing international data communication solutions for business customers, including global deployment, according to customer needs.

The services are provided through Bezeq International's underwater cable and the optical cables deployed from Israel to Europe, in which Bezeq International has long-term use rights, as well as through its business partnerships with telecommunications providers which provide its customers with global network services.

In addition to the above services, Bezeq International offers holders of licenses to provide international Bezeq services and Internet access licenses, international capacity (in the form of rent, or purchase of indefeasible use rights), based on Bezeq International's underwater cable and use rights in continental Europe and other international networks.

4.2.4. ICT solutions for business customers

Bezeq International provides ICT (information and communication systems) solutions to business customers. The ICT solutions for the customer includes extensive communication services that include server hosting services, maintenance and technical support services for IT and communication systems, networking and system services, security & risk management solutions, IP-based managed services, Cloud computing services, licensing for Microsoft Public Cloud services, online backup and disaster recovery services, setting up wireless networks at the customer site and equipment sales. Bezeq International adopts a broad customer service model, with one contact vis-à-vis the customer and it takes comprehensive responsibility for the entire service ("one supplier, one responsibility").

4.2.5. PBX Services (swithcboards)

Bezeq International markets and maintains communication systems that include exchanges, telephony networks and IP communications for its business customers. As part of the service contracts, Bezeq International provides maintenance services from a variety of PBX manufacturers. The services are provided to lobbies, exchanges and network terminals (endpoints), for extensions intended to be used on both outbound and inbound lines.

4.3. Revenue

The following are data regarding Bezeq International's revenues (in NIS million):

	2021	2020	2019
Internet services	683	710	746
Rate of total Bezeq International revenues	55%	57%	56%
International communication	177	181	198
Rate of total Bezeq International revenues	14%	14%	15%
VOICE and Business Communication services (PBX, ICT, DATA)	142	131	106
Rate of total Bezeq International revenues	11%	10%	8%
Equipment, licensing and service contracts for businesses	235	249	289
Rate of total Bezeq International revenues	19%	20%	22%
Total revenue	**1,237**	**1,271**	**1,339**

4.4. Customers

Bezeq International has no dependence on a single customer, and has no customer whose revenues constitute 10% or more of its total revenues.

Below are data about the distributioin of revenue from private and business customers (NIS millions)[62]:

	2021	2020	2019

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

Revenue from private customers	372	401	441
Revenue from business customers	865	870	898
Total revenue	**1,237**	**1,271**	**1,339**

Regarding Bezeq International customers and their characteristics, the diverse consumption characteristics for purchasing Internet packages among the public have led to a certain percentage of customers purchasing as redundant ISP service from more than one ISP when in practice they use the services of only one ISP. On September 10, 2020, the Ministry of Communications wrote a letter to the carriers in which it raised concerns that some subscribers to Internet services or other services such as email box, do not use them and are not even aware of it. The Ministry recommended in its application to act to notify and stop charging subscribers who do not use these services, and also requested periodic reports on the matter, over the next 6 months. It was also written that the Ministry will consider in the future whether to set binding provisions in the matter, should and initiated actions will not lead to a significant reduction in this matter. On November 8, 2020, another letter was received from the Ministry of Communications, according to which the Ministry expects that the next reporting point (set for December 17, 2020), the reported data will reflect the reduction of the phenomenon in a significant manner, that a date should be provided at this time on how the licensee acts to prevent the recurrence of the phenomenon, and, like its previous letter, that as long as the phenomenon is not significantly reduced, the Ministry will take various actions, including establishing binding provisions in this regard. In Bezeq International's assessment, the abolition of the separation of infrastructure provider will lead to a significant reduction in the scope of the phenomenon.

For this matter, see also Note 10.6 to the 2021 reports. On motions for approval of class actions in this matter that were filed against Bezeq International, see Section 4.12.

4.5. Marketing, distribution and service

Bezeq International has sales channels for the private market, which include telephone recruitment and retention centers, nationally-deployed direct sales system, technical support systems and customer service, as well as a system of distribution channels, which includes external centers for resellers and dealers. The sales channels for the business market include customer recruitment centers and service centers and solutions for businesses and business customer managers. In addition, Bezeq International's services are also sold by Bezeq, as part of the marketing of basket of joint services - "Reverse Bundle" (see Section 1.7.2.3), and Bezeq International services are sold by DBS, as part of the marketing of "TRiple" packages (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 its market share in the field of Internet services as of December 31, 2021 at about 34%[63].

4.6.1.2 Competition in 2021 is characterized by a decrease in the number of retail market package subscribers, along with an increase in the "reverse bundle" package subscribers sold by Bezeq.

4.6.1.3 The following are developments in 2021:

a. Continued trend of selling service baskets, especially against the backgroundThe activity of a wholesale sales model (supplier + infrastructure) in 2021.

b. Competitors' focus on promoting browsing services at high browsing rates. Some of the competitors have launched browsing packages at a particularly high browsing rate, among other things through fiber-optic infrastructure deployed thereby. In 2021, Bezeq International began offering its customers packages with high browsing speeds through the Company's fiber infrastructure.

63 Bezeq International's assessment of its market share in the field of Internet access services is based on an external telephone survey conducted for Bezeq, and is not based on significant data held by Bezeq to date.

c. a decrease in customers joining the retail market services was recorded, and on the other hand there was an increase in joining "reverse bundle" packages.

d. The trend of selling "Triple" packages by competitors, which include, in addition to the television services, a provider and Internet infrastructure in a non-detachable basket of services continues.

4.6.2. International telephony services

4.6.2.1 As of the end of 2021, about ten companies are operating in the market (among them Bezeq International, Cellcom, Partner, Golan Telecom and Hot Mobile).

Bezeq International estimates that its market share in the field of outgoing calls from customers as of December 31, 2021 is approximately 22.6%[64].

4.6.2.2 General characteristics of the competition in 2020:

a. In 2021, the number of call minutes made through international telephony continued to decline, among other things, due to an increase in the use of various applications for making calls, as well as due to the service packages offered by cellular companies, which include international call minutes, including an increase in the use of services that enable online calls and meetings, while reducing the use of international telephony services.

b. Competition is focused on defined segments of the population who are more active in this field.

c. The product is a commodity (no brand importance).

4.6.3. Communication solutions for the business segment

4.6.3.1 In the field of ICT - Bezeq International faces competitors such as Bynet, Taldor, IBM and more. In 2021, Bezeq International continued to establish its position in the ICT market.

4.6.3.2 Network endpoint services - the traditional central area is characterized by a large number of competitors and fierce competition, which has led to the 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 services in cloud environments, and in view of the intention of giant companies 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 sub-marketers) of licensing Microsoft's cloud services to customers in Israel, and implementing these service solutions for customers.

4.6.4. Unique characteristics

Bezeq International promotes its business by emphasizing the distinction from its competitors, which stems from having its own international infrastructure (JONAH cable) that provides quality browsing performance, as well as its leading customer service.

The fact that Bezeq International does not own interior access infrastructures is a competitive disadvantage compared to competitors that control such infrastructures.

4.7. Property, plant and equipment and facilities

Bezeq International's property, plant and equipment include switching and Internet equipment, underwater cable, central equipment and routers for rent, office equipment, computers, software

64 Based on publications from the Ministry of Communications regarding the number of minutes spent in the second quarter of 2021.

licensing, and leased improvements. Bezeq International has five server farms throughout Israel.

Bezeq International has SoftSwitch switches from the Dialogic company. These switches are used to route Bezeq International's VOICE movement. Value-added services, including calling cards, are based on a smart (IN) system. Bezeq International is working to upgrade the CRM (customer management) system to an advanced platform in the Salesforce cloud together with Pelephone and DBS. Bezeq International has dependence on the Salesforce system and services, due to their importance for managing relationships with its customers. System failures or the cessation of services by this provider are likely to cause operational difficulty until the matter is rectified or the system / provider are replaced which may take a long time.

Bezeq International's technological infrastructures that support the voice, data and the Internet is deployed on a number of sites, in Israel and abroad, among others, to ensure, when necessary, high survivability for the provision of services.

Bezeq International has long-term agreements for the rent of the two main buildings that house its offices. For one of the buildings, the lease period is until March 2024, with a number of options for leaving for Bezeq International during the said period. The lease period in the other building is until December 2023 (with two equal options for extension until 2027).

Bezeq International has a lease agreement for a building with a server farm. The lease period is until August 2026, followed by two additional options for extension until 2036.

Bezeq International has additional lease agreements in connection with warehouses (including the logistics center), and buildings in which call centers are used for its operations.

4.8. Human capital

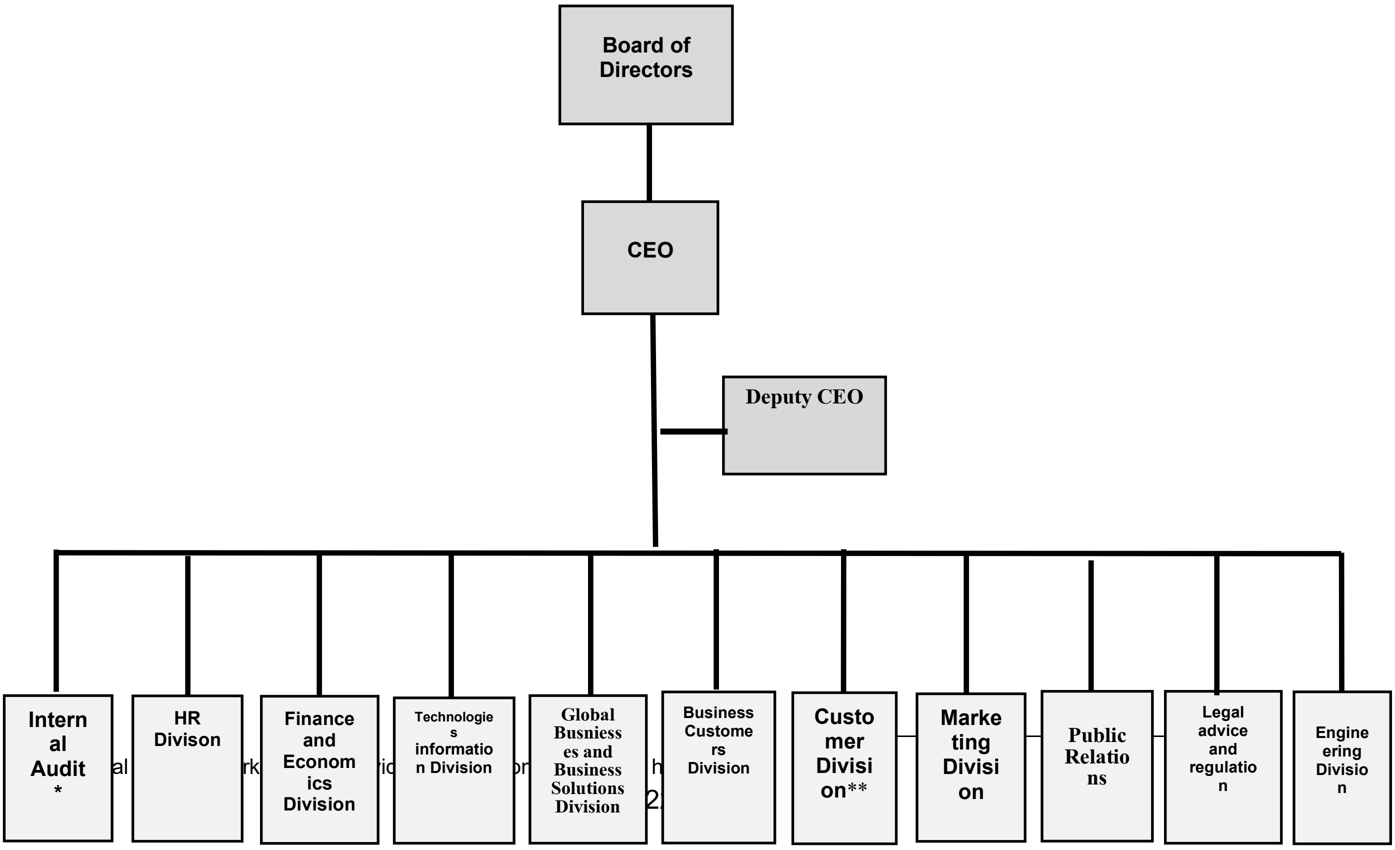
Below are details about the number of Bezeq employees International in years 2020 and 2021:

	31.12.2021	31.12.2020
Administrative employees	758	827
Service and sales representatives	363	484
Total	**1,121**	**1,311**

The number of employees included in the table includes employees employed part-time. Total jobs[65] Bezeq International as of December 31, 2021 was 1,047 compared to 1,228 as of December 31, 2020.

<u>Organizational structure</u>

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



(*) The internal auditor is a Pelephone employee.

(**) The director of the Private Customer Division is the Deputy CEO.

As part of the implementation of the synergy processes with the Group's subsidiaries, Bezeq International's CEO, Mr. Ran Guron, also serves as the CEO of Pelephone and DBS. In addition, most of the VPs who serve on Pelephone also serve as VPs at DBS and Bezeq International.

On July 11, 2019, Bezeq International signed a collective agreement between it and the Histadrut and the Employees' representation, which includes streamlining and synergy procedures for the period up to December 31, 2021. According to Bezeq International's plan and in accordance with the agreement, Bezeq International will, among other things, reduce the employment of up to 325 employees (of whom 150 are permanent, some as part of a voluntary retirement), in addition to the option of not recruiting employees instead of employees terminating their employment. The agreement also includes providing a one-time bonus to employees who will not be included in the retirement plan. The estimated cost of the agreement is about NIS 60 million, assuming the full realization of Bezeq International's rights to such stramlining and the existence of conditions for the provision of additional economic benefits to employees.

Regarding streamlining processes and internal organizational changes at Bezeq International, Pelephone and DBS, see section 1.8.

On November 28, 2019, Bezeq International received a notice from the chairman of the Histadrut and the Bezeq International Employees' Committee that included a demand for collective bargaining with the workers' representatives against the backdrop of the transaction to acquire control of Bezeq.

On October 11, 2020, Bezeq International was notified by the New Histadrut - the Internet and High-Tech Cellular Employees' Union, of a declaration of a labor dispute in accordance with the Labor Disputes Settlement Law, 5717-1957 and a strike from October 26, 2020 onwards. According to the Notice, the issues in the dispute are: Unilateral intention to make changes in the communications market and allow the Company to enter the field of ISP services and serve as an Internet provider, in a manner that could harm Bezeq International to the point of real closure and layoffs, changes in working conditions, rights, status, job security and organizational strength.

On March 24, 2021, Bezeq International was notified by the New General Workers' Histadrut - the Internet and High-Tech Mobile Workers' Union, of a declaration of a labor dispute in accordance with the Labor Disputes Resolution Law, 5717-1957 and a strike starting on April 7, 212 onwards. According to the announcement, the issues in the dispute are: Unilateral intention of Management to make organizational and structural changes in Bezeq International, including a merger, consolidation of activities, synergy, etc. with DBS and / or Pelephone, which, if implemented, will critically affect the employees, including working conditions, rights, status, job security, injury to the organizational force and the bargaining unit.

On June 23, 2021, the Bezeq International offices received a notification from the New General Workers' Histadrut - the Internet and High-Tech Cellular Workers' Union, declaring a joint labor dispute at Bezeq International and Pelephone in accordance with the Labor Disputes Resolution Law, 5717-1957, and a strike from July 7, 2021 onwards. According to what is stated in the announcement, among others, are: the refusal of the joint management of Pelephone, Bezeq International and DBS ("**the Joint Management**") to conduct negotiations regarding the change of the bargaining unit in connection with the change in the corporate structure; The refusal of the Joint Management to enter into negotiations to regulate the rights of Bezeq International employees and their job security due to the said change in corporate structure, and an action in bad faith of the Joint Management, including foreign and improper considerations in the corporate and structural change plan. On July 1, 2021, Bezeq International filed a petition with the Tel Aviv Regional Labor Court for a collective dispute, as well as an urgent motion for remedies for the prevention of organizational measures, regarding the notice. The motion alleges that the notice is invalid because it was submitted in a combined and unified manner in Bezeq International and Pelephone, in an attempt to produce a unilateral and unanimous change of collective bargaining units and the establishment of a joint employees' committee known as the "Alpha Committee" for the subsidiaries, including DBS. At a hearing held on July 4, 2021, it was agreed that (1) Pelephone and DBS, which were formal respondents in the proceedings, will be attached as petitioners in the proceedings; (2) Both Bezeq International and Pelephone will negotiate with their employees' committees regarding the sale of control of Bezeq; (3) Until a different decision is made, the respondents (the General Employees'

Histadrut and the Employees' committees at Pelephone and Bezeq International) will not strike due to the dispute over the sale of control. Regarding the bargaining unit, it was determined that the tribunal will give a decision, after submitting all the responses and providing an opportunity to question the makers of the affidavits.

On July 7, 2021, a decision was made by the tribunal on the consolidation of the hearing in the two disputes (sale of control and the bargaining unit). At a hearing held in the court on July 27, 2021, Bezeq International withdrew its request for interim relief, and it was agreed that the negotiations between the parties would continue under certain auspices of the Court. The main proceedings will continue to be clarified. In the meantime, the parties submitted additional statements of claim on their behalf, but the hearing of the motion was delayed by agreement in view of the negotiations and the mediation procedure between the parties as detailed below.

On August 2, 2021, the employee representations of Pelephone and Bezeq International began taking a variety of organizational sanctions, which according to the employee representatives' announcement have a direct connection to the synergies between Pelephone Bezeq International and DBS. On August 30, 2021, Bezeq International and Pelephone filed a motion as a party to a collective dispute and an urgent motion for temporary remedies against certain strike measures by the employees' representatives. On August 30, 2021, a decision was issued preventing a strike in control rooms, support centers, call centers and server farms and other issues specified in the motion. In another decision dated September 9, 2021, this order was extended until a different decision is made. The employees' representation continued to run other organizational measures.

In view of the continuation of the sanctions, on October 19, 2021, Pelephone and Bezeq International (each separately) (in this section: "**the Subsidiaries**") submitted to the Chief Labor Relations Commissioner in the Ministry of Economy a notice of protective shut-down under Article 5A of the Labor Disputes Law, 5717-1957. The notices explained that the continued sanctions in the subsidiaries may result in no economic reason and / or operational possibility for certain processes to take place in the Subsidiaries. The date of commencement of the protective shut-down and the number of employees whose work will be suspended as part of the said shut-down, insofar as it is taken in each of the Subsidiaries, depends on the organizational measures and sanctions to be taken by the employees.

On November 1, 2021, the Subsidiaries, as part of a mediation procedure conducted in parallel between the parties, reached agreements in principle with the Histadrut and the employees' representatives, subject to the signing of collective agreements, as well as an agreement that all organizational measures (including all sanctions) will cease immediately, and intensive negotiations will begin for signing collective agreements to regulate employees' rights as part of the implementation of the planned structural change at Bezeq International and DBS. The following are the main principles of the outline that was formulated:

a. A collective agreement will be signed between the new integration company to be established and the Histadrut.

b. Bezeq International activities that are not transferred to the new integration company will be merged into DBS and the employees will be absorbed as DBS employees under a collective agreement that will be signed with the Histadrut for three years. The Histadrut and the Chairman of the Bezeq International's Employees' Committee will continue to represent the employees moving to DBS and the integration company, for the period of the agreement, including for the purpose of signing collective agreements.

c. Permanent employees at Bezeq International who are not interested in moving to DBS will be offered retirement conditions as agreed between the Histadrut and Bezeq International's management.

d. An agreement was reached with Pelephone's employees' representation to maintain the cellular network owned by Pelephone for the period of the agreement.

e. Employees of the Subsidiaries will be entitled to a special grant 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. In parallel with this agreement, the Histadrut and the employees' representatives of the subsidiaries waive their financial demands in the context of the labor dispute declared regarding the sale of the controlling shares of the Company 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 approval by the boards of directors of the Subsidiaries. Bezeq cannot assess at this stage whether, at the end of the negotiations, the collective agreements will be signed as expected, or the total cost that will be involved.

It should be noted that on March 16, 2022, decisions were made by Bezeq's Board of Directors as well as Bezeq International's and DBS 'boards regarding the cancellation of the plan to change the organizational structure and approval of an alternative plan as specified in Section 1.1.5, which is expected to influence the continuation of conflict management and negotiations between the parties regarding structural change.

4.9. Suppliers

4.9.1. Foreign operators

Bezeq International has collaborations with about 200 foreign operators, as part of which Bezeq International forwards and receives international telephone calls from these operators (including calls leaving Israel, entering Israel, and calls between various destinations outside Israel) to about 240 destinations worldwide.

4.9.2. Capacity providers

Most of the interior capacity used by it for the purpose of providing its services is purchased by Bezeq International from Bezeq.

Most of the international capacity that Bezeq International uses is transmitted through the underwater cable it owns. As a backup, Bezeq International uses the capacity purchased from Med Nautilus and Cyprus Telecommunications Authority (CYTA).

As part of its engagement with Med Nautilus, Bezeq International acquired the indefeasible right of use, in an indefinite and non-specific attribution, in the communication capacity transmitted through the underwater cable system operated by Med Nautilus between Israel and Europe, and continued capacity over the Company's ground infrastructure to a number of communication nodes in Europe. The use periods were extended until July 2030. For the said use rights, Bezeq International paid one-time payments, close to the date of commencement of the use of the capacity.

As part of its engagement with CYTA, Bezeq International has acquired indefeasible right-of-use, in an undefined part and with a non-specific attribution, in the communication capacity transmitted through the underwater cable system operated by CYTA between Cyprus and Europe. The period of use is at least until May 2022, with an option of extending the period.

In addition, Bezeq International acquired indefeasible right-of-use of the non-residential parts in an unspecified part and no specific attribution can be attributed to the communication capacity transmitted through terrestrial infrastructure in Europe from GTT Communications Inc., for the purpose of bridging Bezeq International's submarine cable to communications nodes in Europe. The period of use of these infrastructures is at least until 2026, with the possibility of extending the period.

4.9.3. Hosting service providers

Bezeq International acquires hosting services in long-term agreements with a number of server farm facility operators, mainly for the purpose of providing hosting services to business customers:

As part of an agreement signed in 2011, Bezeq International purchases Bezeq’s hosting services at Bezeq's server farm facility. These services are mostly used to provide hosting services to business clients. The agreement is valid until 2024 for certain parts of the facility, and for other parts until 2033.

As part of an agreement signed in 2019 with Edgar Investments and Development Ltd., Bezeq International acquires hosting services at this Bezeq server farm facility. The agreement is valid until 2041, with an option to terminate early in 2034. These services are used to provide hosting services to business customers.

As part of an agreement signed in 2021 with CerberPharm Bnei Zion Limited Partnership, Bezeq International will purchase hosting services at a server farm facility under construction by this partnership. The agreement is valid until 2039, with options for extension until 2047. These services are expected to be used to provide hosting services. For business customers.

4.10. Taxation

See Note 7 to the 2021 statements.

4.11. Restrictions and supervision of Bezeq International's activities

4.11.1. Restrictions by virtue of laws

According to the Communications Law, performing Bezeq operations and providing Bezeq services, including international Bezeq services and Internet access services, require a license from the Minister of Communications. The Minister is authorized to change license terms, add to them or derogate from them, while considering, among other things, government policy in the field of Bezeq, considerations in the public interest, adjusting the licensee to provide services, the license contribution to competition in the field of Bezeq and its level of service.

The law authorizes the Director General of the Ministry of Communications to impose financial sanctions due to various violations of the provisions of the law and of orders and provisions issued under it, as well as due to violation of conditions in the license.

4.11.2. Licenses

Bezeq International has a unified general license for the provision of Bezeq services (the "Unified License"), which is valid until May 2, 2025.

The following are the main instructions from the unified license:

a. In certain circumstances, the Minister may change the terms of the license, add to them or detract from them, and in some cases even revoke it.

b. The license is not transferable and includes restrictions on the purchase or transfer (including by way of lien) directly or indirectly of control of 10% or more of any means of control in Bezeq International, including the lien of such means of control, unless prior consent of the Minister.

c. Bezeq International must provide an interconnectivity service on equal terms to any other operator and must avoid any discrimination in performing interconnectivity.

d. Bezeq International must refrain from preferring the provision of infrastructure services to a licensee who is an affiliated company (as defined in the license) over another licensee.

e. Bezeq International may not sell, rent, or mortgage property from the properties used to carry out the license without the consent of the Minister of Communications, except for certain exceptions set forth in the license.

f. In times of emergency, a person authorized to do so by law has the authority to give Bezeq International various instructions regarding the manner in which it operates and / or the manner in which the services are provided.

g. The license specifies the types of payments that Bezeq International may charge its subscribers for Bezeq services, and the reports it must provide to the Ministry of Communications. The license also stipulates the authority of the Minister to intervene in rates, in some cases.

h. The license requires Bezeq International to have a minimum level of service.

In accordance with the requirement of the Ministry of Communications, Bezeq International provides a bank guarantee, in the amount of NIS 2 million, to fulfill the conditions of the unified license.

4.11.3. Real estate authority - On July 9, 2014, the Minister of Communications granted Bezeq International the powers related to real estate, which are listed in Chapter F of the Communications Law, including entering the land for the purpose of laying a network and maintaining it (see section 2.16.5).

4.11.4. Payments for interconnectivity

In the matter of interconnectivity fees paid to the NIO and the cellular operator, see section 1.7.4.1.

4.11.5. Major regulatory developments

4.11.5.1 For possible changes in the communications market that also affect Bezeq International following the Competition Expansion Policy document, see section 2.16.4.1.

4.11.5.2 For decisions made in connection with the "wholesale market" which also have implications for the field of activity, see section 2.16.4.

4.11.5.3 Regarding the decision of the Ministry of Communications regarding the elimination of the need to split the "reverse bundle", see section 1.7.2.3.

4.11.5.4 Also, regarding the decision of the Ministry of Communications at a hearing dated June 20, 2021 on the abolition of the separation between broadband infrastructure service and Internet access service (ISP), 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 in the field of the Internet. Bezeq International is preparing for its possible effects on its business and its manner of operation.

4.12. Legal proceedings[66]

During the day-to-day business, lawsuits were filed against Bezeq International, including motions for approval of class actions.

4.12.1. Pending and current legal proceedings

	Date	Sides	Court	Type of procedure	Details	Claim amount (NIS millions)
a.	January 2015	Client against Bezeq International	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is argued that the "Moreshet" content filtering service provided by Bezeq International to paid customers in the religious and traditional segments does not protect users from offensive content, and that as a result of their exposure to this content, they were harmed. In addition, it was argued that Bezeq International should compensate customers who purchased content filtering services and were not offered the basic filtering service, which is provided at no additional charge. In April 2018, the Court partially approved the lawsuit as a class action (the part concerning additional compensation in the amount of NIS 1,000, for each of the school students who use the website filtering software was struck out).	About 61, plus NIS 1,000 per group member (each student in the Israeli education system)
b.	March 2016	Client against Bezeq International and other communications companies	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged, among other things, that Bezeq International sells its customers Internet browsing speeds, even though the infrastructure at their place of residence does not allow them to reach this speed. In January 2021, the Court upheld the claim as a class action.	Unspecified
c.	April 2019	Client against Bezeq International and other communications companies	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged that Bezeq International does not inform its customers as required about the possible dangers of using the Internet and about the possibility of joining a free content filtering service, in violation of the provisions of the Communications Law. In addition, Bezeq International provides a website filtering service and offensive content that the applicants claim is not sufficiently effective.	Unspecified
d.	October 2020	Client against Bezeq International	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged, among other things, that Bezeq International charges its customers payments for services that it does not provide to them, ostensibly knowing that the customer has replaced the Internet provider and disconnected from Bezeq International. On November 5, 2020, Bezeq International received another motion for approval of a class action in the same matter.	Unspecified

66 For reporting policy and materiality thresholds, see section 2.18.

e.	November 2020	Client against Bezeq International	District (Central)	Monetary claim together with a motion to recognize it as a class action	It is alleged, among other things, that Bezeq International charges fees for the provision of 'antivirus service' and 'backup service' without actually being provided, when according to the claim it does not disclose to customers when concluding the contract that they must initiate special operations including installation of special software at the time of the conclusion of the contract and not at the time of the actual provision of the service.	Unspecified

Regarding two motions for disclosure and review of documents before filing derivative claims under Article 198A of the Companies Law against Bezeq and against Bezeq International, from October 2020 regarding "dormant subscribers" and from November 2020 regarding asset balances in Bezeq International's books - see section 2.18.1i.

4.12.2. Legal proceedings completed during the reportedperiod or until the date of publication of the report – None.

4.13. Targets, business strategy and development prospects

Bezeq International intends to perform a full statutory merger with DBS, when Bezeq International's integration activities will be spun-off and transferred to a new separate corporation to be established in the Group (see Section **Error! Reference source not found**) in order to achieve the following targets:

In light of the abolition of the separation between infrastructure provider and Internet access provider (ISP), Bezeq International intends to reduce ISP activity in the private segment, and focus on developing integration activities and services for the business segment, in order to become a growth-focused ICT company. This will allow managerial focus and dedication of resources to integration activities and cloud services, which is growing due to the trend of the business segment moving to a model of cloud services. Bezeq International will continue to acquire capabilities and knowledge both through the 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 in order to provide a full service envelope 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 objectives may materialize or partially materialize and when. In addition, the targets may be affected by changes and developments in the relevant markets, due to regulatory changes that may impair Bezeq International's ability to meet existing or changing market requirements, as well as due to all other risk factors listed below.

4.14. Discussion of risk factors

The following is a description of the risk factors arising from the macroeconomic environment, the unique characteristics of the industry in which Bezeq International operates, and risk factors unique to Bezeq International:

4.14.1. Competition

For the effect of competition on Bezeq International's business, see Section 4.6.

4.14.2. Frequent technological changes and investments in infrastructure

Bezeq International's areas of activity are characterized by frequent technological changes. The development of technologies that constitute attractive alternatives to some of Bezeq International's products (such as Skype, WhatsApp or Zoom) may materially impair Bezeq International's operations. Also, technological developments require frequent investments in infrastructure. See Sections 4.1.5.2 and 4.1.6.

4.14.3. Exposure to changes in exchange rates

Bezeq International is exposed to risks due to changes in exchange rates, especially in the field of equipment sales and integration, as well as in international data services, since most purchases of equipment and services in these areas are made in US dollars, while Bezeq International's revenue is shekels. Erosion of the shekel against the dollar could harm Bezeq International's profitability if it is not possible to adjust selling prices in the short term..

4.14.4. Governmental supervision and regulation

Regarding the applicability of the provisions of the law and the licensing policy and their effect on Bezeq International, see Section 4.11. Certain changes in the regulations applied to Bezeq International may have an adverse effect on its results and operations.

4.14.5. Epidemic

At the beginning of 2020, an outbreak of the COVID-19 virus began worldwide. Subsequently, Bezeq International monitors developments in connection with this outbreak and epidemic aincidents in general and examines potential consequences for its business activities, with some of the consequences already being reflected in Bezeq International. These consequences may be manifested, and some of them are already manifested, among other things, in the customer service system, as well as damage to the supply chain and delays in the purchase of equipment, which may affect Bezeq International's revenues and ability to meet business obligations. According to Bezeq International's estimates, as of the date of the report, no material decrease in Bezeq International's revenues is expected, which can be attributed to the consequences of this outbreak. At the same time, naturally, this is a variable event that is not controlled by Bezeq International, and therefore widespread spread of the virus, and / or decisions of countries and authorities in Israel and around the world in this regard, may affect Bezeq International accordingly.

4.14.6. Serious malfunctions in information systems and engineering systems

Bezeq International provides its services through various infrastructure systems, including, among others, switches, data transmission and access transmission networks, cables, computer systems, physical infrastructure and more (“**the Systems**"). Bezeq International's business has a high dependence on these Systems. Some Bezeq International Systems have backup, but at the same time, in the event of damage to some or all of the above Systems, either due to a large-scale technical malfunction, due to a natural disaster (such as an earthquake, fire, etc.), or due to physical damage to infrastructure and due to malicious damage (such as the introduction of viruses and cyber attacks as detailed below), significant difficulties may be caused in the provision of services, including in the event that Bezeq International is unable to quickly return the Systems to normal.

4.14.7. Information security, protection of customer data and cyber risks

Bezeq International is the target of cyber-attacks, the purpose of which is to harm the use of the information systems or the information itself. This type of assault activity or intrusion incident can cause business disruption, information / money theft, damage to reputation, damage to systems and information leakage.

Bezeq International operates information security systems to protect against the intrusion of an unauthorized person into the network and / or critical systems. Bezeq International monitors the implementation of its protection policy, which includes an examination of its level of effectiveness and readiness. In this context, Bezeq International conducts tests and assault exercises for various scenarios (including through external companies that specialize in the field).

An additional risk is posed by information leaks from the organization by Bezeq International employees, inadvertently or maliciously. Bezeq International implements strict intra-organizational information security policies and procedures in order to reduce the risk of information leakage.

Despite Bezeq International's investments in measures to reduce such risks, it cannot guarantee that these measures will succeed in preventing damage and / or disruption to the systems and information related to them.

4.14.8. Damage caused by nature, war, disaster

Damage to the server farms on which Bezeq International concentrates its core activity may adversely affect Bezeq International's business and its results.

4.14.9. Legal Proceedings

4.14.10. Bezeq International is a party to legal proceedings, including class actions, which may result in charges in substantial amounts, which cannot be estimated, and no provision was made for some of them in Bezeq International's financial statements. These class actions can reach large sums, since a substantial part of Israel's residents are Bezeq International's customers, and a claim relating to a small damage to an individual consumer may become a material claim for Bezeq International if it is recognized as a class action lawsuit against all or a significant part of the consumers. In addition, in certain contracts, mainly in the government and public sector contracts, Bezeq International sometimes enters into contracts for the provision of services subject to a partial liability limit, or no liability limit at all. Given the sensitivity of the services provided by Bezeq International to these customers, in the event that the customer is harmed in such a contract, this may lead to legal proceedings in large amounts. For legal proceedings to which Bezeq International is a party, see Section 4.12.

4.14.11. Labor relations and streamlining procedures

Bezeq International has a collective agreement with the Histadrut and the Employees' Committee in respect of most of its employees. The implementation of the collective agreement may affect Bezeq International's day-to-day operations. In addition, the implementation of manpower plans may cause unrest in labor relations and harm the day-to-day operations of Bezeq International. As described in Section 1.8, Bezeq International implements streamlining plans that involve, among other things, the sharing of management resources, organizational changes and the reduction of the workforce, in parallel with the management of significant infrastructure and other projects. Streamlining procedures, by their nature, involve the risks of loss of knowledge, turnover of employees, shifting of managerial focus, etc. Bezeq International has a number of open labor disputes. Regarding labor disputes at Bezeq International, see Section 4.8.

4.14.12. Loss of knowledge and information

The changes that are taking place in the labor market in Israel and around the world, along with organizational changes, entail a risk of losing key employees, loss of knowledge as a result of employee turnover, difficulty in recruiting employees, etc.

4.14.13. Impairment of Bezeq International's assets

Bezeq International conducts a periodic impairment test of assets in respect of which identification signs of impairment have been identified in accordance with the accounting standards. For details regarding the risk factor relating to the recording of impairment losses, see Section 2.20.12. Changes in regulations in the Internet services market (see Section 1.7.2.3) may lead to damage to Bezeq International's results and / or a decrease in the value of its assets. Regarding the effect of the treatment of Bezeq International customers who do not use ISP services on the value of Bezeq International's assets, see Section 4.4.

4.14.14. Impairment of Bezeq International's assets

Bezeq International conducts, in accordance with the accounting standards, a periodic examination of the impairment of assets in respect of which indicators of impairment have been identified. For details regarding the risk factor regarding the recognition of impairment losses, see Section 2.20.12. Changes in the regulation of the Internet services market (see section 1.7.2.4) may lead to damage to Bezeq International's results and / or a decrease in the value of its assets. Regarding the effect of the treatment of Bezeq International customers who do not use ISP services on the value of Bezeq International's assets, see Section 4.4.

4.14.15. Cash flow

Bezeq International must maintain sufficient cash flow for it to meet its long-term business plan. Cash flow may be affected in cases of planning gaps, change in the business model and difficulties in collecting payments from customers or telecommunications operators. The lack of sufficient cash flow may adversely affect Bezeq International's business, and may make it difficult for it to deal with competitive threats in the field.

The following is a rating of the impact of the risk factors described above on Bezeq International's operations, in accordance with the assessment of Bezeq International's Management. It should be noted that Bezeq International's assessments below regarding the degree of influence of the risk factor reflect the degree of influence of the risk factor in assuming the materialization of the risk factor, and the aforesaid does not express an assessment or give weight to such chances of materialization. The order in which the risk factors appear above and below is not necessarily according to the degree of risk[67]:

Risk factors summary table - international communications, Internet and network endpoint services

	The extent of the impact of the risk factor on Bezeq International's operations		
	High effect	Medium effect	Low effect
Macro risks			
Exposure to changes in exchange rates		X	
Epidemic		X[68]	
Industry risks			
Growing competition	X		
Investments in infrastructure and technological changes		X	
Governmental supervision and regulation	X		
Serious malfunctions in information systems and engineering systems	X		
Information security, customer data protection and cyber risks	X		
Special risks for Bezeq International			
Damage due to the forces of nature, war, disaster	X		
Legal proceedings		X	
Labor relations and streamlining procedures	X		
Loss of knowledge and information	X		
Impairment of Bezeq International's assets		X	
Cash flow		X	

The information contained in this section 4.14 and Bezeq International's assessments regarding the impact of risk factors on Bezeq International's activities and business, are forward-looking information as defined in the Securities Law. The information and assessments are based on data published by the Ministry of Communications, Bezeq International's assessments of the market situation and the structure of competition in it and regarding possible developments in the Israeli market and economy. The actual results may differ materially from the estimates given above if there is a change in one of the factors taken into account in these estimates.

[67] See footnote 51.

[68] The extent of the impact of this risk factor on Bezeq International's activities was classified as medium, assuming that the incident would be limited in scope and time. Otherwise, the degree of impact may be large.

5. DBS - multi-channel TV

DBS, also known by the trade name "yes", is a subsidiary, wholly owned by Bezeq, which provides a service of multi-channel television broadcasts via satellite and on the Internet (OTT) as well as additional services for subscribers in Israel and in the Judea and Samaria area, and it also has broadcasting rights in content purchased from third parties and in productions in which it invests.

DBS is currently the only Company holding (non-exclusive) licenses to broadcast multi-channel satellite television in Israel.

5.1. General information about the field of activity

5.1.1. The structure of the field of activity and the changes that took place in it

5.1.1.1 In the field of subscriber television broadcasts, there are a number of factors in a number of main categories:

a. Holders of a license to broadcast under the Communications Law, which provides multi-channel television services - DBS, as well as Hot, which provides cable television services, which has a monopoly declared under the Economic Competition Law in the field of multi-channel television ("the field of satellite and cable broadcasting"). For details regarding the regulation applicable to the owners of such broadcasting licenses, see section 5.15. DBS and Hot provide both linear channel broadcasts (also referred to in this chapter as "channels") and VOD services (on regulation in the field of DBS's VOD services, see Section 5.15.2).

b. Internet content providers (in format OTT) - in Israel, there are a number of local and international providers of audio-visual content via the Internet, which can be viewed using various types of end devices (including mobile devices). The main local providers operate in a format that includes linear channels and VOD content (including DTT array content transmitted via the array or via the Internet), and the main ones are DBS (through Yes+ and Sting TV services, for details, see Sections 2.25.2.2.1 and 5.2.2.1), Cellcom, Partner (Partner TV) and Hot (Next and Play service). The main international providers operating in Israel are Netflix, Apple and Amazon, which provide options for watching VOD content (as of the date of the report, most of this content is translated into Hebrew) without linear channels. To the best of DBS' knowledge, most subscribers of international providers in Israel also subscribe to the services of some of the local providers or holders of broadcasting licenses.

c. Entities offering content without the permission of the copyright holders (pirated)[69].

d. The DTT array

A digital distribution system for digital television (DTT), known as "Idan+", through which certain channels are distributed to the public, free of charge[70]. The system is operated as of the date of the report by the Second Authority.

The distribution of the channels is done in exchange for the payment of a distribution fee, where the Minister of Communications and the Minister of Finance may determine that the State will subsidize the distribution fee that will apply to thematic channel broadcasters and a dedicated channel.

As of the date of this report, the DTT constitutes a replacement product, in part, for multi-channel TV broadcasts.

5.1.1.2 According to the Broadcasting Law, a broadcaster, whose broadcasts are

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

70 As of the date of this report, the television channels of the Broadcasting Corporation (Kan 11, Kan Educational and Channel 33), the commercial television channels ("Keshet" and "Reshet"), Channel 14, and the Knesset channel (Channel 99) and a number of radio stations. The DTT operator must also distribute thematic channels (most of whose broadcasting hours are devoted to the subject of the Broadcasting through Digital Broadcasting Stations Law, 5772-2012 (“**the Broadcasting Law**”), as well as the broadcasts of a minor licensee and a designated minor licensee (as defined by the Second Authority Law) - if requested. The Minister of Communications and the Minister of Finance may appoint a private operator for its operation, for whom the Council may also grant a general license for broadcasts financed by subscription fees or commercials.

part of the "open broadcasts" (i.e., television channels distributed through the digital stations), will give each "registered content provider"[71] consent to broadcast its linear broadcasts on the Internet free of charge, but without prejudice to copyright and promotions by law and subject to certain conditions set out in the law, including obtaining a license from the copyright holders and performers (including through the broadcaster). In relation to the commercial channels[72], the commencement of the said arrangement was postponed for five years, which was extended in January 2022 for another nine months (until October 2022)[73], during which special arrangements will apply, including granting a license to broadcast online broadcasts by the broadcaster to any content provider registered in the registry requesting it, at the best price and conditions given by the commercial channel to provide other content. For another broadcast that is valid at the time the license is granted, everything is as specified in the transitional provision set forth in the law.

5.1.1.3 Hot, Partner and Cellcom offer their services alongside other communication services provided by them, including as part of baskets that are "non-detachable" (such as a "triple" package that includes landline telephony, Internet and television services). For additional communication services provided by communication groups, see Section 1.7.1. For the offer of baskets of communication services by DBS and the restrictions thereon, see Section 1.7.2.3.

In the year of the report, the high level of competition continued to prevail, mainly due to the establishment of local and international content providers via the Internet, as mentioned, operating at a relatively low price level. The activity of these factors via the Internet, without the need to establish a dedicated infrastructure system as of the date of this report, even without regulatory supervision, has a material adverse effect on the competitive position of DBS. For more details about the competition in the field and changes that took place in it in the year of the report, including the manner in which DBS operates - see Section 5.6**.** For the question of arranging broadcasts with new broadcast technologies, see Section 5.15.2.

For changes in the number of DBS subscribers, see Section 5.6.1.

5.1.2. Restrictions, legislation and special constraints in the field of activity

Activities of broadcasting license holders are subject to extensive legislation in the field of communications, and in particular to the Communications Law, the licensing regime, as well as supervision and policy decisions on behalf of the Ministry of Communications. The said activity is also under the constant supervision of the council, which sets policy, establishes rules and supervises many areas of activity, including broadcast content, local production obligations, broadcast ethics, consumer protection and the approval of broadcast channels.

The provision of television services other than via satellite or cable within the meaning of the Communications Law is not subject to supervision as stated above.

In July 2021, a report was published on the recommendations of the committee for the examination of the underlying regulation in the field of broadcasting, headed by former MK Roy Folkman ("Folkman Committee"). The committee's report includes, *inter alia*, recommendations on the following issues:

A. Abolition of the Council and the Second Authority Council, and the establishment of the Commercial Broadcasting Authority in their place.

B. Application of regulation to all audiovisual content providers (whose main activity is the transfer of content to subscribers) including the various OTT providers. In relation to local content providers – application of regulation in accordance with the ranking to be determined according to the scope of their activity, on the basis of their total annual revenue. In relation to international content providers - application of limited

71 "Registered content provider" is defined in the Broadcasting Law as a registered content provider; "**Content Provider**" is defined in the Broadcasting Law as having its main activity broadcasting a variety of content to the public in Israel (such as DBS), provided that the content is broadcast on its own initiative, through an interface under its control, whether all content can be viewed in real time, by the public, or the content can be viewed at a time and place of the viewer's choice.

72 To the best of DBS' knowledge, as of the date of the report, such commercial channels are channels 12 and 13. On this matter, see Section 5.15.1.4.

73 The Minister of Communications, with the approval of the Knesset's Economics Committee, may extend this period by a single period of six months.

and voluntary regulation in part.

C. Determining provisions regarding the promotion of original productions of the elite genre only and determining a graded investment obligation that will apply to the various content providers, while reducing the existing provisions in relation to the obligation to invest in original productions.

E. Determining provisions regarding the prohibition of exclusivity in the field of sports broadcasts that will apply to all local content providers, and additional provisions regarding the broadcasting and purchase of sports content.

F. A mechanism for determining provisions regarding consumerism in the field of broadcasting, as well as recommendations regarding the cancellation of base packages for cable and satellite.

According to the Committee's report, there are issues on which the Committee has not reached a final conclusion, including the issue of the economic models of the broadcasting market (for which the Committee recommends gradually abolishing the separations and restrictions that exist today, including the free transmission of commercial channels, see Section 5.15.1.4), the obligation to allocate channels, and the prohibition of broadcasting advertisements on the traditional platforms of DBS, while offering two outlines for the implementation of this recommendation) and the possibility of 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 decision was made by the Minister of Communications regarding the 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 staff work in relation to some of the recommendations. The Minister stated that the decision on the issue of the economic models of the broadcasting market will be made after receiving public comments and recommendations from the professional staff. In addition, the Minister instructed the professional echelon in the Ministry of Communications to begin staff work to anchor the recommendations in legislation and guidelines[74], while completing staff work on the issues specified in the decision. The Minister further stated that he intends to act to complete the reform within a period of about a year at most. The effects of the decision on DBS's 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, it is difficult to assess the extent of the impact on DBS's business of the said legislative amendments or other regulations, insofar as they are adopted and in the wording and manner as adopted.

These assessments of DBS are forward-looking information, as defined in the Securities Law, based, *inter alia*, on the conclusions of the Folkman Committee, the decision in question of the Minister of Commnication and the wording of the legislative initiatives. There is no certainty that this issue will be regulated in legislation and regulation in general, and in the manner proposed in particular. These assessments may not materialize, or materialize in a materially different way than was observed, depending on, *inter alia*, the practical implementation of the Minister's decisions and subsequent legislative amendments, if further regulation is formulated therefrom. For possible impacts on OTT services see Section 5.15.2.

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

For data on changes in the scope of DBS' activity and profitability, see section 1.5.4.4.

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

5.1.4.1 Quality, differentiation and originality in the content of the broadcasts, in their variety, branding and packaging.

5.1.4.2 Providing relevant value propositions to various target audiences.

[74] In recent years, a number of legislative initiatives have been initiated regarding a change in the format of the aforesaid regulation, including the Memorandum of the Communications Law (Bezeq and Services) (Regulation of Content Providers) (Amendment No. _), 5778-2018, which the Folkman Committee was instructed to take into account.

5.1.4.3 Providing television services using advanced technologies (in relation to broadcast technologies, in relation to end devices and in relation to the user interface).

5.1.4.4 Providing TV services via the Internet.

5.1.4.5 Offering a "basket" of communication services that will include television services and other services, such as Internet browsing services (see Section 5.15.2).

5.1.4.6 Accessibility and connection to international content applications.

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

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

5.1.4.9 Attractiveness of the price.

5.1.5. The main barriers to entry and exit in relation to the field of activity

5.1.5.1 The main barriers to entry into the field of activity are (a) for cable and satellite broadcasts - the need to obtain licenses for cable and satellite broadcasts and to comply with the relevant regulatory requirements; (B) investments required from operators in the field, including the purchase and production of content, as well as for cable and satellite broadcasts - the establishment of a dedicated infrastructure; (C) The limited scope of the Israeli market and its characteristics. The scope and level of barriers to entry in relation to Internet TV services are very low, especially for the international providers for which Israel is another market for existing activity, and this is reflected in an increase in the quantity and variety of services offered in this format.

5.1.5.2 The main exit barriers are: (a) For broadcast license holders there is a regulatory barrier - termination of activity under the broadcast license entails the Minister of Communications' decision to cancel the license before the end of the license period, including conditions (including the licensee) to ensure broadcast continuity and services and to reduce the harm to subscribers; (B) Long-term engagements with material suppliers.

5.1.6. Substitutes for products in the field of activity and changes that apply to them

DBS sees the possibility of receiving many foreign channels using relatively cheap end equipment as a substitute for its services in relation to certain segments. For additional substitutes, see Section 5.1.1.

5.1.7. The structure of competition in the field of activity and changes that apply to it

Competition in the field of television is characterized by a relatively large number of players, most of whom operate at relatively low price levels (see section 5.1), and through advanced web client interfaces in a way that has led to the intensification of competition in the field. An increase in the number of subscribers in the current competitive situation can be achieved mainly through the recruitment of subscribers from competitors, which requires the investment of considerable resources in retaining existing subscribers and recruiting new subscribers.

DBS does not have data on the number of subscribers of the international companies operating in the field and on the number of viewers of the DTT system, and according to DBS, most of them are, in addition, subscribers of the local television providers operating in the field. According to DBS, the trend of increasing the total market share of all players (out of all households in Israel) is weakened due to the fact that the majority of the remaining households are not potential audiences.

For more details on the competition in the field see Section 5.6.

5.2. Products and services

DBS services through satellite include lienar channel broadcasts, in a variety of value propositions that differ from each other in the scope of the content, the scope of the services included in them, the interface through which they are offered and the price. The offer of OTT services is part of a gradual trend of migration of DBS services from satellite TV services to OTT services. For the migration process see Section 5.18.1.

5.2.1. Satellite broadcasts and related services

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

For the purpose of receiving DBS services via satellite, reception plates are installed in the buildings and decoders of different types with different features are installed in the subscriptions' houses, which allow a variety of services to be received depending on the converter's features.

In accordance with DBS’s broadcasting license and the council's decisions, the broadcasting of the DBS via satellite includes a basic package that each subscriber is required to purchase (along with other basic packages that DBS may offer), as well as other channels that the subscriber can choose to purchase, either as packages or as discrete channels.

DBS provides satellite subscriber services to its subscribers ("**satellite subscribers**") VOD via the Internet (in the OTT format). The vast majority of satellite subscribers subscribe to a content package that includes VOD and the rest may purchase these services, when some of the content included in the VOD service is provided in exchange for a separate payment.

Connecting satellite subscribers to VOD services requires, among other things, the use of certain types of decoders. To the question of the regulation of the field of DBS’s VOD services see section 5.15.2.

Satellite TV services are offered in a wide package, which includes the vast majority of linear channels and VOD services, which is purchased by most satellite subscribers, and in packages with a smaller content scope (when subscribers can purchase additional channels that are not included in any of the packages they purchased).

5.2.2. OTT Services

DBS offers a number of OTT services:

5.2.2.1 Yes+ services

DBS offers the Yes+ service, which includes linear TV channels, as well as VOD content in a number of offered packages, the most common of which is similar to that offered in the broad package offered to the satellite subscriber. Advanced technological interface that includes advanced features that are not available in the satellite interface. The service is provided via compatible streamer and other end devices including laptops. The service can be used on its own or in parallel with the satellite service.

5.2.3. Sting TV services

DBS operates the "Sting TV” service, which includes linear TV channels as well as VOD content, and is intended for customers who are not satellite subscribers. The service is offered in a number of viewing packages that do not include the full range of content offered as part of DBS' other services, and are characterized by relatively low price levels. The service is provided via compatible streamers and other end devices.

5.3. Revenue from products and services

The following are data regarding the distribution of DBS revenues (in NIS millions):

	2021	2020	2019
Revenue from multi-channel TV broadcasts and services for subscribers	1,252	1,254	1,316
Rate of total revenue	Approx. 99%	Approx. 97%*	Approx. 98%*

* The rest of the revenue derives, mainly, from payments from channels in respect of their transfer by DBS as well as from the sale of rights in the content.

5.4. Customers

The vast majority of DBS subscribers are private customers. In general, DBS enters into a subscription agreement with its subscribers, which regulates the subscribers' set of rights and obligations in their relationship with DBS. With respect to the subscription agreement with the satellite subscribers, the approval of the council is required, which was received.[75]

5.5. Marketing and distribution

5.5.1. The marketing of DBS services is done through advertising in the various media. DBS' sales activity to existing and new customers is carried out through the following main distribution channels (some of which are operated by DBS employees and some by external marketers, which also include Bezeq International and Pelephone):

5.5.1.1 Call centers.

5.5.1.2 Digital channels.

5.5.1.3 Field sales people, working to recruit new subscribers.

5.6. Competition

5.6.1. Competitors in the field

The field is characterized as of the date of the report by a number of competing groups (see section 5.1).

DBS's main competitors are Hot, which is a declared monopoly in the field of supply Multi-channel TV broadcasting services[76] and holds the largest market share, as well as Cellcom, Partner and Netflix.

Below is data on subscription numbers and market shares[77] of DBS, to the best of its knowledge, as of December 31, 2020 and 2021[78]:

The year 2019		Year 2020	
Subscriptions (thousands)	Market Share	Subscriptions (thousands)	Market Share
555	32%	557	32%

5.6.2. Competitive characteristics today

The competition in the field focuses on the variety and content of the broadcasts, the price of the services, the quality of the service, and the offer of advanced end equipment and advanced user interfaces, as well as the offer of additional services, including broadcasts. HD, 4K and VOD services.

The competition is also characterized by the offer of additional communication services alongside the offer of video content (for the offer of "service baskets" of the Hot, Cellcom and Partner groups, see also Section 1.7.1, and for the offer of service baskets by DBS, see also Section 1.7.2.3), in access and connection to international content providers and by the increase in the number of competitors and their establishment (see Section 5.1).

5.6.3. Positive and Negative Factors Affecting the Competitive Status of DBS

5.6.3.1 In the opinion of DBS's Management, the main competitive advantages of the DBS are:

[75] According to the broadcasting license, the approval of the Uniform Contracts Court is also required for the subscription agreement (approval previously granted and expired). DBS has applied to the Council for amendments to the subscription agreement and for the amendment of the license, as part of which DBS requested, *inter alia*, to revoke the license provision requiring the approval of the Uniform Contracts Tribunal, in view of an amendment to legislation made in this regard. As of the date of this report, the Council's position regarding DBS's requests has not yet been received.

[76] To the best of DBS's knowledge, in the second half of 2021, Hot appealed to the Competition Commissioner to cancel its declaration as a monopoly as stated.

[77] The market shares were calculated from all DBS, Hot, Partner and Cellcom subscribers as detailed below (and not from all viewers and subscribers in the field in the absence of actual data about them). The assessment of DBS' market shares in 2020 and 2021 is based on the number of DBS subscribers, of Cellcom and Partner (according to their reports on the number of subscribers as of the end of the third quarter of 2021), as well as of Hot, which does not publish the number of subscribers, so the data in relation to Hot is according to DBS's estimate, taking into account past trends and the existing data in relation to the other players). However, there is no certainty that the data presented in relation to Hot are accurate, and therefore it is possible, respectively, that the actual market shares are different from those estimated.

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

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

b. Level, quality and availability of DBS' customer service system

c. Use of advanced technologies to provide advanced services.

d. Cultivating and promoting the "Yes" brand as a preferred, well-liked brand with a high level of loyalty.

e. Marketing several call formats, characterized by different price levels, different content offerings, different broadcast methods, different technological interfaces and different types of customer service format.

5.6.3.2 DBS's competitive activity in the field of broadcasting suffers from disadvantages or factors that adversely affect it, in a number of areas, the main ones being:

a. Infrastructure inferiority - DBS' satellite infrastructure does not allow two-way communication, does not allow the provision of VOD services and does not allow the transfer of telephony and Internet services, in contrast to the infrastructures used by HOT, Cellcom and Partner, which enable the provision of these services. For details about OTT services - see section 5.2.2. In addition, the satellite infrastructure is limited in relation to the Internet infrastructure in the offer of advanced technological interfaces.

b. Regulatory restrictions -

For restrictions regarding the marketing of a shared basket of services, see section 5.15.3.

For restrictions by virtue of the terms of the Commissioner for a merger with Bezeq, see section 2.16.8.3. These restrictions also apply to DBS activities in the field of OTT.

For competitive inferiority resulting from the lack of regulatory oversight of players who do not have broadcasting licenses, see section 5.19.2.2. Establishment of the wholesale market arrangement, as stated in section 1.7.3, which does not allow DBS to purchase Bezeq services according to it, may facilitate the entry of new competitors into the field and establish their status.

c. Space segments - the use of space segments involves heavy fixed expenses, depending on the receipt of the services by a third party (see section 5.16), and involves a limitation with respect to the ability to expand the supply of broadcasts (see section 5.7).

5.6.4. Main methods of dealing with competition

Here are the main methods of DBS to deal with the competition:

5.6.4.1 Content - DBS works to purchase, produce and broadcast quality, innovative and diverse content, while creating differentiation, emphasizing branding and achieving originality in relation to the content broadcast by it.

5.6.4.2 Pricing policy - offering a variety of services at different price levels.

5.6.4.3 Offering OTT services (see Section 5.2.2).

5.6.4.4 Service - DBS places emphasis on the customer service system.

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

5.6.4.6 Branding - DBS cultivates, promotes and differentiates the brand "Yes".

5.7. Production capacity

The number of channels that DBS can transmit to satellite subscribers depends on the number of space segments it uses, the content compression capabilities and the bandwidth required to transmit each type of channel. As of the date of the report, DBS almost fully utilizes the space segments it uses. The space segments are provided to DBS by Space (see section 5.16). These restrictions do not apply in relation to the OTT and VOD services whose transmission depends on web browsing volumes.

5.8. Property, plant and equipment, real estate and facilities

The following are the main components of DBS's property, plant and equipment:

5.8.1. Real estate

DBS leases a number of real estate properties for its operations. DBS' headquarters, as well as its main broadcasting center, are located in leased real estate in Kfar Saba, whose lease period ends in 2024 (with options granted to DBS for the extension of the lease, subject to the terms of the agreement, until 2034). The balance of the lease period of the other properties that DBS leases ranges between about a year and a half and about three years (these periods are based on the exercise of lease extension options granted to DBS).

5.8.2. Satellite end equipment

DBS installs reception dishes and other end infrastructures in its subscription houses, including decoders that enable the reception of the broadcasts, as well as smart cards used to decode them. The decoders are rented to subscribers in exchange for fixed fees, paid during the period of receipt of the services, or lent to subscribers.

5.8.3. End equipment for OTT services

Yes+ and Sting TV services can be viewed via a variety of end devices, including streamers of various models. DBS purchases streamers and leases them to its subscribers.

5.8.4. Broadcasting equipment and computer and communication systems

DBS has a main broadcasting center located in Kfar Saba, as well as a secondary broadcasting center located in the Ella Valley, through which its broadcasts are transmitted via satellite and OTT. The broadcast centers have reception and transmission equipment, as well as computer and communication systems. The secondary broadcasting center is partly operated on third-party premises, which provides DBS with the services of operating the secondary broadcasting center and maintaining it in accordance with the framework agreement valid until the end of 2023 (with the right to extend granted to DBS, which can be realized six months before the end of the agreement).

5.8.5. Operating and encryption systems

DBS purchases from Cinemedia ("**Cinemedia**") development, implementation, encryption, maintenance and warranty services related to the operating systems of the satellite broadcasting system and also purchases similar services from Cinemedia in relation to the OTT system, in accordance with the framework agreements between DBs. SS and Cinemedia from January 2020. These services are provided in relation to various DBS systems, end equipment, and viewing cards and other hardware components required to receive these services, and DBS has also been granted relevant licenses for the use of systems and end equipment.

The contract period with Cinmedia in relation to the satellite system is until February 2026 subject to the terms of the agreement, with the possibility of early termination by DBS in the event of the cessation of satellite broadcasts as part of the migration. See section 5.18.1.

For the services and products provided under this agreement, DBS pays monthly payments, where the agreement stipulates a minimum monthly consideration for the provision of services to the extent specified, and an additional consideration is possible, the amount of which depends on the types of services provided to DBS, and on development services that DBS may order under the agreement.

The engagement period in relation to OTT is until December 2024 (after which an automatic renewal mechanism applies for periods of two years unless one of the parties notifies otherwise in accordance with the dates set for this matter in the agreement). DBS is granted the right to exit the agreement in relation to the OTT system, from January 2023 onwards, subject to prior notice and payment of an "exit fee" (at a decreasing rate depending on the duration of the agreement period).

DBS depends on the continuous supply of these services, both in relation to the satellite system and in relation to OTT.

5.8.6. Computerized customer management system

DBS uses software and computer systems to manage the contracts with its subscribers, including its billing and collection system. In this context, DBS contracts for licenses, development services and technical support with NetCracker Technology Solutions Ltd and NetCracker Technology EMEA Limited (jointly: "**NetCracker**"), and DBS also uses Salesforce software together with Pelephone and Bezeq International,, according to Pelephone's contract with Salesforce (for details, see Section 3.8.4).

DBS is dependent on the NetCracker system and services and-Salesforce, due to their importance for the management and monitoring of DBS 'acquisition of services and content by its subscriber as well as for the purpose of charging and collecting from a subscriber. System failures or discontinuation of services to DBS(Including depending on cell phone connection with Salesforce) Are expected to cause operational difficulty until the matter is repaired or the system / supplier replaced, which may take a long time. As of the date of this report, some of the components of the engagementWith NetCracker is renewed annually and some are valid until the end of 2024. The contracting with Salesforce is until the end of 2025.

5.9. Intangible assets

5.9.1. Licenses

DBS has the following main licenses:

5.9.1.1 Broadcasting license valid until January 2023 - this license is material to DBS' satellite activity and constitutes the main regulatory permit for this activity (for the terms of this license, see Section 5.15[79]).

5.9.1.2 License for satellite television broadcasts in the Judea and Samaria area valid until December 2022, the provisions of which are similar to DBS’s broadcasting license specified in Section 5.9.1.1.[80]

5.9.1.3 License to perform uplink operations (transfer of broadcast-focused broadcasts to the broadcast satellite and to carry out ancillary set-up and operation operations), which are valid until January 2022.[81] This license is essential for DBS’s activity and constitutes the regulatory permit for the transmission of transmission messages from the transmission center to the transmission satellites and from them to the satellite subscribers' homes.

5.9.2. Trademarks

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

5.10. Broadcasting rights

5.10.1. DBS has broadcasting rights in video content of two types:

Content whose rights to broadcast are acquired from third parties, including discrete content and channels. DBS works to adapt as much as possible broadcasting rights acquired by it in a way that will allow broadcasting in the various media and formats in which it operates.

Content that DBS invests in its production (in full or in part), and in addition to the right to broadcast the content as part of its broadcasts, DBS usually has rights in the same content, at the rates specified in the agreements with the producers. In most cases, DBS is also entitled to grant rights to the use of rights and to participate in revenues arising from additional uses of the content beyond their transmission on DBS.

Broadcasting and distribution of content by DBS, in the various media, involves the payment of royalties to copyright holders and performers in musical works, sound records, scripts and content directing, as well as in respect of sub-broadcasting, including under the Copyright Law, 5768-2007 ("**Copyright Law**") and the Performers and Broadcasters' Rights Law, 5744-1984. Such royalties are paid to a number of organizations, which collect

[79] In July 2021, DBS submitted an application for renewal of the broadcasting license, which is being examined.

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

[81] After an extension made in January 2022.

the royalties to which they are entitled through comprehensive licenses (blanket licenses) for the intellectual property rights holders. The payments under these licenses are sometimes based on a fixed payment and sometimes on different pricing methods, with some organizations being required to pay additional fees for the transfer of content in certain media or in certain formats, in amounts that DBS estimates are not expected to be substantial.

This assessment of DBS is a forward-looking assessment, based on, among other things, DBS estimates, including in relation to the extent of the use of the said content, and the positions of the various organizations, and in the event of changes in any of them, this assessment may materialize differently.

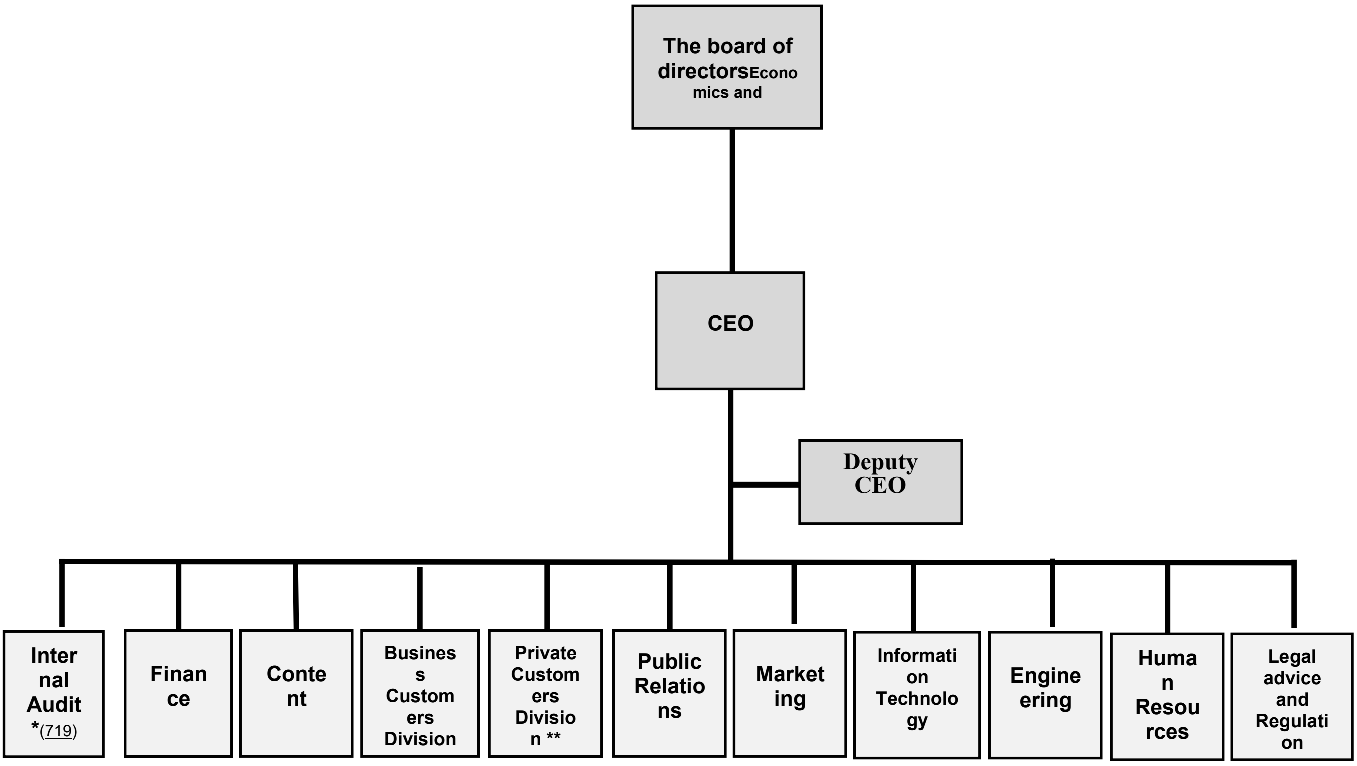
5.10.2. Major content providers and dependency on a single content portfolio

In view of the large number of content providers from whom DBS acquires broadcasting rights, DBS does not have a primary content provider and is not dependent on a single content provider. However, in the field of Israeli sports broadcasting, as of the date of this report, there is a dependence on the acquisition of the broadcasting rights of local sports channels from Sports Channel Ltd. and Charlton Ltd., with whom there is a contract for several years. This dependence stems from the fact that they are the exclusive providers of Israeli sports broadcasts and in light of the existence of a high demand for such services, from among a significant group of DBS customers. Remuneration under these agreements is based on a fixed monthly payment in accordance with the number of subscribers to DBS broadcasts (except for exceptions set forth in these agreements).

5.11. Human capital

5.11.1. Organizational structure

DBS's Management consists of divisions, with each division headed by a VP, who serves as a member of the DBS management.



(*) The internal auditor is a Pelephone employee.

(**) The director of the private customer division is the deputy CEO.
As part of the implementation of the synergy processes between subsidiaries in the Group, the CEO of DBS, Mr. Ran Guron, also serves as the CEO of Pelephone and Bezeq International. In addition, most of the VPs who serve at DBS also serve as VPs at Pelephone and Bezeq International.

5.11.2. DBS employee base by divisions:

	Number of employees	
	31.12.2020	31.12.2021
Administration	382	347
Customer Division	847	747
Total	**1,229**	**1,094**

The number of employees included in the table above includes employees employed part-time. The total number of jobs in DBS as of December 31, 2021 was 999.

5.11.3. Benefits and nature of employment agreements

The terms of employment in the DBS are regulated, among other things, in collective agreements and in a collective arrangement, as detailed below, and apply to the majority of the employee population (does not apply to some of the management levels and also employees in special positions of trust). The representative organization of DBS's employees is the Histadrut.

In addition, DBS employees are employed in accordance with personal employment agreements on a monthly or hourly wage basis, with some employees also being entitled to performance-based compensation. The employment agreements are usually for an indefinite period and each party may terminate the contract with prior notice in accordance with the personal agreement and the law, subject to the provisions of the collective agreement, as applicable.

In 2019, DBS signed a collective agreement between it and the Histadrut and the Employees' Committee in connection with streamlining and synergy procedures. The arrangement stipulates, among other things, that DBS will be entitled to terminate the 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. As part of the arrangement, it was agreed to cancel all pending labor disputes. In addition, the arrangement stipulates that DBS may also become more efficient by not recruiting employees in place of employees who have terminated their employment.

In August 2021, DBS signed a collective agreement between it and the Histadrut and the Employees' Committee, which included, among other things, amendments to the said collective agreements and the said collective arrangement. The new collective agreement is valid from January 1, 2022 until December 31, 2024. According to the new collective agreement, among other things, wage increases and grants will be provided, wage conditions will be improved, a retirement plan will be agreed on and a labor dispute declared by the National Workers' Histadrut will be resolved in December 2019, while clarifying the intention of the DBS's Management to merge Bezeq International into DBS, it was agreed that the parties would maintain industrial silence during the period of validity of the agreement in all matters regulated therein.. The collective agreements applicable to DBS employees (as amended above) regulate, *inter alia*, the periods after which a DBS employee will be considered a permanent employee, mechanisms that involve the Employees' Committee in decision-making regarding employment and the termination of employment of permanent employees, as well as annual wage increases and additional financial benefits to be provided by DBS to employees, during the term of the agreement.

The collective agreements and the arrangement mentioned above are valid until December 31, 2024. The validity will be automatically extended for a period of 12 months each time, if one of the parties does not notify, at least 90 days before the end of the validity, of its desire to make changes.

Regarding an announcement from June 2021 on behalf of the new General Workers' Histadrut - the Internet and High-Tech Cellular Workers' Union announcing a labor dispute, among other things, regarding the refusal of the joint management of Pelephone, Bezeq International and DBS to negotiate various matters, which was also received at DBS offices, and a legal proceeding initiated by Bezeq International in July 2021 following the announcement and being conducted in the Tel Aviv Regional Labor Court - Dee section 4.8.

5.11.4. Employee compensation plans

DBS usually provides its officers, as well as managers and some of its employees, with bonuses on an annual basis based on meeting targets and evaluating performance, for components of capital compensation from Bezeq in relation to some of DBS's managers, see section 2.9.5.

5.12. Suppliers

For engagement with Space, see section 5.16.

For engagement with Cinmedia, see section 5.8.5.

For engagement with NetCracker and Salesforce, see Section 5.8.6.

For the purchase of broadcasting rights of local sports channels, see section 5.10.2.

5.13. Financing

DBS's main sources of financing are owner loans or investments from Bezeq in accordance with DBS's needs, which, according to DBS, is expected to need financing from Bezeq in the foreseeable future.

The assessment of DBS as stated above is forward-looking information. There is no certainty that DBS will be required to finance Bezeq in the future or that Bezeq will provide funding for DBS's activities and in which periods and this depends, among other things, on DBS's situation, developments in its areas of activity and competition in these areas and on DBS's future financing needs.

In November 2021, Bezeq approved a credit facility or investment in DBS's equity in the total amount of up to NIS 40 million, for a period of 15 months starting on October 1, 2021. This approval is *in lieu* of a similar approval given in August 2021 (and not in addition to it).

5.14. Taxation

For more details, see Note 7 to the 2021 statements.

5.15. Restrictions and supervision of DBS

5.15.1. Arrangement of satellite broadcasts

DBS's activity as a holder of a regulated satellite broadcasting license in an extensive legal system has applied to the field of satellite and cable broadcasting, which includes primary legislation (and in particular the Communications Law and regulations enacted thereunder), secondary legislation (including communications rules), as well as, *inter alia*, Council directives.

In addition, DBS's satellite activity is subject to the provisions of its licenses, primarily the broadcasting license.

The law authorizes the Director General of the Ministry of Communications as well as the Chairman of the Council to impose financial sanctions for various violations of the provisions of the law and of orders and provisions issued under it, as well as for violation of conditions in the broadcasting license.

5.15.1.1 Terms of service for a satellite broadcasting license holder, restrictions on cross-ownerships

Satellite broadcasting license regulations set various restrictions on the licensee, including, among other things, eligibility conditions in relation to the holdings of the licensee and stakeholders, directly and indirectly, in holders of cable broadcasting licenses, in holders of franchises under the Second Authority Law[82] and in newspapers with daily circulation, as well as "Israeliness" requirements regarding officers in the DBS and "Israeli" holding at a minimum rate of 26%, in accordance with the provisions set forth in the regulations.

5.15.1.2 Rates supervision

The broadcasting license sets forth provisions regarding the types of payments that the licensee may charge its subscribers for services provided by virtue of the license, and these are determined in the DBS price list. The vast majority of satellite subscribers subscribe to promotions, offering DBS services, including various composition of content packages, ancillary services as well as receiving and installing end equipment, at prices lower than the list price.

DBS has a duty to notify the chairman of the Council of any change in the price list approved by the Council immediately upon its publication and the chairman may in certain cases prohibit the change of the price list. The chairman of the

[82] As of the date of the report, the activities of these entities (both in the field of cable broadcasting and under the Second Authority Law) are regulated through licenses and not franchises.

Council may also interfere with promotions or discounts offered by DBS, if he finds that they have the effect of misleading the public or discriminating between subscribers.

By virtue of the Communications Law, the license can set maximum prices at which a subscription can be charged. As of the date of this report, no such prices have been set.

5.15.1.3 Obligation to invest in local productions

In accordance with the requirements of the broadcasting license and the decisions of the Council, in each of the years 2021 and 2022, DBS must invest an amount of not less than 8% of its revenues from the subscription fees of satellite subscribers[83] in local productions, when according to the rules of the media and the decisions of the council, DBS must invest different rates out of these investment amounts in different categories of local productions.

In December 2021, the Council decided to postpone for 2023 the entry into force of its previous decision, according to which the rate of investment obligation in local productions will exceed and stand at 9%. The Council also determined that during 2022 and in accordance with developments, the Council will hold another discussion to examine the current legislative situation and the economic situation of licensees, including a hedging formula set out in the council's previous decision and give instructions as it sees fit.

5.15.1.4 Duty to transfer channels

DBS is obligated to transmit the "mandatory channels" in satellite broadcasts and everything as determined by the Minister and in the broadcasting license.[84]

In addition, DBS is required to allow channel producers provided by law to use its infrastructure to distribute broadcasts to its subscribers, for a fee ("transfer fee") to be determined in the agreement, and in the absence of consent - for a fee to be determined by the Minister, after consulting the Council. In addition, the Minister may require the transmission of small-license broadcasts under the Second Authority Law (which did not have dedicated licenses prior to the amendment to the law), taking into account the satellite capacity of DBS. According to an amendment to the Second Authority Law of 2018, holders of small and small designated licenses, who had a dedicated license under the Communications Law, are exempt from paying transfer fees to Hot to DBS, for a period of 5 years from the date of the amendment.

5.15.1.5 Contents of the broadcasts and obligations in relation to the subscriber

The broadcasting license sets forth provisions relating to the content of DBS broadcasts, including the obligation to obtain the approval of the Council in relation to channels broadcast by DBS. The Communications Law prohibits broadcast licensees from broadcasting commercials, subject to a number of exceptions.

In addition, the broadcasting license includes conditions regarding the terms of service for subscribers, including the prohibition of discrimination between them.

For a hearing published by the Ministry of Communications in January 2021 regarding the data demand on the consumption of communications services from communications operators, see section 1.7.4.11.

For a preliminary data demand Council in connection with inactive subscribers see section1.7.4.13.

5.15.1.6 Ownership of broadcast channels

According to the rules of communication, DBS, including entities affiliated with it (as defined in the rules of communication), may own up to 30% of the local channels broadcast as part of DBS broadcasts (compared to a limit of 20%

[83] Based on its revenues in the past year from satellite subscribers, including DBS's revenues from end equipment and its installation. According to the position of the Council, according to which the actual investments are made, even though DBS disagrees with it, these revenues also include revenues from VOD service to satellite subscribers.

[84] According to the provisions of the Communications Law, DBS is exempt from payment to the commercial channels included in the mandatory channels due to the transmission of their broadcasts with it.

applicable to HOT). DBS is also restricted according to the Communications Law, in owning a news broadcast 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 is authorized to revoke or suspend the Broadcasting License on the grounds set forth in the Communications Law and the Broadcasting License. The Communications and Broadcasting License Law sets limits on the transfer, foreclosure and encumbrance of the Broadcasting License and of assets from the license assets. The Broadcasting License requires the approval of the Minister in relation to certain changes in the maintenance of means of control in the DBS and imposes reporting obligations regarding the holders of the means of control; Infringement of competition is prohibited by way of an agreement, arrangement or understanding with a third party regarding the provision of broadcasts and services unless approved in advance and in writing by the Council; The obligation to submit reports to the Ministry of Communications, as well as conditions related to the supervision of the licensee's activities, were established; The obligation to provide bank guarantees to the Ministry of Communications to secure DBS's liabilities under the license has been determined, in the amount (principal) of NIS 30 million (a total as of the date of the report of approximately NIS 40 million).

5.15.2. Arrangement of OTT services

OTT services (such as those offered by Cellcom, Partner, Netflix and also by DBS) are not subject to the current standard in relation to multi-channel satellite television broadcasts or other arrangements under the Communications Law. DBS also believes that the VOD services it provides via the Internet to satellite subscribers (see Section 5.2.1) are not subject to such regulation. However, from various decisions of the Council (see also Section 5.2.1), it seems that the Council considers itself authorized to arrange the VOD services for DBS satellite subscribers.

For the processes of examining the regulation of OTT services, see section 5.1.2.

To the extent that a regulation of content transfer via the Internet is implemented, it is expected to impose restrictions on the provision of the said services by DBS, but this regulation may reduce the existing gap in the regulation regimes between licensees and broadcasters between other entities active in the OTT field.

These assessments by DBS are forward-looking information, as defined in the Securities Law, based, *inter alia*, on the conclusions of the Folkman Committee, the decision in quesiton by the Minister of Communications and the wording of the legislative initiatives. There is no certainty that this issue will be regulated in legislation and regulation in general, and in the manner proposed in particular. These assessments may not materialize, or materialize in a materially different way than would be expected, *inter alia*, depending on the actual implementation of the Minister's decisions and in legislative amendments, if further regulation is formulated as a result thereof.

5.15.3. Offer of baskets of services

According to the broadcasting license, DBS may offer a shared basket of services, including Bezeq service and DBS service, subject to obtaining approval from the Ministry of Communications (in the absence of objection within the period specified in the license will be considered as possible) and subject to conditions, the main ones are the “detachability” obligation and the existence of a parallel basket marketed by a licensee who is not affiliated with Bezeq (see Section 1.7.2.3). A shared basket of services marketed by DBS, which includes Bezeq's Internet infrastructure service only, does not require the approval of the Ministry of Communications and does not have detachability obligation..

Regarding conditions published by the Commissioner in connection with the merger of Bezeq and DBS and the amendment under consideration, see Section 2.16.8.3.

In the opinion of DBS, in view of the development of competition between the communication groups and the growing importance of providing comprehensive communication services (see Section 1.7.1), in particular in the competition between it and HOT, Cellcom and Partner, which are not subject to these restrictions, insofar as the restrictions remain in relation to Bezeq's collaborations with it (see section 1.7.2.2), may increase the adverse effect of these restrictions on DBS results.

5.16. Material agreements

The following is a concise description of the main points of the agreements that may be considered material agreements that are not in the ordinary course of business of DBS, which were signed or are valid during the reporting period:

<u>Agreement for the lease of space segments</u>[85]

According to an agreement with Space, since 2013, as amended (including an amendment from July 2021), DBS has leased space segments in satellites from the "Amos" series ("**the Space Agreement**").

Comply with the provisions of the Space Agreement, DBS leases space segments on "Amos 3" satellite (whose estimated end of useful life is at the beginning of 2026), as well as the "Amos 7" satellite, in which Space has the right to lease space segments under an agreement between it and the owner of the rights in this satellite, and in which space segments are leased to DBS until February 2024 (or until the end of his life, whichever is earlier), while DBS may extend it for an additional six months.

Period of the agreement - until the end of the life of the "Amos 3" satellite (subject to the exceptions set forth in the agreement), but in any case the agreement will expire no later than February 2026[86].

<u>The leased space segments</u> - according to the Space Agreement (and subject to unavailability events), until the end of the Amos 7 DBS lease period, DBS will lease 12 space segments from Space, in accordance with the division between the relevant satellites stipulated in the Agreement according to the different periods, and then DBS will lease 10 space segments in Amos 3. The Agreement also regulates the provision of backup segments to space segments leased by Space during the term of the Agreement, so that in the event of space segments not available on one of the satellites, Space will place alternate segments on the other satellite so that the number of segments is not less than 10 segments, subject to the terms and conditions set forth in the Agreement.[87]

<u>Cost</u> - the average annual cost until the end of the lease in Amos 7 is approximately USD 25 million, and thereafter approximately USD 18 million, subject to the discount and reimbursement mechanisms set forth in the Space Agreement.

<u>Early termination of the agreement</u> - according to the Space Agreement, DBS may announce an early termination without cause, of a Space Agreement subject to 12 months' prior notice and payment of the lease in "Amos 7" plus payment of parts of the lease balance in the space segments in "Amos 3".

The usage fee in 2021 amounted to about NIS 75 million.

DBS has a substantial dependence on Space, as the sole owner and sole supplier of the space segments used by DBS, which is also responsible for the operation of the space segments. Regarding exposure to risks in the event of a failure in the activity of one of the satellites, the unavailability of the space segments used by DBS and the lack of redundancy for the Amos 3 satellite from the end of the Amos 7 lease, see Section 5.19.3.4. For Space dependence, see Section 5.19.3.5 .

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85 The assessments in this section regarding the activity and end of the useful lives of the satellites, the amount of segments leased and those intended to be made available to DBS for various event controls (such as backup cases), and all implications are forward-looking information, as defined in the Securities Law, which is based, among other things, on the information provided by Space to DBS, and which in part is not even controlled by Space and depends on its engagements with third parties. Therefore, these assessments may not materialize, or materialize in a materially different manner than expected, *inter alia*, depending on the conditions associated with the start of satellite operation, the conditions required for their proper operation and availability, the end of the existing satellite's useful life, and external factors (including third parties and the rights in Amos Satellite 7) that affect their activity and the activity of Space as well as the business position of Space.

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

87 In addition, according to the space agreement, it holds spare tubes on the "Amos 7" satellite, and must make every reasonable effort to locate alternative satellite segments in other satellites under the terms and conditions set forth in the Agreement, including maximum amounts and rates of Space's participation in additional expenses.

5.17. Legal Proceedings[88]

5.17.1. Legal proceedings are pending

	Date	Sides	Court	Type of procedure	Details	Amount of claim / remedies
a.	December 2020		Tel Aviv District Court		For details regarding an indictment filed in December 2020 by the State Attorney's Office (following an open investigation opened in June 2017), *inter alia*, against the former CEO of DBS and its former CFO see section 1.1.6.	
b.	June 2017	Bezeq shareholders vs. Bezeq, Chairman of the Board of Bezeq, members of the Board of Bezeq, as well as members of the Eurocom Group and vs. the (former) CEO of Bezeq and CEO (former) and CFO of DBS	Tel Aviv District Court (Economic Department)	Motion for approval of class actions	For details regarding a motion for approval of a class action lawsuit filed against, among other things, the former CEO of DBS and its former CFO, in connection with a 2015 transaction in which Bezeq acquired the remaining shares of the DBS shares held thereby from Eurocom DBS, see section 2.18.1D.	
c.	July - August 2017	Bezeq shareholders against Bezeq and DBS	Tel Aviv District Court	Motion for disclosure of documents before submitting a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law	For details regarding a motion for disclosure of documents before submitting a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law against Bezeq and DBS, for disclosures of certain documents in connection with a 2013 DBS and Space stakeholder transaction as amended in 2017 (Space Agreement) See Section 2.18.1 Subsection E.	
d.	June 2018	Bezeq shareholders against The Company, DBS and the former	Tel Aviv District Court (Economic Department)	Request for disclosure and review of documents under section 198A of the Companies	For details regarding a motion for disclosure of documents prior to filing a motion for approval of a derivative claim in accordance with Article 198A of the Companies Law, which were filed by shareholders against Bezeq, DBS, the former controlling shareholder in Bezeq, Mr. Shaul Elovich, and his son, Mr. Or Elovich for the delivery of documents and information in connection with the breach of the fiduciary,	

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

	Date	Sides	Court	Type of procedure	Details	Amount of claim / remedies
		controlling shareholders of Bezeq		Law	fairness and trust obligations of Elovich in connection with the sale of Bezeq shares on February 2, 2016 by the Company, see section 2.18.1, subsection i.	
e.	יוני 2021	לקוחות נגד די.בי.אס	בית משפט מחוזי מרכז	בקשה לאישור תביעה ייצוגית	It ais alleged, among other things, that DBS customers who order a paid channel near the time of closing the invoice, and cancel it shortly thereafter (so that they are supposed to pay at a daily rate), are allegedly overcharged, due to a system malfunction. The definition of the class according to the motion is all DBS customers who were overcharged for ordering a paid channel as a result of a fault in D'sBS system, during the 7 years prior to submitting the motion for approval and until it is approved. The amount of the personal damage claimed is NIS 126.9 (NIS 26.9 for overcharging and NIS 100 for non-pecuniary damage). Please note that at this stage the applicant does not have the data required to assess the damage to the class members, At more than NIS 2.5 million. In November 2021, an motion was filed with consent for the applicant to withdraw while paying compensation and expenses to the applicant.	Over NIS 2.5 million.

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

	Date of filing the claim	Sides	Court	Type of procedure	Details	Original claim amount (NIS million)
a	June 2015	Customers vs. DBS	District (Center)	Monetary claims in conjunction with motions to recognize as class action	Claim regarding discrimination against new DBS customers compared to returning customers who were previously DBS customers, this is allegedly contrary to the provisions of the license and the law. Applicants sought non-pecuniary compensation for members of the represented class as well as to allow each subscriber to receive the terms received by returning subscribers ("**the First Motion**"). After the parties to the proceedings submitted summaries on their behalf to the Court, in July 2018 a hearing was held on all motions for approval against all communication companies, in which the Court advised applicants to consider a rewarded withdrawal from the motions for approval, and ruled that as long as the recommendation is not accepted by September 2018, a decision will be made by the Court in the motion for approval. In November 2018, as no further notice was filed in the matter, the Court ruled that the case would be transferred for a decision on the motions for approval. In December 2019, a ruling was received in the Tel Aviv-Yafo District Court rejecting all applications for approval. In January 2020, the petitioners in the First Motion filed an appeal against the judgment to the High Court. In February 2021 as part of a hearing on appeal, the High Court recommended that the appeal be withdrawn on their behalf, without an order	The amount of the claim that is the subject of the motion was estimated by the applicants at NIS 13 million plus non-pecuniary damage as will be decided by the Court. The applicant in the additional motion does not specify the amount of the claim, but estimates the extent of the damage in the tens of

	Date of filing the claim	Sides	Court	Type of procedure	Details	Original claim amount (NIS million)
					for costs. Following this, the first applicant announced the withdrawal of the appeal on her behalf. On February 16, 2021 the partial judgment of the High Court was given, ordering the striking out of the appeal of the first petitioner without an order for costs.	millions of NIS.
b	October 2021	Customer vs. DBS	Jerusalem District Court	Claim in conjunction with motion to recognize as class action	The motion concerns the fact that DBS is acting unlawfully in that when a customer orders a more advanced (new) converter from it, it provides the customer with the new converter without removing the old converter, while continuing to charge the customer monthly rent for the old converters in his home. The applicant claims that in doing so, DBS is acting, among other things, in bad faith, by deception and with a misleading presentation of invoices. The amount of personal damage claimed is NIS 193 (NIS 183 for overcharging and NIS 10 for violation of autonomy). On January 19, 2022, the Court approved an agreed motion to withdraw from the request, from which it emerged that the applicant was convinced that an exceptional fault had occurred in his case which did not reflect DBS's policy, and ordered its striking out.	The motions states that it is not possible to quantify the damage estimate to the class members at this stage.

5.18. Targets and strategy

5.18.1. DBS's targets are to maintain market share, while maintaining DBS's business and competitive position in the field and Yes's brand status as a leading communications brand, and continuing to take streamlining and synergy measures with Pelephone and Bezeq International.

As of 2019, DBS has been implementing a migration plan from satellite broadcasts to the Internet (OTT) in a long-term gradual procedure that is expected to be spread up to early 2026, in accordance with the decision of the Boards of Directors of DBS and Bezeq. The said decisions were made in light of the trends in the television content market, which include lowering entry barriers, entry of new players and establishing OTT broadcast technologies, changing the value chain and changing consumption habits, along with the differences between old satellite broadcast technology and OTT broadcast technology, changing the value chain and changing consumption habits, along with the differences between the old satellite transmission technology and the OTT transmission technology on the benefits inherent in it (also paying attention to the aspects of equipment, obligations and content rights). In accordance with the decision, DBS regularly monitors market conditions, competition and the technological environment, and frequently examines the applicability of the outline and the need, if any, to make changes to it, the pace of implementation or the manner in which it is implemented, taking into account its customer needs as well as regulatory amd other obligations of DBS.

Since this is the implementation of an outline for the transition in a multi-year gradual procedure, with ongoing monitoring, there is no certainty, at this stage, regarding the actual duration of the process and / or that the move as stated will be completed. As the transition is completed, it is expected to lead to savings in DBS expenses and a better adaptation to changing market conditions.

As of the date of approval of the statements, the rate of DBS subscribers using the Services Yes+ and StingTV transmitted via the Internet (as stated in the sections 5.2.2.1 and 5.2.2.2 above) is about 40%[89] of all DBS subscribers.

5.18.2. In order to achieve the aforementioned targets, along with actions to reduce

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

expenses, DBS invests considerable efforts in the areas of marketing and sales and in an appropriate marketing strategy designed to further recruit existing subscribers and retain existing subscribers; Continuous improvement in the subscriber service system; Upgrading customer value propositions, creating differentiation and originality in the content of its broadcasts; Offering a variety of products (both low cost and premium), increasing the volume of content purchased by each subscriber and expanding the added value services of DBS; As well as investment in the development and implementation of advanced technologies, advanced customer interfaces and new services; These efforts include the pursuit of DBS to implement the outline of the transition to OTT services.

5.18.3. For the structural change plan and for the establishment of ISP activity in DBS, see Section 1.1.5.

5.18.4. DBS's objectives as stated above, including with respect to the transition outline described above, are forward-looking information, as defined in the Securities Law, based, *inter alia*, on DBS's Management's assumptions, estimates and forecasts regarding the current trend in the broadcasting market, regarding competition, business developments, consumption habits, the technological environment, the regulatory environment and the manner of regulation (both on DBS and other parties) both in the satellite broadcasting market and in the Internet television broadcasting market (OTT), also paying attention to the restrictions that apply and will apply to Bezeq, which affect DBS. However, the predictions of the DBS Management, its preparations, objectives and the above outline may not materialize, or materialize in a materially different manner, in view of changes in demand in the broadcasting market, in view of the intensification of competition in this field or in its alternative fields, in view of change in technologies and in consumption habits, in view of the pace of development of market browsing rates, in view of regulatory restrictions imposed or imposed on DBS, or its collaborations with Bezeq and other parties in the field, and in view of how the field will be regulated both in relation to licensees and in relation to those who do not have licenses.

5.19. Discussion of risk factors

The following are the threats, weaknesses and other risk factors of DBS (“**the Risks**") arising from its general environment, from the industry and from the unique characteristics of its activities.

5.19.1. Macro Risks

5.19.1.1 Financial Risks - a significant portion of DBS's expenses and investments are made in US dollars (mainly content, satellite segments, purchase of end equipment and other logistics equipment). Therefore, sharp exchange rate changes have an effect on DBS's business results.

5.19.1.2 Recession / economic slowdown - an economic slowdown in the economy, an increase in unemployment rates and a decrease in disposable income may lead to a decrease in the number of DBS subscribers, a decrease in DBS revenues and damage to its business results.

5.19.1.3 Security situation - an ongoing deteriorating security situation in large areas of Israel, which disrupts the daily lives of the residents, could lead to a deterioration in the business results of DBS.

5.19.1.4 Epidemic - at the beginning of 2020, an outbreak of the COVID-19 virus began in the world. Subsequently, DBS monitors developments in connection with the consequences of the COVID-19 pandemic and the legislative restrictions that followed, which have affected and are affecting its business activities. These consequences are manifested and may be manifested, *inter alia*, in damage to the supply chain (including streamers) and in the customer service and sales system. As of the date of the report, no material decrease in DBS revenues is expected which can be attributed to the consequences of this outbreak. At the same time, naturally, this is a variable incident that is not under the control of DBS, and therefore the continuation of the COVID-19 pandemic and its aggravation and / or decisions of countries and authorities in Israel and around the world in this regard, may affect DBS accordingly.

5.19.2. Industry risks

5.19.2.1 Dependence on licenses - DBS satellite TV broadcasts are provided in accordance with the broadcasting license and through additional licenses, and therefore depend on the existence of these licenses and their extension from time to time. Violation of the provisions of the licenses, as well as the provisions of the law by virtue of which the licenses were granted, may result, subject to the conditions set forth in the licenses, to revoke, change, suspend or not extend the licenses and consequently materially impair DBS's ability to continue operating in the field.

5.19.2.2 Regulation - the provision of satellite television broadcasts is subject to the obligations and limitations set forth in the legislation as well as to the licensing regime, supervision and approvals by various regulatory bodies, and may therefore be affected and limited in light of policy considerations dictated by these bodies and their decisions (see section 5.15). Regulatory changes may affect DBS activity and may materially impair its financial results. The OTT services including those of DBS are not monitored, as of the date of the report (for the possibility of arranging these services, see section 5.15.2). Continued activity of content providers (and the entry of additional providers) via the Internet as stated in the section 5.1.1 without the application of regulatory rules to their activities and / or without appropriate amendment of the regulatory rules applicable to broadcast license holders, may materially impair the financial results of DBS. In addition, DBS's activity, as a company that provides services to the public, is subject, among other things, to legislation in the field of consumer protection as well as to the laws of protection of privacy and information security (see Section 1.7.4.5).

5.19.2.3 Fierce competition - the field is characterized by fierce competition with a variety of different competitors (see Section 5.1.7), which are also expected to increase in the future in the face of the entry of additional local and international factors, as well as a change in consumer preferences, that requires DBS to constantly and continuously invest in recruiting and retaining customers and dealing with high transfer rates of subscribers between companies, and may even require a change in DBS’s business model . For the characteristics of competition, see Section 5.6.

DBS’s estimate, as stated in this paragraph above in relation to the possibility of the entry of local and international factors, is forward-looking information. This assessment is based on DBS's assessments of the state of the industry and possible changes in it. This assessment may not materialize or partially or otherwise materialize in view of the materialization or non-materialization of plans by various factors to enter into the industry, the manner in which they are actually implemented and the conditions of competition that will prevail.

5.19.2.4 Technological developments and improvements - technological improvements and the development of new technologies that will make existing technology inferior, may require DBS to make large financial investments in order to maintain its competitive position (see Section 5.1.1).

5.19.2.5 Alternative infrastructure for multi-channel broadcasts - the activity of the DTT system, and in particular its expansion, as well as the deepening of the intrusion of OTT operators, may harm the financial results of DBS (see Section 5.1.1).

5.19.2.6 Unauthorized viewing - the field of broadcasts is exposed to the "pirated" connection of viewers to the reception of the broadcasts, without paying a subscription fee, and is also exposed to the public's access to content in which the broadcaster has rights.

5.19.2.7 Exposure to legal proceedings - DBS is a party to legal proceedings, including requests for approval of class actions, which may result in a charge of material amounts which cannot be assessed, and for which no provision has been made in its statements. These class actions can amount to large sums, as a substantial portion of Israel’s residents are DBS subscribers, and a claim relating to a small damage to a single subscriber may become a material claim to DBS, if recognized as a class action applicable to all subscribers or to a substantial portion thereof.

5.19.3. Special risks to DBS

5.19.3.1 Limitations as a result of the ownership structure - DBS is limited in its cooperation with Bezeq in relation to the offer of a basket of communications services in a manner that materially affects DBS's business situation and its competitive capabilities (see Section 5.15.3).

5.19.3.2 Restrictions as a result of the eligibility conditions - "cross" holdings of holders, directly or indirectly, in DBS, as well as a decrease in the holding rate of Israeli citizens or residents in DBS, may lead to non-compliance with the eligibility conditions of its broadcasting license (including in light of the Israeliness requirement (see Section 5.15.1.1).

5.19.3.3 Maintaining a sufficient cash flow - DBS must maintain a sufficient cash flow for the purpose of meeting its business plan. The lack of sufficient cash flow, including through investment or financing from Bezeq, may adversely affect DBS's business, as well as make it more difficult for it to deal with competitive threats in view of technological developments and changes in consumption habits in the field.

According to DBS, it is expected to continue to accumulate operating losses in the coming years and therefore without Bezeq’s support it will not be able to meet its obligations and continue to operate as a going concern. According to DBS, the sources of financing available to it, which include, *inter alia*, the working equity deficit and the credit and Bezeq’s investment framework in equity as stated in section 5.13, will meet the needs of DBS activity for the coming year.

5.19.3.4 Failure, damage, unavailability or termination of service in the satellite - DBS transmissions are made using space segments of satellites located at the same point in space. Failure to operate one of the satellites, damage to one of them or unavailability of space segments in any of the satellites, including unavailability of a satellite intended to replace a satellite that has ceased to transmit or provide services to DBS or termination of segment leasing in any of the satellites may significantly disrupt and reduce the volume of satellite broadcasts via satellite, unless an alternative is found to the segments of space that are not available as aforesaid and also in view of the lapse of time until the implementation of such an alternative. However, the duplication of satellites through which transmissions are made to subscribers as of the date of this report, also taking into account the partial backup mechanisms set forth in the Space Agreements (the quality and scope of which depend on the identity of the backed satellite), significantly reduces the risk of damage, failure or unavailability, and improve the survivability of the bulk of the broadcast. In the event of the availability of such satellite, it will be possible, through space segments available to DBS on the other satellite, to broadcast the channels broadcast by DBS (all or almost all) (for the Space Agreement, including backup mechanisms determined under it, see Section 5.16). However, according to DBS, the said duplication of satellites is expected to end in 2024, and from that period onwards, DBS will operate with one satellite - see Section 5.16. DBS does not have insurance for loss of revenue caused by satellite failure.

Termination of the receipt of the satellite services, for any reason (including due to the end of the agreement period), prior to the completion of the outline of the transition to transmission via the Internet in relation to a substantial part of DBS subscribers may result in substantial damage to DBS revenues.

The progress of the process of switching to or accelerating transmission via the Internet may reduce the vulnerabilities mentioned above involving the failure, damage, unavailability or termination of satellite services.

The assessment of DBS as stated in this paragraph above is forward-looking information. This assessment is based on the provision of space segments and the implementation of space backup mechanisms and space assessments in relation to the useful life of satellites, the beginning of the activity of new satellites, the end of the activity of existing satellites and the exercise of contracts in relation to them, and possible termination of lease of segments of space. This assessment may not materialize or be partially or otherwise materialized if there is a change in the useful life of the satellites and the exercise of their lease option or if space does not provide the BBC with alternative segments in the event of unavailability or failure of the space segments or satellites.

5.19.3.5 Dependence on the owner of the rights in the space segments - DBS has a substantial dependence on Space, as the sole rights holder and the sole supplier of the space segments used by DBS, which is also responsible for the operation of the space segments. In relation to Amos 7, the supply of the segments of space also depends on the third party who owns the satellite and the body responsible for its operation, with whom Space has contracted (see Section 5.16 and on the realization of its engagement with Space in relation to this satellite until the end of the period determined in a manner that will allow the continued leasing of the segments of space on this satellite.

5.19.3.6 Dependence on software suppliers, equipment, content, infrastructure and services - DBS has dependence on software vendors and equipment, as well as on certain content vendors (see Section 5.8.2 and 5.10.5) and receipt of certain services, including broadcast encryption services (see Section 5.8.5). Failure to receive the products and services provided by them may impair the functioning of DBS and its results. In addition, inability to purchase streamers or receiving support services from current provider, is expected to involve a period of preparation that will be required to make the alternative engagement and change their supply and support system.

5.19.3.7 Impairment of the activity of the broadcasting centers and the logistics center - Impairment of the activity of the broadcasting center may cause a significant limitation in the continuation of the broadcasts, but decentralization of broadcasts to two broadcasting centers (in Kfar Saba and the Ella Valley) partially reduces the risk of damaging one of them. In the event of damage to one of the broadcasting centers, DBS will be able to continue to broadcast from the other broadcasting center only part of its channels as part of the satellite broadcasts, as well as all VOD broadcasts. Each transmission center has the same satellite encryption system, and therefore there is full backup for the encryption system in case of damage to one of the transmission centers. In the event of a cessation of activity of the Kfar Saba site, OTT services will not be possible at all, and in the event of a cessation of activity of the secondary site only, the main activity of the OTT services will be possible through the Kfar Saba site, including broadcasting some channels and VOD service. Damage to the DBS logistics center may also disrupt its operations, and in particular the installation and maintenance of end equipment.

The assessment of DBS as stated in this paragraph is forward-looking information. This assessment is based on the provision of the provider services that operate the secondary broadcasting site in the event of an injury to the broadcasting center in Kfar Saba. This assessment may not materialize or partially or otherwise materialize if DBS is not allowed to receive the services of the said provider in full and properly.

5.19.3.8 Failure of DBS's computer systems - significant failure of DBS's major computer systems could significantly impair DBS's operational capacity. However, DBS has a remote backup site designed primarily for storing information and providing an internal computing service limited to failures in such a way that in the event of a failure of the DBS site's computer systems in Kfar Saba, it will be possible to reactivate the central systems through the backup site.

DBS's assessment in relation to the backup capability as stated in this paragraph is forward-looking information. This estimate is based on the functionality of the remote backup site. This assessment may not materialize or partially or otherwise materialize if such functionality is not possible.

5.19.3.9 Cyber risks - DBS is exposed to the risk of the occurrence of an activity intended to harm the use of a computer or computer material stored on it ("**cyber attack**"). Such attacks can disrupt business, cause theft of information / money, damage databases and subscriber privacy, damage to reputation, damage to systems and information leakage, which may also be caused by an intentional or inadvertent internal factor. As a leading company in the field of subscriber television broadcasting, DBS is a target for cyber attacks and experiences cyber attacks, which are handled by it.

DBS implements protection policies that include layers of protection ranging from a layer of procedures and policies to a physical layer of security systems and protection from cyber attacks operated in a configuration that combines effective security with the operating needs of DBS in order to protect its infrastructure and systems and reduce the illegal use of its resources.

Despite DBS's investments in measures to reduce such risks, DBS is unable to guarantee that these measures will succeed in preventing damage and / or disruption to the systems and information related to them.

5.19.3.10 Technical limitation that prevents the offering of integrated services – DBS's satellite infrastructure suffers from technical limitations compared to Hot infrastructure. The technical limitation prevents DBS from providing telephony, Internet and various interactive services, including VOD, on its satellite infrastructure, and therefore their supply depends on third parties.

5.19.3.11 Defects in the encryption system or its bypass – DBS's broadcasts via satellite and via the Internet, are based on the encryption of the broadcasts transmitted by it, including the encoding of its satellite broadcasts using the "smart cards" installed in the decoders in the satellite subscribers' houses. Defects in its encryption system or hacking or bypassing it may allow free viewing of DBS broadcasts, thereby leading to a decrease in revenue, as well as a breach of agreements between DBS and its content providers.

5.19.3.12 Lack of exclusivity in the field of frequencies - the field of frequencies used by DBS to transfer satellite transmission from the transmission satellites to the reception dishes installed in the subscribers' homes, and which has been allocated under a license by the Ministry of Communications, is defined as a frequency range that an Israeli entity that may make authorized use of in the field of frequencies. If the holder of the main allotment uses the above-mentioned frequencies, disruptions in the quality of the DBS broadcasts and / or the availability of the broadcasts to the subscriber may result in damage to the financial results of DBS. As of the date of this report, to the best of DBS's knowledge, no holder of the main allotment used the said frequencies in a manner that caused actual and / or persistent interruptions in DBS broadcasts.

5.19.3.13 Interference for transmissions - since DBS transmissions via satellite are transmitted wirelessly from the transmission centers to the transmission satellites and from there to the reception dishes in the subscribers' houses, transmission of wireless signals, in the same frequency range, whether originating in Israel and abroad, and extreme weather conditions of heavy rain, hail or snow may cause disruptions in the quality and / or availability of the broadcasts via the satellite provided by DBS to the subscriber and material damage to its financial results. In relation to broadcasts via the Internet, there may be disruptions in the quality and / or availability of the broadcasts as a result of disruptions or unavailability of the Internet infrastructure.

5.19.3.14 Labor relations - DBS is a party to a collective agreement with the Histadrut and the Employees' Committee, which may reduce its administrative flexibility (see section 5.11.3). In addition, In addition, disruptions in labor relations at DBS, and possibly also at other Bezeq subsidiaries, could cause damage to DBS's day-to-day operations.

5.19.3.15 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 for the loss of key employees, loss of knowledge as a result of employee turnover and difficulty in recruiting employees, etc.

5.19.3.16 Delay in improving internet browsing speeds - as BDS's outline for the transition to OTT broadcasting (see Section 5.18.1) is also based on an improvement in Internet browsing speeds, nationwide, failure to improve browsing speeds through the deployment of fiber optics or through the implementation of another technological solution, by the Company or other communications operators, can delay the implementation of the layout or impair its implementation.

DBS assessments as to the browsing speeds required to enable OTT broadcasts as designed in an outline in a way that enables the operation of several converters in a customer's home is forward-looking information. These estimates are based on the expected development in browsing speeds, taking into account, among other things, the expected needs of customers' homes and the expected mix of broadcasts. These assessments may not materialize or materialize differently if there is a delay in improving Internet browsing rates or a change in customer needs or DBS.

Below is a presentation of the risk factors according to their influence in the opinion of the DBS's Management. It should be noted that the following DBS assessments regarding the extent of the risk factor's impact on DBS reflect the extent of the risk factors' impact in assuming the materialization of the risk factor, and the aforesaid does not express any assessment or give any weight to such prospects. In addition, the order in which the risk factors appear above and below is not necessarily according to the risk inherent in each risk factor or the probability of its occurrence.[90]:

Risk Factors Summary Table - Multi-Channel TV

	The degree of influence		
	High	Medium	Small
Macro risk			
Financial risks		X	
Recession / economic slowdown			X
Security situation			X
Pandemic		X[91]	
Industry risk			
Dependence on licenses	X		
Changes in regulation	X		
Fierce competition	X		
Technological developments and changes		X	
Alternative infrastructures		X	
Unauthorized viewing		X	
Exposure to legal proceedings		X	
Unique risk			
Limitations as a result of the ownership structure		X	
Restrictions due to eligibility conditions	X		
The need to maintain a sufficient cash flow	X		
Satellite failure and damage	X		
Dependence on the supplier of space segments	X		
Dependence on software, content, equipment and infrastructure vendors	X		
Impairment of the activity of the broadcast centers	X		
Failure of computer systems	X		
Cyber failures	X		
Technical limitation that prevents the offer of integrated services		X	
Encryption system failure	X		
Lack of exclusivity in frequencies		X	
Interference with transmissions	X		
Work relations			X
Loss og knowledge and information		X	
Delay in improving internet browsing rates	X		

The information contained in this section 5.19 and DBS's assessments regarding the impact of risk factors on DBS's activities and business, are forward-looking information as defined in the Securities Law. The information and assessments are based on data published by the regulatory bodies, on DBS's assessments of the market situation and its competitive structure, on possible developments in the Israeli market and economy, and on the factors specified in this section above. The actual results may differ materially from the estimates given above if there is a change in one of the factors taken into account in these estimates.

90 See footnote 51.

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

6. The Company

6.1. Financing

6.1.1. The Company's debentures

For details about the debentures issued by the Company See Note 14 to the 2021 statemtns and Section 4 of the Board of Directors' Report.

6.1.2. Credit rating

As of August 13, 2020, the Company's debentures are not rated in any rating. On the eve of the termination of the rating, the rating of the Company's debentures (Series C) by Midroog was Caa2.il, with a stable rating horizon.

6.2. Legal proceedings

6.2.1. On March 30, 2020, the Company reached a settlement regarding the derivative claim filed in July 2016 in the Tel Aviv-Yafo District Court (hereinafter "the Horev claim"). As part of the settlement agreement, the Company received, during the third quarter of 2020, a total amount of NIS 22 million (principal plus accrued interest) of the Company's Series C debentures held by Internet Gold - Gold Lines Ltd. (hereinafter "Internet Gold"), in exchange for waiving the derivative claim against Internet Gold. In addition, the derivative plaintiff received an amount of NIS 4.23 million in respect of attorneys' fees and monetary compensation (which were paid out of the NIS 22 million that Internet Gold is required to pay). The net amount received by the Company is charged directly to the Company's shareholders' equity under the Loss balance item.

6.2.2. On March 4, 2020, the Company signed a settlement agreement that settles the class action lawsuit filed against the Company in the Southern District of New York in the United States, which was filed against the Company in 2017. On August 10, 2020, the final approval was received from the Court for a settlement, during which the settlement payments were made. The Company paid a sum of USD 1.2 million, which was fully covered by the insurance of the directors and officers of the Company, who exempted the Company from all claims relating to the class action by both the plaintiffs and the members of the settlement, without any admission of guilt.

6.2.3. In June 2017, two motions for approval of a class action lawsuit, in the total amount of NIS 1.8 billion, were filed against the Company, Bezeq, officers in the Group and companies from the then controlling group in Bezeq regarding the purchase of DBS shares by Bezeq from Eurocom. According to the decision of the Court, a consolidated motion is expected to be filed in lieu of these two motions.The said procedure has been delayed at the request of the Attorney General several times, when as of this date, the procedure has been delayed till July 2022.

6.2.4. In addition, on June 2, 2020, the Company and former directors of the Company signed a settlement agreement as part of the Horev claim, according to which the directors will pay an amount of NIS 2.5 million (hereinafter "the directors settlement amount") to the Company. On July 2020, the district Court approved the settlement agreement, and the directors' insurance paid the company the full directors' settlement amount. As part of the settlement, the Company paid the derivative plaintiff and his attorney a total of NIS 720,000. The net amount received by the Company is charged directly to the Company's shareholders' equity under the loss balance item.

6.2.5. On August 10, 2020, the Court in New York (the New York Southern District District) the settlement in the class action lawsuit filed against the Company, according to which, among other things, the insurance company that insured the Company paid a total of USD 1.2 million. See the Company's immediate report dated August 12, 2020 (Reference No. 2020-02-087540).

6.2.6. On September 14, 2020, a settlement agreement was completed in a derivative lawsuit against the Company in connection with claims regarding the distribution of a dividend of NIS 113 million by the Company, of which approximately NIS 73 million was paid to Internet Gold - Gold Lines Ltd. ("**Internet Gold**"). In 2016. As part of the settlement agreement, the Company received debentures (Series C) of the Company worth approximately NIS 22 million (principal and accrued interest) which were held by Internet Gold, in exchange for waiving the claim against Internet Gold. The Company also paid the derivative plaintiff a total of approximately NIS 4.23 million for expenses, attorneys' fees and remuneration.

In November 2020, a claim was filed with the Tel Aviv District Court (Economic Department) accompanied by a motion for approval as a class action by a private person who claims to be a shareholder of Bezeq ("**the Applicant**") against the Company, Bezeq and members of Bezeq's Board of Directors ("**the Respondents**"). The matter of the motion is the approval of a class action for compensation of the Applicant and the members of the represented group for damages caused to them, according to the motion, "due to Bezeq's failure to report and disclose to the Tel Aviv Stock Exchange (hereinafter: "**TASE**") and the concealment of material information from investors, in connection with a public report on "the Ministry of Communications' moves to eradicate the phenomenon of dual subscribers in the field of ISP Internet services, on the extensive and substantial scope of the phenomenon of dual subscribers in the Bezeq International subsidiary (hereinafter: "**Bezeq International**") and their material negative impact on the business of the subsidiary and Bezeq". The definition of the group according to the motion is anyone who purchased the Bezeq shares from August 17, 2020 until October 30, 2020 and held the above shares or some of them on October 30, 2020, except for the respondents and / or those on their behalf and / or entities related to them. In the application, the damage caused to the group members as a result of the incidents that are the subject of the lawsuit amounts to approximately NIS 55 million to NIS 65 million, based on an expert opinion attached to the motion. In December 2021, the Company filed a motion for *in limine* dismissal of the motion for approval against it, *inter alia*, because the motion for approval does not specify claims against the Company and because for most of the relevant period the Company was a dual company so the law applied to it is US law, and because the motion is not supported by the opinion of an expert on foreign law. In July 2021, the respondents filed a response claiming that the motion for approval was unbased, *inter alia*, due to the fact that the information alleged in the motion for approval that was required for publication did not meet the standards set by law for the purpose of establishing a reporting obligation, accompanied by an arrangement procedure and in combination with professional consultants and under the supervision of the Board of Directors, and hence, the appropriate means to comply with the provisions of the law were performed, and these findings contradict the applicant's contention. After several hearings for responses and a pre-trial hearing in February, a decision was made in which the parties were asked to update whether they wished to hold a mediation, an additional preliminary hearing or to coordinate a hearing. The parties have announced that they are working to coordinate deadlines for evidentiary hearings.

In November 2020, a lawsuit was filed in the Tel Aviv District Court (Economic Department) with motion for approval as a class action by a private individual ("**the Applicant**") who claims is a shareholder of the Company who claims to hold the Company's shares and Bezeq shares, against the Company, Bezeq and 72 other respondents, which include past and present officers in the two companies ("**the Respondents**"). The matter of the application is the approval of a class action for compensation of the Applicant and the members of the represented groups for damages caused to them, as alleged in the motion, as a result of the Respondents' actions and omissions when they refrained from disclosing to the investing public seemingly material information that they had to disclose in accordance with the provisions of the law, in connection with the two companies' report dated November 9, 2020 according to which Bezeq International books have unexplained net asset balances (deductible) of tens of millions of NIS, whin a significant portion of them otiginate, apparently, in past periods of more than 15 years. The definition of the groups according to the motion is: (a) Anyone who purchased Bezeq shares from November 8, 2005 to November 9, 2020, except the Respondents or those on their behalf and (b) Everyone who purchased the Company's shares on the Tel Aviv Stock Exchange from November 8, 2007 to November 9, 2020, except the Respondents or those on their behalf. The amount of the class action specified in the statement of claim is "over NIS 2.5 million (for matters of substantive authority)" when in accordance with the economic opinion that was attached to the motion, "the estimate for the drop in the price of the security" in respect of the information included in the immediate report dated November 9, 2020 is 5.26%-5.40% in relation to Bezeq and 9.07% - 9.36% in relation to the Company.

6.2.7. In January 2021, the Company submitted a motion for *in limine* dismissal of the motion for approval and a request for an extension. In April 2021, a hearing was held on the motion for dismissal, in which it was determined that only after a date has been set for the hearing of the request for disclosure of documents, a date will be set for submitting answers to the motion and another hearing will be scheduled. As of this date a hearing for the disclosure of documents is scheduled for April 2022, and a date for a hearing is expected to be scheduled for May 2022.

B Communications Ltd.	Date

Names and roles of the signatories:
Darren Glatt, Chairman of the Board
Tomer Raved, CEO

7. Appendix A - Glossary

A. Names are abbreviated according to the legislation that appear in the report

Consumer Protection Law	-	Consumer Protection Law, 5741-1981
Economic Competition Law	-	Economic Competition Law, 5748-1988
Companies Law	-	Companies Act, 5769-1999
Non-Ionizing Radiation Law	-	The Non-Ionizing Radiation Law, 5776-2006
Centralization Law	-	Law for the Promotion of Competition and the Reduction of Centralization, 5774-2013
Second Authority Law	-	Second Television and Radio Authority Law, 5755-1990
Planning and Construction Law	-	Planning and Construction Law, 5725-1965
Communications Law	-	The Communications (Bezeq and Broadcasting) Law, 5742-1982
Securities Law	-	Securities Law, 5728-1968
Rules of communication		Rules of Communication (Holder of a Broadcasting License), 5747-1987
Telegraph Order		Wireless Telegraph Order [New Version], 5732-1972
Usage regulations		Communications (Bezeq and Broadcasting) Regulations (Use of an NIO's Public Network), 5775-2014
The media order		Communications Order (Bezeq and Broadcasting) (determination of an essential service provided by Bezeq, The Israel Telecommunications Company Ltd.), 5777-1997
The Planning and Construction Regulations (Exemption from the Permit)	-	Planning and Construction (works and buildings exempt from the permit), 5774-2014
Prospectus Details Regulations	-	Securities Regulations (Prospectus Details, Draft Prospectus Structure and Form), 5729-1969
Reciprocal linking regulations	-	Communications Regulations (Bezeq and Broadcasting) (Payments for Reciprocal Linking), 5764-2000
Satellite Broadcasting License Regulations	-	Communications Regulations (Bezeq and Broadcasting) (Procedures and Conditions for Licensing Satellite Broadcasting), 5758-1998

B. Technological terms and other key terms appearing in the report[92]

Internet Gold	-	Internet Gold Gold Lines
Bezeq Online	-	Bezeq online Ltd.
Bezeq International	-	Bezeq International Ltd

92 It should be noted that the definitions of the terms are provided for the convenience of the reader, and are not necessarily identical to the definitions in the Communications Law or its regulations.

BAP	-	BAP Communications Solutions (Limited Partnership) which is controlled by Bezeq International
Golan telecom	-	Golan Telecom Ltd.
2021 statements	-	The Company's consolidated financial statements for the year ended December 31, 2021
Interconnectivity fee	-	The interconnectivity fee (also called the call completion fee) is a payment that one operator pays to another operator for a reciprocal link (see definition below)
DBS	-	DBS Satellite Services (1998) Ltd.
Hot	-	Hot Communications Systems Ltd., and corporations under its control that operate in the field of broadcasting (multi-channel television)
Hot Telecom	-	Hot Telecom Limited Partnership
Hot Mobile	-	Hot Mobile Ltd. (formerly MIRS Communications Ltd.) and corporations under its control
Hot-Net	-	Hot-Net Internet Services Ltd.
The Stock Exchange	-	The Tel Aviv Stock Exchange Ltd.
The Histadrut	-	The New General Workers' Union
Council	-	Cable and Satellite Broadcasting Council
The Second Authority	-	The Second Television and Radio Authority
Walla	-	Walla! Communications Ltd. and corporations under its control
Space	-	Space Communications Ltd.
Eurocom DBS	-	Eurocom DBS Ltd.
Eurocom Communications	-	Eurocom Communications Ltd.
Switching	-	In the context of a communications network - a telephony system that supports the connection of devices for transferring calls between different end units
Mbps	-	Megabits per second; Measurement unit for data transfer speed
NIO	-	National interior operator; A body that provides landline interior telephony services under a general or unique NIO license
Roaming	-	Roaming services allow a customer of one communication network to receive services from another communication network other than his "home network" (the network with the license he subscribes to), based on roaming agreements between the home network and the host network
Network endpoint	-	Network endpoint - an interface to which one is connected, on the one hand a public Bezeq network and on the other hand end equipment or a private network. Network endpoint services include the supply and maintenance of equipment and services in the customer's premises
Cellcom	-	Cellcom Israel Ltd. and corporations under its control
Pelephone	-	Pelephone Communications Ltd.
Fiber project		The Company's plan for the deployment of ultra-broadband landline infrastructure that includes a massive deployment of fiber optics across the country on a large scale that will enable the offer of ultra-

		fast Internet services.
Partner	-	Partner Communications Ltd. and corporations under its control
Interconnectivity	-	Interconnectivity enables the transmission of instant messages between subscribers of different licensees, or the provision of services by one licensee to the subscribers of another licensee; Interconnectivity is possible through a connection between a public Bezeq network of one licensee (for example - Bezeq) and a public network of another licensee (for example - a cellular operator); See also " Interconnectivity Fee" Definition
Mobile phone radio	-	Mobile radio telephone phone; Cellular telephony
Unified general license / unified license	-	A general license that is one of the following or a license that unites several thereof: (1) a unique general license; (2) a general mobile radio telephone license in another network; (3) a general license for the provision of Bezeq International services; (4) a special license for the provision of network endpoint services; (5) Special license for the provision of Internet services.
NIO license	-	Unique general or general license for the provision of landline interior Bezeq services
Mobile Radio license		General license for the provision of mobile radio telephone services - in the cellular method
Broadcasting license	-	License for satellite television broadcasts
ILA	-	Israel Lands Authority
Rami Levy	-	Rami Levy Cellular Communications Ltd.
Bezeq services	-	Performing Bezeq operations (transmission, transfer or reception of signs, signals, writing, visual forms, sounds or information, using wire, wireless, optical system or other electromagnetic systems) for others
Transmission services	-	Electromagnetic signal transmission or bit sequence
Data communication services	-	Network services for data transfer from point to point, data transfer between computers and various communication networks and remote business access services
Reporting period	-	Twelve months ended December 31, 2021
Bitstream Access (BSA)	-	Managed broadband access that allows provider services to connect to the infrastructure owner network and offer broadband services to subscribers
xDSL	-	Digital Subscriber Line - technology that uses the copper wires of telephone lines to transmit data at high rates by using frequencies higher than the audible frequency and therefore allows simultaneous use of call and data transmission
DTT	-	Digital Terrestrial Television- Wireless digital broadcasting of TV channels via terrestrial relay stations
GSM	-	Global System for Mobile Communications - International Standard for Cellular Communication Networks ("2G")
HD	-	High Definition TV - High definition (broadcast) TV broadcasts
HSPA	-	High Speed Packet Access - Cellular technology that is a continuation of the UMTS standard that enables data transfer at high

		speeds ("3.5G")
IBC	-	ABC Israel Broadband Company (2013) Ltd.
IP	-	Internet Protocol. The use of this protocol enables convergence between voice (data) and contractual (video) services over the same network
IPVPN	-	A virtual private network (Virtual Private Network) based on an Internet Protocol (IP) which is established on the public network, and through which it is possible to: (a) allow end users to connect to the corporate network and perform remote access; And - (b) make a connection between the branches of the organization (intranet)
ISP	-	Internet Service Provider - has a special license to provide Internet access services (Internet Service Provider). The Internet access provider is the body that allows the end user to connect to the IP / TCP protocol that connects it to the global Internet network
LTE		Long Term Evolution - Fast WIFI mobile standard devices such as cell phones
MVNO	-	Mobile Virtual Network Operator - a virtual cellular operator, which uses the existing communication infrastructure of the cellular operators without the need for its own infrastructure
NGN	-	Next Generation Network - Bezeq's communications network based on IP architecture
UMTS	-	Universal Mobile Telecommunications System - an international standard for cellular communications that is a development of the GSM standard ("3G")
VoB	-	Voice Over Broadband - Telephony services and related services in IP technology using landline broadband access services
VoC	-	Voice over Cellular Broadband - Telephony services over a cellular data communication channel ("Mobile VoB Services")
VOD	-	Video on Demand - TV services on demand by the subscriber
VoIP	-	Voice over Internet Protocol - technology that enables the transmission of voice messages (telephony service delivery) via IP protocol
Wi-Fi	-	Wireless Fidelity - Wireless access to the Internet in the local area

8. Appendix B - Financial Indices and Operational Performance Indices (Key Performance Indicators)

General

The indices below, which are specified in the chapters of Bezeq's periodic report, are financial indices that are not defined or detailed in generally accepted accounting principles included in the financial statements. The definition of the indices and / or how they are calculated may change from time to time, they do not constitute a substitute for indices based on accepted accounting rules and they may not even be calculated in the same way as parallel indices in other companies.

Details will be provided below in relation to the aforesaid indices, including in accordance with the update of the decision of the Securities Authority 99-6 regarding the use of financial indices that are not based on generally accepted accounting rules.

Financial indices

EBITDA

(Earnings Before Interest, Taxes, Depreciation and Amortization) EBITDA is defined as profit before financing expenses (revenue), taxes, depreciation and amortization. The EBITDA index is an accepted index in the field of the Company's activity which neutralizes aspects due to differences in the capital structure, various aspects of taxation and the manner and period of the reduction of property, plant and equipment and intangible assets. The Company's EBITDA is calculated as operating profit before depreciation, amortization and impairment (ongoing losses from impairment of property, plant and equipment and intangible assets). As of January 1, 2019, and for the purpose of adequately presenting economic activity, the Company presents ongoing losses from impairment of property, plant and equipment and intangible assets in the DB and Walla under depreciation and amortization, as well as ongoing losses from impairment of broadcasting rights under operating expenses and general expenses (in the statement of income).

Free flow (Free Cash Flow - FCF)

The Company's free cash flow is calculated as cash arising from current activities less cash for the purchase / sale of property, plant and equipment and intangible assets (net) and as of 2018, with the application of a IFRS16 standard, payments for leases are also deducted. The free cash flow index is an accepted index in the field of the company's activity in general and it represents the cash that the Company is able to produce after the investment needed to maintain or expand its asset base.

Operational performance indices (Key Performance Indicators)

ARPU (Average Revenue Per User)

The ARPU reflects the average monthly income per line / subscriber / parent house and is calculated as the monthly average distribution of the total relevant income for the period in the average number of active lines / subscribers / households in that period, as applicable. It will be clarified that the Group has four main areas of activity that correspond to the corporate division between the Group companies and the definition of a different active subscription between the areas of activity.

Churn rate

The churn rate reflects the Company's ability to retain its customer base and is calculated as the distribution of the number of lines / subscribers / households that disconnected from the Company's services during the period in the average number of active lines / subscribers / households in that period, as applicable. It will be clarified that the Group has four main areas of activity that correspond to the corporate division between the Group companies and the definition of a different active subscription between the areas of activity.

Chapter B

Report of the Board of Directors on the State of Affairs of the Corporation for the Year Ended December 31, 2021

Report of the Board of Directors on the state of affairs of the corporation for the year ended December 31, 2021

The Board of Directors of B Communications Ltd. (“**the Company**") is honored to submit the Board of Directors' report on the State of the Company and consolidated for all Group Companies (the Company and the Subsidiaries will be collectively referred to hereinafter as: "**the Group**"), for a period of twelve months ended December 31, 2021 (“**the Report Date**") in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 ("**the Reporting Regulations**").

General - a summary of the Company's business

As detailed in the report on the corporation's business (Part I of this periodic report), the Company operates, through a number of investee companies, in the field of communications.

For further details about the Group's businesses, see the report on the corporation's business (Part A of this periodic report).

For the investigation by the Securities Authority and the Police, see Note 1.3 to the Company’s financial statements for the year ended December 31, 2021 (“**the Statements**").
The auditors referred to this in their opinion on the Statements.
Regarding the effects of COVID-19 crisis, see Section 1.8 below.

The Group reports on four main operating segments in its financial statements as follows:

1. Fixed line communication
2. Cellular communication
3. Internet, international communications, network endpoint services and ICT solutions (“hereinafter: “Bezeq International Services”).
4. Multi-channel TV

For further information, see Note 28 to the Statements.

The following are consolidated results of the Group:

	2021	2020	Increase	
	NIS millions	NIS millions	NIS millions	%
Net profit	**996**	900	96	10.7
EBITDA*	**3,745**	3,566	179	5
Adjusted EBITDA*	**3,695**	3,647	48	1.3

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

The increase in net profit in 2021 compared to 2020 was mainly due to an increase in capital gains from the sale of assets in the Fixed line communications segment, as well as an increase in profit in the cellular communications segment.

For more information see Chapter 1.2 below.

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

As of the Report Date, the Group's Management is assisted by financial performance indices that are not based on the generally accepted accounting rules for examining and presenting the Group's financial performance. These indices do not constitute a substitute for the information contained in the Company's financial statements.

The following is a breakdown of the indices:

Index	Details of the method of calculation and the purposes of the index
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Defined as profit before financing expenses (income), taxes, depreciation and amortization. The EBITDA index is an accepted index in the Group’s field of activity which neutralizes aspects due to differences in the capital structure, various aspects of taxation and the manner and period of the amortization of property, plant and equipment and intangible assets. The Group's EBITDA is calculated as operating profit before depreciation, amortization and impairment (including ongoing losses from impairment of property, plant and equipment and intangible assets as described in Note 3.10.2 and 10.5 and 10.6 to the Statements).
Adjusted EBITDA	Calculated as an EBITDA index net of other operating expenses / income, net and one-off losses / profits from impairment / increase in value and expenses in respect of a capital remuneration plan. The index allows comparisons of operational performance between different periods while neutralizing one-off effects of exceptional expenses / income. It should be noted that the correlated EBITDA index should not be compared to indices with a similar name reported by other companies due to a possible difference in the way the index is calculated.

	2021 NIS millions	2020 NIS millions
Operating profit	**1,856**	1,708
Depreciation, amortization and impairment	**1,889**	1,858
EBITDA	**3,745**	3,566
Other operating expenses (income), net	**(77)**	73
Impairment loss	**-**	8
Expenses in respect of a capital remuneration plan	**27**	-
Adjusted EBITDA	**3,695**	3,647

1. Explanations by the Board of Directors on the state of the corporation's business, the results of its operations, shareholders' equity, cash flows and other matters

1.1 The financial position - Assets

	December 31, 2021	December 31, 2020	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Cash and current investments	**2,132**	1,775	357	20.1	The increase was due to an increase in cash balances and current investments in the Fixed line communications segment, due in part to the issuance of debentures in December of the current year (Series 13 and 14). For further information, see Chapter 1.4 below.
Current and non-current trade receivables	**2,572**	2,315	257	11.1	The increase was mainly due to an increase in customer balances in the cellular communications segment as well as in the Bezeq international services segment, mainly due to the effect of the employee sanctions taken during the months of August-November in 2021, which led to delays in billing and collection from customers.
Inventory	**74**	73	1	1.4	
Assets held for sale	**-**	10	(10)	-	
Broadcasting rights	**60**	67	(7)	(10.4)	
Right-of-use assets	**1,828**	1,804	24	1.3	
Property, plant and equipment	**6,312**	6,131	181	3.0	The increase was due to the Fixed line communications segment, due in part to the progress of the fiber network deployment project, see Note 9.4 in the Statements.
Intangible assets	**3,251**	3,268	(17)	(0.5)	
Deferred expenses and non-current investments	**306**	402	(96)	(23.9)	The decrease in 2021 is mainly due to the classification of long-term deposits in the Company as short-term.
Deferred tax assets	**24**	108	(84)	(77.8)	In 2021, a deferred tax asset of NIS 37 million was exercised, which was recognized in 2020 in respect of a loss for tax purposes from the sale of Walla, see Note 7.5 in the Statements.
Total assets	**16,559**	15,953	606	3.8	

1.1. Financial position (Cont.) – Liabilities and capital

	December 31, 2021 NIS millions	December 31, 2020 NIS millions	Increase (decrease) NIS millions	%	Explanation
Debt to financial institutions and bondholders	**10,048**	10,270	(222)	(2.2)	The decrease in debt was due to the repayment of bonds and repayment (including early repayment) of loans, offsetting the issuance of Series 13 and 14 Series bonds by Bezeq and Series F bonds in the Company, as well as receiving loans in the Fixed line communications segment, see Note 13 to the Statements.
Leases Liabilities	**1,977**	1,907	70	3.7	For further information, see Note 8 to the Statements.
Trade payables	**1,755**	1,766	(11)	(0.6)	For further information, see Note 4 to the Statements.
Employee benefits	**753**	817	(64)	(7.8)	The decrease was due to payments for the retirement of employees and streamlining plans in the Group, offsetting the increase in the provision for the termination of the employee-employer relationship in early retirement, see Note 16.5 and 24 in the Statements.
Provisions	**118**	169	(51)	(30.2)	The decrease was mainly due to a decrease in provisions for claims in the Fixed line communications segment, see Note 15 to the Statements.
Deferred tax liabilities	**296**	290	6	2.1	
Other liabilities	**142**	307	(165)	(53.8)	The decrease was mainly due to the classification of an obligation to pay for the cost of 5G frequencies in the cellular communications segment for current liabilities and a decrease in derivatives in the Fixed line communications segment.
Total liabilities	**15,089**	15,526	(437)	(2.8)	
Non-controlling interests	**1,454**	534	920	172.3	
Total capital (capital deficit) attributed to the Company's shareholders	**16**	(107)	123	-	The capital constitutes approximately 0.1% of the total balance sheet, compared with a deficit in capital which constituted approximately 0.6% of the total balance sheet on December 31, 2020.
Total capital	**1,470**	427	1,043	244.3	
Total liabilities and capital	**16,559**	15,953	606	3.8	

1.2. The results of operations

1.2.1. Results summary

	2021	2020	Increase		Explanation
	NIS millions			%	
Revenue	**8,821**	8,723	99	1.1	The increase in revenues was mainly due to the cellular communications segment, as well as the Fixed line communications segment, offset by a decrease in the revenues of the Bezeq International segment and in the multi-channel television segment.
Operating and general expenses	**3,265**	3,182	81	2.6	The increase was mainly due to the Fixed line communications sector as well as the cellular communications segment, offset by a decrease mainly in DBS expenses. There is an increase in the Group's expenses, among other things, due to the recognition of an expense for the incentive fund regarding the deployment of the fiber optic network, see Notes 9.4 and 18.7 to the Statements.
Salaries	**1,888**	1,894	(6)	(0.3)	The increase in salary expenses in the Fixed line communications segment and in the "other" segment was offset by a decrease in the other main segments of the Group due to a decrease in the number of jobs. In the current year, the Group recognized salary expenses in respect of share-based payment, see Note 26.4 to the Statements.
Depreciation, amortization and impairment	**1,889**	1,858	31	1.7	The increase was mainly due to the Fixed line communications sector as well as the Bezeq International services segment, offset by a decrease in the cellular communications segment.
Impairment loss, net	**-**	8	(8)	-	
Other operating expenses (income), net	**(77)**	73	(150)	-	The change was mainly due to an increase in capital gains in the Fixed line communications segment, offset by an increase in expenses due to the termination of the employee-employer relationship in early retirement in the Group, see Notes 24 and 16.5 to the Statements.
Operating Profit	**1,856**	1,708	151	8.7	
Financing expenses, net	**478**	474	4	0.8	The increase was mainly due to the early repayment of Series D and E series as well as the partial early repayment of Series C debentures, offset by a decrease in financing expenses in the Fixed line communications segment. See Notes 13 and 25 to the Statements.
Income taxes	**382**	334	48	14.4	For further information, see Note 7 to the Statements.
Profit in the year	**996**	900	96	10.7	

1.2.2. Operating segments

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

	2021		2020	
	NIS millions	% of total revenue	NIS millions	% of total revenue
Revenue by operating segments				
Fixed line communication	**4,182**	**47.5**	4,159	47.7
Cellular communication	**2,289**	**25.9**	2,186	25.1
Bezeq International services	**1,237**	**14**	1,271	14.6
Multi-channel TV	**1,270**	**14.4**	1,287	14.7
Others and adjustments	**(157)**	**(1.8)**	(180)	(2.1)
Total	**8,821**	**100.00**	8,723	100.00

	Year 2021		Year 2020	
	NIS million	% of segment revenue	NIS million	% of segment revenue
Operating profit (loss) by operating segment				
Fixed line communication	**1,748**	**41.8**	1,705	41.0
Cellular communication	**42**	**1.8**	(84)	(3.8)
Bezeq International services	**22**	**1.8**	(241)	(19.0)
Multi-channel TV	**(41)**	**(3.2)**	(42)	(3.3)
Others and adjustments	**85**	**-**	370	-
Consolidated operating profit / percentage of Group revenue	**1,856**	**21**	1,708	19.6

*** The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. In addition, see Note 31.4 to the Statements regarding a summary of selected data from the financial statements of DBS.**

1.2.2. Activity segments (Cont.)

b. **Fixed line communications segment**

	2021	2020	Increase (decrease)		Explanation
	NIS millions			%	
Internet infrastructure	**1,624**	1,622	2	0.1	There has been an increase in the average revenue per retail subscription, mainly from complementary end equipment and the launch of customer services on the fiber network, starting in March 2021, as well as an increase in the number of Internet lines in retail. The increase was offset by a decrease 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 due to a decrease in the average revenue per telephone line, mainly due to the moderation of the effect of the COVID epidemic on the consumption of calls, as well as a decrease in the number of lines.
Transmission, data communication and other	**1,327**	1,241	86	6.9	The increase was due, among other things, to an increase in revenues from transmission services to Internet providers and businesses and from paid jobs.
Cloud and digital services	**318**	288	30	10.4	The increase was mainly due to virtual exchange services as well as business directory services (B144) and business services.
Total	**4,182**	4,159	23	0.6	
Operating and general expenses	**667**	590	77	13.0	The increase was mainly due to an increase in expenses of subcontractors and costs of end equipment and materials due to, among other things, the deployment of the fiber network and paid jobs, as well as recognition of the expense for the incentive fund as part of the amendment to the Company's license regarding the deployment of the fiber optic network (see Notes 9.4 and 18.7 to the Statements), to offset a decrease in connectivity expenses for communications operators in parallel with a decrease in telephony revenues.
Salaries	**934**	919	15	1.6	The increase was mainly due to employee absorption, wage increases and recognition of share-based payment expenses (see Note 26 to the Statements), offsetting employee retirement and increasing salary attributed to investment.
Depreciation and amortization	**938**	877	61	7	
Other operating expenses (income), net	**(105)**	68	(173)	-	The change in other net operating income was due to an increase in capital gains from the sale of real estate, an update of the provision for legal claims and also due to one-off grant expenses for employees included in the corresponding year. On the other hand, there was an increase in expenses recognized in respect of the termination of the employee-employer relationship in early retirement, and in the corresponding year capital gains from the sale of Walla were included, see Note 16.5 to the Statements.
Operating profit	**1,748**	1,705	43	2.5	
Financing expenses, net	**342**	403	(61)	(15.1)	The decrease in net financing expenses was mainly due to a decrease in the costs of early repayment of loans and a decrease in interest expenses due to loan and debentures repayments, offset by an increase in linkage differences in respect of debentures due to the rise in the index, see Note 25 in the Statements.
Income taxes	**343**	262	81	30.9	In the current year, a deferred tax asset was exercised, which was recognized in the corresponding year as a loss for tax purposes from the sale of Walla.
Segment profit	**1,063**	1,040	23	2.2	

1.2.2. Activity segments (Cont.)

c. **Cellular communications segment**

	2021 NIS millions	2020 NIS millions	Growth (decrease) NIS millions	Growth (decrease) %	Explanation
Services	**1,642**	1,591	51	3.2	The increase was mainly due to some recovery from the effects of the COVID crisis which was reflected in an increase in roaming revenue and was partially offset by a decrease in revenue from incoming airtime. In addition, there is growth in the number of postpaid subscribers, including subscribers in 5G plans.
Sale of end equipment to customers	**647**	595	52	8.7	The increase was mainly due to an increase in the number of sales due to the timing of the launches of devices of new models.
Total revenue	**2,289**	2,186	103	4.7	
Operating and general expenses	**1,346**	1,329	17	1.3	The increase was mainly due to an increase in the cost of selling end equipment in parallel with revenues, the registration of the implementation of a cloud computer system and the initial registration of expenses for the incentive fund for fiber deployment. The increase was partially offset by a decrease in call completion fees as a result of a certain recovery from the COVID crisis that led to a decrease in consumption as well as a continued reduction and streamlining of operating expenses.
Salaries	**315**	324	(9)	(2.8)	The decrease was mainly due to a continued decrease in the number of jobs as part of an streamlining plan, offsetting the sending of employees on unpaid leave against the background of the COVID crisis in the corresponding year.
Depreciation and amortization	**577**	599	(22)	(3.7)	
Other operating expenses, net	**9**	18	(9)	(50)	
Operating profit (loss)	**42**	(84)	126	-	
Financing income, net	**42**	48	(6)	(12.5)	
Income taxes	**20**	(11)	31	-	
Segment profit (loss)	**64**	(25)	89	-	

1.2.2. Activity segments (Cont.)

d. **Bezeq International services**

	2021	2020	Increase		Explanation
	NIS millions	**NIS millions**	**NIS millions**	**%**	
Revenue	**1,237**	1,271	(34)	(2.7)	The decrease was mainly due to a decrease in Internet revenues as well as a decrease in revenues from the sale of equipment and licensing to businesses as a result of delays in the global supply chain, the impact of the COVID crisis and the sanctions taken in the segment during August-November 2021. In addition, there is a decrease in revenue from international talks. The decline was partially offset by an increase in revenue from business services.
Operating and general expenses	**799**	802	(3)	(0.4)	The decrease was mainly due to a decrease in expenses for the sale of equipment and licensing to businesses in parallel with a decrease in revenue, as well as a decrease in expenses for loan-loss. The decrease was offset by an increase in expenses for communications and computing services for businesses, local capacity expenses and professional consulting expenses. In addition, there has been an increase in expenses for the incentive fund for fiber deployment starting from the current year.
Salaries	**237**	248	(11)	(4.4)	The decrease was mainly due to a continued decrease in the number of employees as part of the streamlining plan.
Depreciation and amortization	**173**	149	24	16.1	The increase was mainly due to impairment of assets in 2021 (loss from impairment of assets recognized in 2020 was classified in the segment under the item "Other operating expenses"), as well as an increase in depreciation expense. The increase was partially offset by a decrease in current depreciation expenses as a result of a decrease in the value of assets last year.
Other operating expenses	**6**	313	(307)	(98.1)	In 2020, an impairment loss of approximately NIS 307 million was recognized (see Note 10.2 to the statements).
Operating profit (loss)	**22**	(241)	263	-	
Financing expenses, net	**2**	2	-	-	
Income taxes	**12**	32	(20)	(62.5)	In 2021, tax expenses were recorded for previous years due to an assessment agreement. In 2020, a tax asset was written off due to failure to anticipate future profits for tax purposes in the coming years.
Segment profit (loss)	**8**	(275)	283	-	

1.2.2. Activity segments (Cont.)

e. **Multi-channel TV ***

	2021	20120	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Revenue	**1,270**	1,287	(17)	(1.3)	The decrease was mainly due to a decrease in the average revenue per subscriber, as a result of a change in the mix of subscribers from premium to discount and a decrease in revenue from the sale of content to external entities.
Operating and general expenses	**825**	838	(13)	(1.6)	The decrease was mainly due to a decrease in content expenses.
Salaries	**182**	195	(13)	(6.7)	The decrease was due to a continued decrease in the number of jobs as part of the streamlining plan.
Depreciation and amortization	**292**	310	(18)	(5.8)	The decrease was mainly due to a decrease in property, plant and equipment investments.
Other operating expenses (income)	**12**	(14)	26		In 2021, an expense was recorded in respect of a new collective agreement, while in 2020, revenue was included in respect of a settlement agreement with a supplier and an update of an estimate in respect of an arrangement for the retirement of employees.
Operating loss	**(41)**	(42)	1	(2.4)	
Financing expenses, net	**1**	13	(12)	(92.3)	The decline was mainly due to the impact of the change in the exchange rate of the dollar on hedging transactions.
Income taxes	**1**	2	(1)	(50)	
Segment loss	**(43)**	(57)	14	(24.6)	

* The results of the multi-channel television segment are presented net of the overall impact of impairment recognized since 2018, see income "Proforma". Below. This is in accordance with the way the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. For further information, see Notes 10.5 and 28 to the Statements. In addition, see Note 31.4 for a summary of selected data from the financial statements of DBS.

1.2.2. Activity segments (Cont.)

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

	2021		2020	
	Accounting income	Proforma income	Accounting income	Proforma income
	NIS millions			
Revenue	**1,270**	**1,270**	1,287	1,287
Operating and general expenses	**835**	**825**	857	838
Salaries	**188**	**182**	203	195
Depreciation and amortization	**203**	**292**	203	310
Other operating expenses	**12**	**12**	(15)	(14)
Operating profit (loss)	**32**	**(41)**	39	(42)
Financing expenses, net	**1**	**1**	13	13
Income taxes	**1**	**1**	2	2
Profit (loss)	**30**	**(43)**	24	(57)

1.3. Main data from the consolidated quarterly statements of income (NIS millions)

	Q1-2021	Q2-2021	Q3-2021	Q4-2021	2021	Explanation
Revenue	2,187	2,155	2,178	2,203	8,723	The fourth quarter includes revenues due to the launch of a new model iPhone device in the cellular communications segment.
Operating expenses	1,638	1,734	1,685	1,908	6,965	The first quarter includes a capital gain from the sale of a real estate property in the amount of NIS 125 million and a decrease in the provision for claims in the Fixed line communications sector. The fourth quarter includes expenses in respect of the termination of employee-employer relationship in early retirement in the Group, including an expense of NIS 67.5 million in the fixed domestic communications sector, see Note 16.5 to the Statements.
Operating profit	**583**	**466**	**457**	**350**	**1,856**	
Financing expenses, net	75	110	146	147	478	In the second quarter, Bezeq recognized financing expenses in respect of the payment of an early repayment fee in the amount of approximately NIS 51 million due to early repayment of a loan.
Profit after financing expenses, net	**508**	**356**	**311**	**203**	**1,378**	
Income taxes	127	91	75	89	382	The second median includes early repayment costs of Series D and E series debentures, as well as partial early repayment of Series C debentures. In addition, the third quarter includes early repayment costs of a loan in the amount of NIS 15 million in the Fixed line communications segment.
Profit for the period	**381**	**265**	**236**	**114**	**996**	

1.4. Cash Flow

	2021	2020	Change		Explanation
	NIS millions	NIS millions	NIS millions	%	
Net cash flow from operating activities	**2,826**	3,209	(383)	(11.9)	The decrease in net cash flow from current operations was due to changes in working capital, mainly due to an increase in customer balances as a result of delays in billing and collection from customers due to employee sanctions in the cellular communications segment and in Internet, international communication and network endpoint services, Bezeq International, employee benefits as well as an increase in taxes paid in the Fixed line communications segment.
Net cash flow used for Investing operations	**(1,578)**	(1,067)	(511)	(47.9)	The decrease in the net cash flow used for financing operations was mainly due to a decrease in loan repayment, interest paid and costs due to early repayment in the Fixed line communications segment.
Net cash flow used for financing operations	**(1,144)**	(2,062)	918	44.5	The increase in net cash flow used in investing activities was mainly due to a decrease in net proceeds from the repayment of deposits in banks and others in the Fixed line communications segment, as well as an increase in investments in property, plant and equipment.
Net increase in cash	**104**	80	24	30	

<u>Average volume in the reported year</u>

Long-term liabilities (including current liabilities) to financial institutions and bondholders: approx. NIS 10,048 million.

Credit providers: approx. NIS 905 million. Short-term customer credit: approx. NIS 1,680 million. Long-term customer credit: approx. NIS 252 million.

Working capital

The Group's consolidated working capital as of December 31, 2020 amounted to approximately NIS 565 million, compared with working capital of approximately NIS 94 million as of December 31, 2020.

The Company's working capital (according to the "Solo" Statements) as of December 31, 2021 amounted to approximately NIS 212 million, compared with working capital of approximately NIS 228 million as of December 31, 2020.

Bezeq (according to the financial statements "Solo") has a working capital surplus as of December 31, 2020 in the amount of NIS 161 million, compared with a deficit in working capital of NIS 82 million as of December 31, 2020.

The change in Bezeq's working capital was mainly due to an increase in current and cash investment balances, offsetting an increase in current maturities of bonds.

In addition, there is an increase in working capital in the other companies in the Bezeq Group.

1.5. Disclosure regarding the Company's projected cash flow

The Company's Board of Directors reviewed the Company's consolidated financial statements and separate (Solo) financial statements as of December 31, 2021, including sources for repayment of the Company's liabilities, including the Company's debentures (Series C and F). In addition, the Company's Board of Directors examined the warning signs set forth in Regulation 10(b)(14)(a) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and determined that despite the existence of a continuing negative cash flow from current operations in the separate (Solo) financial statements of the Company, in the opinion of the Company's Board of Directors, after receiving explanations for its opinion from the Company's Management, the continuing negative cash flow from current activities in the Company's separate (Solo) financial statements does not indicate a liquidity problem in the Company, and the Company has sufficient financial resources to continue its operations and meet its obligations, *inter alia*, taking into account the Corporation's cash balances in the solo report.

1.6. Issuance and expansions of the Company's debentures against repayment of the Company's debentures

During the reporting period, the Company issued to institutions and the public approximately NIS 1,040 million in Series F debentures for a total of approximately NIS 1,040 million. Company used from the issuance of Series F debentures to make a full early repayment of the Series D debentures principal (plus accrued interest as of the vesting date), full early repayment of the Series E debentures principal (plus accrued interest as of the vesting date and an early repayment penalty, as defined in the trust deed of the Series E debentures) and for the partial early repayment of Series C debentures (plus accrued interest as of the vesting date and an early repayment penalty, as defined in the trust deed of the Series C debentures).

On January 10, 2022, the Company exchanged approximately NIS 417 million in Series C debentures for approximately NIS 432 million in Series F debentures.

For details regarding such issuances, see Regulation 20 of the report of the Company's Board of Directors attached to this report.

1.7. Plan to purchase the Company's shares

On November 29, 2021, the Company's Board of Directors approved a plan to repurchase the Company's shares in the amount of up to NIS 30 million, which began on December 1, 2021, and ends: (1) upon purchase in the amount of NIS 30 million; or (2) on March 1, 2022, whichever is earlier.

As of the date of the report, in accordance with the said repurchase plan, the Company purchased shares in the total amount of approximately NIS 27 million.

For further details, see the Company's report dated November 30, 2021 (Ref. No.: 2021-01-104413).

1.8. Epidemic – Outbreak of COVID-19

At the beginning of 2020, an outbreak of the Coronavirus (COVID-19) began worldwide, which is an event with many consequences, including macroeconomic. Following the epidemic, many countries, including Israel, are taking significant measures in an attempt to prevent the spread of the virus, such as restrictions on the movement of citizens, gatherings, transport restrictions on passengers and goods, closing borders between countries, and so on. As a result, the event and the actions taken as aforesaid have significant implications for many economies as well as for the capital markets in the world.

The effects of the COVID epidemic on the Bezeq Group's activities in 2021 were mainly reflected in damage to Pelephone's revenues from roaming services, as a result of the effects of the epidemic's spread on the aviation and international tourism segments, without significant negative effects in other areas of operations. 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 pre-COVID level of activity. Rising prices of equipment from the main suppliers of Bezeq Group companies Bezeq Group companies are taking various measures in light of the aforesaid to reduce the damage to their operations.

It should be noted that in terms of Bezeq Group companies, it appears that at this stage, the COVID crisis did not have a material effect on the ability of the Company and the Bezeq Group companies to meet liabilities, measurement of assets and liabilities, impairment of assets and recognition of expected credit losses. In addition, there was no material impact on critical estimates and considerations.

As of the Report Date, the Bezeq Group's working assumption regarding the continued spread of the COVID epidemic is that the eradication of the epidemic will be characterized by a gradual decline that may be accompanied by waves of recurrent outbreaks and mutations in the virus. Accordingly, and subject to the above assumptions, the Bezeq Group anticipates that the effects of the COVID epidemic on its operations will be mainly reflected in harming Pelephone's revenues from roaming services, as a result of the epidemic's effects on aviation and international tourism, without significant adverse effects in other areas. The Bezeq Group also anticipates that the global chip shortage and disruptions in the global supply chain will affect commodity prices in the short term and increase the need for Bezeq Group companies to stock up. In addition, it is possible that the impact of the epidemic will cause a prolongation of projects that require technological equipment or other equipment.

At the same time, this is a changing event that is not under the Bezeq Group’s control, and therefore the duration of the crisis or its exacerbation beyond the Bezeq Group's assumptions as detailed above, if any, may materially adversely affect Bezeq Group's results. These effects may be reflected, *inter alia*, in damage, beyond the estimates as stated above, in revenues from roaming services, and in damage to Bezeq Group companies' revenues from the business segment, revenues from the sale of cellular end equipment, employee availability, customer service and technicians, supply chain, and amounts and dates of collection from Bezeq Group customers.

Bezeq Group’s estimates as aforesaid may vary depending on various developments regarding the COVID epidemic and its effects, in particular the duration and extent of the event, the nature and extent of the economic and other restrictions that accompany it, as well as the intensity and duration of the economic slowdown.

For more information, see the analysis of the results of operations in the cellular communications segment, Fixed line communications segment and the Bezeq International Services segment in Chapter 1.2.2, Sections B, C and D above.

2. Corporate governance aspects

2.1. Involvement of the Group companies in the community and donations

The Company supports Bezeq's corporate responsibility policy and will continue to uphold this policy in all Group companies, and in addition, each year, the Company discusses the Company's contribution policy, with a focus on health, education and community issues. In the reported year, the Company donated a lot of equipment to the Ichilov Hospital, to the Reut Rehabilitation Hospital and to additional associations, in amounts that are not material to the Company.

In accordance with the community contribution policy approved by the Bezeq Board of Directors, Bezeq contributes to the community out of its deep commitment to the issue of social responsibility, through financial donations, contribution of communication services and infrastructure and encouraging employee volunteering in a variety of community activities. Most of Bezeq's financial contributions are focused on programs on education and reducing the digital disparity in Israel.

in the year 2021 Bezeq Group contributed a total of approx. NIS 3.6 million.

In addition, Bezeq assisted non-profit organizations in the amount of about 2 NIS million for communication services.

2.2. Disclosure regarding the auditor's fee

The following are fee expenses in respect of the accountants of the main subsidiaries in the Group in respect of audit services and audit-related services:

Company name	Auditor	Details	2021	2020
B. Communications Ltd.	Somekh Chaikin	Audit and ancillary to audit (including audit-related tax services)	380	515
		Other services[1]	130	166
Bezeq - the Israel Telecommunications Corporation Ltd.	Somekh Chaikin	Audit and ancillary to audit (including audit-related tax services)	1,530	1,700
		Other services	684	951
Pelephone Communications Ltd.	Somekh Chaikin	Audit and ancillary to audit (including audit-related tax services)	642	670
		Other services[1]	366	520
Bezeq International Ltd	Somekh Chaikin	Audit and ancillary to audit (including audit-related tax services)	1,483	1,166
		Other services[1]	519	122
DBS Satellite Services (1998) Ltd.	Somekh Chaikin	Audit and ancillary to audit (including audit-related tax services)	671	680
		Other services[1]	83	52
Total			**6,488**	**6,542**

[1] "Other services" provided to the Group's main companies in the years 2021 and 2020 including, among other things, consulting services on tax and accounting matters and special approvals.

The accountants' fees are discussed in the Board's Committee for Examining the Financial Statements and are approved by the Company's Board of Directors and the Board of Directors of each of the Group's companies.

2.3. Directors with accounting and financial skills and independent directors

As of the date of this report, all seven of the Company's current directors have accounting and financial expertise; For details on the directors with accounting and financial expertise who hold office at the Company as of the Report Date, see Regulation 26 in the report of further details on the Company (Part D of this Periodic Report) and in sections 2 and 9 of the Corporate Governance Questionnaire.

2.4. Additional corporate governance issues

In the year of the report, the Company established a gatekeepers' forum, with the participation of the Internal Auditor, the auditors and external legal advisers and led by the Company's CFO. This forum convenes as needed, and at least once a year to discuss general control and compliance issues in the Company. In the year of the report, one meeting of the forum was held.

2.5. Disclosure regarding the internal auditor in a reporting corporation

Concentration of details	
Name of internal auditor	Ilan Chaikin
Term of office	2008
Compliance with legal provisions	The internal auditor meets the conditions set forth in Article 3 (a) and 8 of the Internal Audit Law, and the provisions of Article 146 (b) of the Companies Law.
Employment format	Hourly fee, according to the number of hours determined at the beginning of each year by the Audit Committee.
Method of appointment	**<u>Method of appointment and summary of reasons for approving the appointment:</u>** The appointment was approved by the Board of Directors in 2008, following the recommendation of the Audit Committee. **<u>Duties, powers and roles imposed on the auditor</u>:** The authority and responsibility of the Company's internal auditor are set forth in the Company's internal audit procedure approved by the Audit Committee. According to the procedure, the auditor's duties and powers are: Checking the correctness of the Company's operations and the actions of its officers and functionaries, checking the reliability and integrity of the financial and operational information, examining the management of funds and liabilities and examining the Company's computerized information systems and the Company's information security system. The internal auditor is also responsible for examining employee complaints in accordance with the arrangements established by the Audit Committee in accordance with Article 117(6) of the Companies Law, 5769-1999. He is empowered to obtain any information, explanation and document necessary for the performance of its duties, to have access to any standard or computerized database of the Company, to any database and to any automatic or non-automatic data processing work plan of the Company and its units and to obtain access to any Company property. The internal auditor is also entitled to be invited to all the meetings of Management, the Board of Directors and its committees.
The Organizational Commissioner of The internal auditor	The organizational manager of the internal auditor is the Company's CEO
Work plan	The work plan in 2021 is derived from the Company's multi-year work plan determined for the years 2021-2024. **<u>The considerations in determining the work plan of the internal audit</u>** The guiding principle in building the work plan of the internal audit is the risk inherent in the processes and activities of the Company. To assess these risks, the

Concentration of details	
	internal audit referred to the risk survey conducted by it, as well as other sources that influenced the risk assessment in these processes, such as discussions with Management, findings of previous audits and other relevant activities. The main considerations taken into account in constructing the work plan are: Reasonable coverage of most of the Company's areas of activity in accordance with exposure to material risks, taking into account existing controls in the Company's areas of activity and the findings of previous audits. **<u>Factors involved in determining the work plan</u>** The Internal Auditor, Management and the Audit Committee of the Board of Directors. **<u>The body who receives the work plan and approves it</u>** The Audit Committee of the Board of Directors, after the matter has been discussed with the Company CEO. **<u>The auditor's discretion to deviate from the work plan</u>** The Company CEO or the Chairman of the Audit Committee may propose issues in matters where the need arises to conduct an urgent examination as well as recommend the reduction or cessation of examination on a subject 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 is present at the Board discussions in which material transactions are approved and reviews the relevant material sent as part of these discussions.

Concentration of details	
The audit's treatment of material investee corporations	The work plan of the Company's Internal Auditor does not include an audit of material investee corporations. The internal auditor conducts meetings with the internal auditor and other control entities of material subsidiaries for the purpose of receiving periodic updates.
Performing the audit	In accordance with the Internal Auditor's notice, the audit work is conducted in accordance with the internal audit standards accepted in Israel and around the world and in accordance with professional guidelines in the field of internal audit, including international internal audit standards and in accordance with the Internal Audit Law and the Companies Law.
Access to information	The internal auditor was provided with documents and information as stated in section 9 of the Internal Audit Law and was given constant and direct access to the corporation's information systems, including financial data.
Auditor's report	The Internal Auditor submits the written audit reports on an ongoing basis during the reported year to the Chairman of the Board, the CEO, the Chairman of the Audit Committee and the members of the Committee. The reports are submitted prior to the date of the committee discussion (usually about three days prior to that date). The Company's Audit Committee convened to discuss internal audit reports regarding the reporting of the implementation of the Supervision Procedure by the

Concentration of details	
	Internal Auditor for the second quarter of 2021 on August 9, 2021. In addition, the report on the implementation of the supervision procedure by the Internal Auditor for the fourth quarter of 2020 and an audit on the implementation of the supervision procedure by the Company were presented on March 22, 2021.
The Board's assessment of the Internal Auditor's activities	The Board of Directors is of the opinion that the scope of the audit, the nature of the internal auditor's activity and its continuity as well as the work plan are reasonable in the circumstances of the case and are there to achieve the objectives of the audit.
Remuneration	Remuneration to the Internal Auditor is determined each year according to the volume of the audit hours, according to the hourly fee. In 2021, the volume of the hours invested in the audit by the Internal Auditor was approximately 240 hours, noting that the said hours volume is sufficient for the Internal Auditor to complete the audit work properly. In 2021, the Internal Auditor was paid compensation in the amount of NIS 84,240, including VAT. In the opinion of the Board of Directors, the extent of the Internal Auditor's remuneration had no effect on his professional judgment.

3. Disclosure in connection with the Corporation's financial reporting

3.1. Disclosure regarding valuations

The following are details regarding highly material valuations and a material valuation in accordance with Regulation 8B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

A highly material valuation of Bezeq Fixed Lines as of December 31, 2021 is not attached to the report since the Company was of the opinion that there are no indications of impairment of the cash-generating unit.

	Pelephone - **Material valuation as of December 31, 2021** **See Section 3.1.4 below**	**Bezeq Fixed Lines -** **Highly material valuation as of December 31, 2021**	**DBS -** **Highly material valuation as of December 31, 2021 (Attached to Bezeq's Statements as of December 31, 2021).** **See Sections 3.1.1 and 3.1.1 below.**	**Bezeq International -** **Highly material valuation as of December 31, 2021 (Attached to Bezeq's Statements as of December 31, 2021).** **See section 3.1.3 below**
Identification of subject of valuation	Value in use of Pelephone for the purpose of examining the impairment of goodwill recognized in the Company's financial statements in accordance with International Accounting Standard 36.	Value in use of Bezeq Fixed Lines for the purpose of examining the impairment of goodwill recognized in the Company's financial statements in accordance with International Accounting Standard 36.	Recoverable amount of DBS Satellite Services (1998) Ltd. for the purpose of examining the impairment of non-current assets.	Value in use of Bezeq International for examination of impairment of non-current assets.
Timing of the 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, 2021	September 30, 2021 The valuation was signed on March 22, 2021
Value of the subject of the valuation close	NIS 1,613 million book value of the net operating assets of Pelephone **(*)** (including cost surplus balance net of	Approx. NIS 10 billion book value of the net operating assets of	A negative total of approx. NIS. (16) million	Approx. NIS 95 million.

	Pelephone - **Material valuation as of December 31, 2021** **See Section 3.1.4 below**	**Bezeq Fixed Lines -** **Highly material valuation as of December 31, 2021**	**DBS -** **Highly material valuation as of December 31, 2021 (Attached to Bezeq's Statements as of December 31, 2021).** **See Sections 3.1.1 and 3.1.1 below.**	**Bezeq International -** **Highly material valuation as of December 31, 2021 (Attached to Bezeq's Statements as of December 31, 2021).** **See section 3.1.3 below**
to the date of the valuation	goodwill at the Company level).	Bezeq Fixed Lines (including cost surplus balance net of goodwill at the Company level).		
Value of the subject of the valuation determined in accordance with the valuation	Approx. NIS 2,798 million The Company has concluded that there is no impairment that requires a reduction in the amounts of surplus costs recorded in the Company's books.	Approx. NIS 19,186 million. The Company has concluded that there is no impairment that requires a reduction in the amount of goodwill recorded in the Company's books.	Total negative: NIS (109) million.	Total of NIS 70 million.
Identification characterization of the valuator	The valuation was performed by Prof. Hadas Gelander, Partner, Director of Valuations and Economic Models in the Economic Department of Ernest Young (Israel) Ltd. Prof. Gelander holds a bachelor's degree in accounting from the College of Management, Rishon LeZion; A master's degree in business administration from the Hebrew University of Jerusalem; And a Ph.D. cum laude from Ben-Gurion University, Beer-Sheva, and is also a certified public accountant in Israel. As part of her role, Prof. Gelander accompanies projects with leading companies in Israel and around the world, in various fields of activity and industries such as: technology, finance, pharmaceuticals, energy, infrastructure, real estate and industry. In addition, during her role accompanying and advising companies in the areas of valuations for business needs (valuations and fair opinions) and accounting needs (allocation of acquisition costs, valuation of intangible assets, valuation of options for employees, etc.), she provided economic opinions as a court-appointed expert witness. The valuator has no dependence on Bezeq or the Company. Bezeq undertook to indemnify the valuator for damages in excess of three times her fee, unless she acts maliciously or through gross negligence.			

	Pelephone - **Material valuation as of December 31, 2021** **See Section 3.1.4 below**	**Bezeq Fixed Lines -** **Highly material valuation as of December 31, 2021**	**DBS -** **Highly material valuation as of December 31, 2021 (Attached to Bezeq's Statements as of December 31, 2021).** **See Sections 3.1.1 and 3.1.1 below.**	**Bezeq International -** **Highly material valuation as of December 31, 2021 (Attached to Bezeq's Statements as of December 31, 2021).** **See section 3.1.3 below**
Valuation model	Discounted Cash Flow method (DCF).	Discounted Cash Flow method (DCF).	In the first stage - the Discounted Cash Flow method (DCF). In the second stage - the fair value of the non-current assets of DBS was determined.	Discounted Cash Flow method (DCF).
Assumptions under which the valuator made the valuation	Discount rate - 9% (after tax). Permanent growth rate - 1.5%. The percentage of scrap value from the total value determined in the valuation is approximately 77.1%.	Discount rate - 7% (after tax). Permanent growth rate - 1%. The percentage of scrap value from the total value determined in the valuation is approximately 76.9%.	Discount rate - 8.5% (after tax). Permanent growth rate - 1%. The percentage of scrap value from the total value determined in the valuation - not relevant In addition, assumptions were made regarding fair value net of cost of sale of the DBS's assets.	Discount rate – 8.5% (after tax). Permanent growth rate - 1%. The percentage of scrap value from the total value determined in the valuation - not relevant In addition, assumptions were made regarding fair value net of cost of sale of Bezeq International's assets.

(*) Pelephone's net operating assets do not include customer debt balances in respect of the sale of end equipment in payments presented at current value

3.1. Disclosure regarding valuations (Cont.)

3.1.1. Despite the negative value of DBS' operations, Bezeq supports DBS by approving credit facilities or investing in DBS's capital (see Note 13.2.2 to the financial statements). Bezeq's support as stated in DBS stems, among other things, from the current and expected contribution of the multi-channel television activity to all Bezeq Group's operations.

3.1.2. In the Company's consolidated financial statements as of December 31, 2021, the value of the operating segments of Bezeq Israel Telecommunications Company Ltd., Pelephone Communications Ltd., DBS Satellite Services (1998) Ltd. and Bezeq International Ltd. amounted to 25% of its total assets. Accordingly, the valuator is considered a highly material valuator according to position 105-30 of the legal staff of the Securities Authority ("the Staff Position"). For details regarding the valuator as required under the Staff Position, see the valuations attached to Bezeq's financial statements.

3.1.3. Information under Regulation 10(b)(8) of the Securities Regulations

a. Regarding the valuation of Pelephone for December 31, 2020, which was attached to Bezeq's 2020 annual report, Bezeq examined the performance data in 2021 regarding Pelephone's free cash flows compared to the 2021 forecast included in the aforesaid valuation and found that Pelephone's free cash flows, according to its financials reports for 2021, are lower than the forecast in the said valuation. The gap was due to an increase in the Company's customers balance as a result of organizational sanctions that caused a delay in the amounts and dates of collection from customers. This effect was partially offset by a high level of revenue relative to the forecast (positive deviation in the number of subscribers and in ARPU), streamlining beyond planning in salary expenses and timing gaps in investment flows.

b. Regarding the valuation of DBS as of December 31, 2020, which was attached to Bezeq's financial statements of 2020, the Group examined the actual data in 2021 regarding the free cash flows compared to the 2021 forecast included in the said valuation and found that the free cash flows of DBS, according to its financial statements for 2021, are significantly higher than the forecast in the said valuation. The gap was due to high revenues relative to the forecast (higher than forecast mix of premium and ARPU subscribers), low operating expenses relative to planning (mainly salary and content expenses), and changes in working capital. For further information, see Appendix H in the attached valuation of DBS as of December 31, 2021, which was attached to Bezeq's financial statements.

c. Regarding the valuation of Bezeq International as of September 30, 2020, which was attached to the quarterly report as of September 30, 2020, the Company examined the actual data in 2021 regarding Bezeq International's free cash flows compared to the 2021 forecast included in the valuation as aforesaid, and found that Bezeq International's free cash flows, according to its financial statements for 2021, are similar to the forecast in the aforesaid valuation. It should be explained that the gap was due to an increase in the balance of Bezeq International's customers as a result of organizational sanctions that caused delays in the amounts and collection dates from customers, mainly offset by lower-than-predicted investment flows (increased streamlining and timing gaps).

3.1.4. For further information, see Note 10 to the Statements.

3.2 Due to the materiality of the claims filed against the Group and which at this stage either cannot be assessed on the exposure in respect thereof cannot be calculated, accountants have drawn attention to this in their opinion on the financial statements.

3.3 Material subsequent events

Regarding material incidents after the date of the financial statements - see Note 32 to the financial statements.

4. Details related to a series of liability certificates

The following is data about the Company's debentures in circulation, as of December 31, 2021:

		Series C debentures	Series F debentures
A	Issue date (no extensions)	15.09.2016	06.07.2021
B	Total value denominated at the date of issue (par value)	NIS 1,882,265,000	NIS 393,973,000
C	Nominal value (par value) as of the Report Date	NIS 1,009,998,772	NIS 1,040,155,000
D	The amount of interest accrued as of the Report Date	NIS 3,302,558	NIS 3,224,481
E	Fair value as included in the financial statements	NIS 950,742,340	NIS 1,034,940
F	Stock market value	NIS 1,058,377,714	NIS 1,069,487,371
G	Type of interest	Fixed at a rate of 3.85%	Fixed at a rate of 3.65%
H	Principal payment dates	November 30, 2024	November 30, 2026
I	Interest payment dates	On May 31 and November 30 of each year, from May 31, 2020 to November 30, 2024.	On May 31 and November 30 of each year, from May 31, 2021 to November 30, 2026.
J	Linkage	Not linked	Not linked
K	Total liability in relation to total company liabilities	Material	Material
L	Trustee details	Trust company - Reznik Paz Nevo Trust Ltd. Name of the person in charge of the trust company - CPA Michal Avtalion E-mail michal@rpn.co.il, tel. 03-6389200, fax 03-6389222 Address - 14 Yad Harutzim St., Tel Aviv.	
M	Rating	The debentures are not rated	
N	Compliance with the terms of the trust deeds	The Company issued to the trustees of Series C and F debentures certificates regarding its compliance with the terms of the trust deeds for 2021.	
O	Liens	Unlimited amount first-degree lien (p*ari-passu*) on 728,373,713 ordinary Bezeq shares of NIS 1 par value each held directly by the Company and on the rights attached to these shares.	
P	Financial conditions / restrictions that apply to the Company for the purpose of ensuring the value of the collateral and the rights of the holders to act to exercise the lien granted in their favor	The Company has committed that during two consecutive quarters the LTV will not exceed (1) a rate of 80% by November 30, 2023 and (2) 75% from December 2023 until the final maturity date of the debentures.	
Q	A restriction that applies to the Company in connection with the creation of additional liens on its assets or in connection with its authority to issue additional debentures	For details regarding the restrictions that apply to the Company in connection with the expansion of the series, see section 3.2.2 of the Company's trust deeds (Series C and F). For details regarding the restrictions that apply to the Company in connection with the creation of additional liens, see section 6.1.3 (c) of the Company's trust deed (Series C).	

Financial clauses of the Company's debentures

In accordance with the Company's obligation in debentures Series C and F to meet the condition of LTV (the first examination date is according to the financial statements as of December 31, 2021). The LTV ratio as of December 31, 2021 was 55.2%.

The Company's net debt balance as of December 31, 2021 is approximately NIS 1,772 million, and consists of a principal balance and accrued interest as of the balance sheet date in respect of its debentures in the amount of NIS 2,056 million (net of approximately NIS 13.6 million par value held by a partnership held by the Company) net of cash balances and investments in the amount of NIS 284 million.

5. Miscellaneous

For information regarding the statement of liabilities of the reporting corporation and the subsidiaries in its financial statements as of December 31, 2021, see the Company's report dated March 23, 2022.

Darren Glatt Chairman of the Board of Directors	Tomer Raved CEO

Date of signing: March 23, 2022

Chapter C
Consolidated Financial Statements for the Year Ended December 31, 2021

Consolidated Financial Statements as of December 31, 2021

Somekh Chaikin
KPMG Millennium Tower
17 HaArbaa Street P.O.B. 609
Tel Aviv 6100601
8000 684 03

Auditors' report to the shareholders of B Communications Ltd.

We audited the consolidated financial statements of B Communications Ltd. (hereinafter – "the Company") as of December 31, 2021 and 2020 and the consolidated statements of income, comprehensive profit, changes in equity and cash flows for each of the three years in the period ended On December 31, 2021. These financial statements are the responsibility of the Company's Board of Directors and Management. It is our responsibility 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 set forth in the Auditors Regulations (Mode of Performance), 5733-1973. According to these standards, we are required to plan and perform the audit with the aim to obtain a reasonable degree of assurance that the separate financial information does not constitute a material misstatement. Our audit includes a sample examination of evidence supporting the amounts and details contained in the separate financial information. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's Board of Directors and Management, as well as evaluating the overall adequacy of the presentation of the financial statements. We believe that our audit provides an adequate basis for our opinion.

In our opinion, the following consolidated financial statements adequately reflect, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2021 and 2020 and the results of their operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2021 in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

We also audited, in accordance with Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components of Financial Reporting", Internal Control Components of Financial Reporting of the Company as of December 31, 2021, and our report of March 23, 2022 included an unreserved opinion on the effective existence of said components.

Without limiting our above conclusion, we draw attention to what is stated in Note 1.3, which refers to what is stated in Note 1.3 to the annual consolidated financial statements, regarding the Securities Authority's investigation into suspicions of committing offenses under the Securities Law and the Penal Code concerning, *inter alia*, transactions related to the former controlling shareholder and the transfer of the case to the State Attorney's Office, as well as what is stated in said note regarding the filing of an indictment against the former controlling shareholder in the Company, for various offenses, including offenses of bribery and intentional misstatement in an immediate report. As stated in the above note, at this stage, the Company is unable to assess the effects of the investigations, their findings and results on the Company as well as on the financial statements and estimates used in the preparation of these reports, if any.

In addition, without limiting our above opinion, we draw attention to what is stated in Note 17 regarding claims filed against the Group and the exposure in respect of which cannot be assessed or calculated at this stage.

Somekh Chaikin
Certified Public Accountants

March 23, 2022

Somekh Chaikin
KPMG Millennium Tower
17 HaArbaa Street P.O.B. 609
Tel Aviv 6100601
8000 684 03

Auditors' report to the shareholders of "B Communications Ltd." on the audit of components of internal control over financial reporting in accordance with Article 9B (c) of the Securities Regulations (Periodic and Immediate Reports), 5733-1970

We audited components of internal control over financial reporting of B Communications Ltd. and subsidiaries (hereinafter, jointly – "the Company") as of December 31, 2021. These control components were determined as explained in the next paragraph. The Company's Board of Directors and Management are responsible for effective internal control over financial reporting and for their evaluation of the effectiveness of the components of internal control over financial reporting attached to the periodic report for the above date. It is our responsibility to provide an opinion on the components of internal control over the Company's financial reporting based on our audit.

Components of internal control over financial reporting that have been audited have been determined in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Auditing of Internal Control Components of Financial Reporting" (hereinafter - "Auditing Standard (Israel) 911"). These components are:
(1) Organizational level controls, including controls on the process of preparing and closing financial reporting;

(2) Controls over cash flow and debt management;

We conducted our audit in accordance with Audit Standard (Israel) 911. This Standard requires us to plan and perform the audit with an aim to identify the audited control components and achieve a reasonable degree of confidence that these control components have been effectively complied with in all material respects. Our audit included gaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk of a material vulnerability in the audited control components, and examining and evaluating the design and operational effectiveness of those control components based on the assessed risk. Our audit regarding those control components also included performing other procedures that we deemed necessary depending on the circumstances. Our audit referred only to the audited control components, as opposed to an internal audit of all material processes in connection with the financial reporting, and therefore our opinion relates only to the audited control components. Also, our review did not address the interactions between the audited and unaudited control components and therefore, our opinion does not take into account such possible effects. We believe that our audit provides a proper basis for our opinion in the context described above.

Due to understandable limitations, internal control over financial reporting in general, and components thereof in particular, may not prevent or detect misstatement. Also, drawing conclusions about the future based on any current effectiveness assessment is prone to the risk that controls will become inadequate due to changes in circumstances or that the degree of compliance with the policies or procedures will change adversely.

In our opinion, from all relevant aspects, the Company has effectively maintained the audited control components as of December 31, 2021.

As described in the report regarding the effectiveness of the internal control over the financial reporting and disclosure as of December 31, 2021 of B Communications Ltd. (hereinafter - "the Corporation"), regarding the investigations by the Israel Securities Authority and the Israel Police, as specified in Note 1.1.7 to this report, the Corporation does not have complete information regarding these investigations, their content, and the relevant materials and evidence in the possession of the law authorities. Accordingly, the Corporation is unable to assess the effects of the investigations, their findings and results on the Corporation as well as the financial statements and estimates used in the preparation of these reports, if any.

We also audited, in accordance with auditing standards generally accepted in Israel, the Company's consolidated financial statements as of December 31, 2021 and 2020 and for each of the three years ended December 31, 2020 and our report, dated March 23, 2022, included an unconditional opinion on those financial statements. Based on our audit and the reports of the other auditors, as well as references to the contents of Note 1.3 regarding the Securities Authority's investigation into suspicions of committing offenses under the Securities Law and the Penal Code concerning Filing an indictment against the former controlling shareholder in the Company, for various offenses, including offenses of bribery and intentional misstatement in an immediate report. As stated in the above note, at this stage the Company is unable to assess the effects of the investigations, their findings and results on the Company as well as on the financial statements and estimates used in the preparation of these reports, if any. In addition, without limiting our above opinion, we draw attention to what is stated in Note 17 regarding claims filed against the Company and the exposure in respect of which cannot be assessed or calculated at this stage.

Somekh Chaikin
Certified Public Accountants

March 23, 2022

Consolidated financial statements as of December 31, 2021

Consolidated financial statements of financial position as of December 31

		2021	2020
Assets	**Note**	**NIS millions**	**NIS millions**
Cash and cash equivalents	4,3.3	**998**	894
Investments	5,3.3	**1,134**	881
Trade receivables	6 ,3.3	**1,859**	1,621
Other receivables	6 ,3.3	**280**	180
Inventory	3.9	**74**	73
Assets held for sale		**-**	10
Total current assets		**4,345**	3,659
Long-term trade and other receivables	6 ,3.3	**433**	514
Broadcasting rights, net of rights exercised	3.4	**60**	67
Right-of-use assets	8 ,3.7	**1,828**	1,804
Property, plant and equipment	9 ,3.5	**6,312**	6,131
Intangible assets	10 ,3.6	**3,251**	3,268
Deferred expenses and non-current investments	11	**306**	402
Deferred tax assets	7 ,3.16	**24**	108
Total non-current assets		**12,214**	12,294
Total assets		**16,559**	15,953

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

		2020	2019
	Note	NIS millions	NIS millions
Debentures and loans	13 ,3.3	**980**	785
Current maturities of lease liabilities	8 ,3.7	**466**	415
Trade and other payables	14	**1,755**	1,766
Employee benefits	16 ,3.11	**510**	482
Provisions	15 ,3.12	**69**	117
Total current liabilities		**3,780**	3,565
Debentures and loans	13 ,3.3	**9,068**	9,485
Lease liabilities	8 ,3.7	**1,511**	1,492
Employee benefits	16 ,3.11	**243**	335
Derivatives and other liabilities		**142**	307
Deferred tax liabilities	7 ,3.16	**296**	290
Provisions	15 ,3.12	**49**	52
Total non-current liabilities		**11,309**	11,961
Total liabilities		**15,089**	15,526
Equity (deficit):	20		
Attributable to the shareholders of the Company		**16**	(107)
Non-controlling interests		**1,454**	534
Total equity		**1,470**	427
Total liabilities and equity (equity deficit)		**16,559**	15,953

Darren Glatt	**Tomer Raved**	**Itzik Tadmor**
Chairman of the Board of Directors	CEO	CFO

Date of approval of the financial statements: March 23, 2022.

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

Consolidated financial statements as of December 31, 2021

Consolidated statements of income for the year ended December 31

	Note	2021 NIS millions	2020 NIS millions	2019 NIS millions
Revenue	21 ,3.13	**8,821**	8,723	8,929
Operating expenses				
Operating and general expenses	22	**3,265**	3,182	3,321
Salaries	23	**1,888**	1,894	1,937
Depreciation, amortization and impairment	8,9,10,11	**1,889**	1,858	2,064
Impairment loss	11	**-**	8	1,329
Other operating expenses (income), net	24	**(77)**	73	(188)
Total operating expenses		**6,965**	7,015	8,463
Operating profit		**1,856**	1,708	466
Financing expenses (income)	25 ,3.15			
Financing expenses		**533**	525	738
Financing income		**(55)**	(51)	(266)
Financing expenses, net		**478**	474	472
Profit after financing expenses, net		**1,378**	1,234	(6)
Share of losses of equity accounted investee		**-**	-	2
Profit (loss) before income taxes		**1,378**	1,234	(8)
Income taxes	7 ,3.16	**382**	334	1,452
Net profit for the year		**996**	900	(1,460)

Profit (loss) attributed to the shareholders of the Company		**129**	157	(853)
Profit (loss) attributed to non-controlling interests		**867**	743	(607)
Net profit (loss) for the year		**996**	900	(1,460)
Profit (loss) per share (NIS)	27			
Basic and diluted profit (loss) per share (NIS)		**1.11**	1.35	(19.7)

Consolidated statements of comprehensive profit for the year ended December 31			
	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Profit (loss) for the year	**996**	900	(1,460)
Reassessment of defined benefit plan, net of tax	**(1)**	(9)	(33)
Other comprehensive profit (loss) items (net of tax)	**37**	(5)	1
Total comprehensive profit (loss) for the period	**1,032**	886	(1,492)
Attributable to:			
Shareholders of the Company	**139**	154	(862)
Non-controlling interests	**893**	732	(630)
Total comprehensive profit (loss) for the period	**1,032**	886	(1,492)

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

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

	Share capital	Share Premium	Treasury shares	Other reserves	Retained earnings (Deficit)	Total	Non-controlling interests	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2019	3	1,057	(*)	(38)	(848)	174	433	607
Issuance of shares	9	438	-	-	-	447	-	447
Loss for the year 2019	-	-	-	-	(853)	(853)	(607)	(1,460)
Other comprehensive loss for the year, net of tax	-	-	-	-	(9)	(9)	(23)	(32)
Total comprehensive loss for the year 2019	-	-	(*)	-	(862)	(862)	(630)	(1,492)
Balance as of December 31, 2019	12	1,495	(*)	(38)	(1,710)	(241)	(197)	(438)
Acquisition of non-controlling interests	**-**	**-**	-	**-**	**(39)**	**(39)**	**(1)**	**(40)**
Net compensation for the Horev Claim (See Note 17)	**-**	**-**	-	**-**	**19**	**19**	**-**	**19**
Profit for the year 2020	**-**	**-**	-	**-**	**157**	**157**	**743**	**900**
Other comprehensive loss for the year, net of tax	**-**	**-**	-	**(1)**	**(2)**	**(3)**	**(11)**	**(14)**
Total comprehensive profit for the year 2020	**-**	**-**	(*)	**(1)**	**155**	**154**	**732**	**886**
Balance as of December 31, 2020	12	1,495	(*)	(39)	(1,575)	(107)	534	427
Share based payment	**-**	**-**	**-**	**-**	**-**	**-**	**27**	**27**
Shares buyback (see Note 20)	**-**	**-**	**(16)**	**-**	**-**	**(16)**	**-**	**(16)**
Profit for the year 2021	**-**	**-**	**-**	**-**	**129**	**129**	**867**	**996**
Other comprehensive profit for the year, net of tax	**-**	**-**	**-**	**10**	**-**	**10**	**26**	**36**
Total comprehensive profit or the year 2021	**-**	**-**	**-**	**10**	**129**	**139**	**893**	**1,032**
Balance as of December 31, 2020	**12**	**1,495**	**(16)**	**(29)**	**(1,446)**	**16**	**1,454**	**1,470**

(*) An amount of less than NIS 1 million.

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

Consolidated statements of cash flows for the year ended December 31

		2021	2020	2019
	Note	NIS millions	NIS millions	NIS millions
Cash flows from operating activities				
Profit (loss) for the year		**996**	900	(1,460)
Adjustments:				
Depreciation and amortization	8,9,10,11	**1,889**	1,858	2,064
Impairment loss	10	**-**	266	1,329
Cancellation of impairment loss	10	**-**	(258)	-
Capital gain, net	24	**(175)**	(40)	(475)
Share of loss of equity accounted investees		**-**	-	2
Financing expenses, net	25	**498**	507	416
Share-based payment	26	**27**	-	-
Income tax expenses	7	**382**	334	1,452
Change in trade and other receivables	6	**(229)**	56	105
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)
Income tax paid, net		**(385)**	(243)	(325)
Net cash derived from operating activities		**2,826**	3,209	2,905
Cash flows from investing activities				
Purchase of property, plant and equipment	9	**(1,328)**	(1,133)	(1,095)
Investment in intangible assets and deferred expenses	10,11	**(363)**	(366)	(382)
Investment activity, net		**(164)**	222	569
Income from the sale of property, plant and equipment		**278**	148	404
Deposit to restricted cash		**-**	-	(39)
Tax payments for the sale of the "Sakia" property		**-**	-	(69)
Receipt from the sale of Walla, net		**-**	44	-
Miscellaneous		**(1)**	18	35
Net cash used for investing activities		**(1,578)**	(1,067)	(577)
Cash flows from financing activities				
Issuance of debentures and receipt of loans	13	**1,730**	718	2,275
Acquisition of non-controlling interests	12	**-**	(40)	-
Repayment of debentures and loans	13	**(2,072)**	(1,828)	(4,287)
Leasing rincipal and interest payments	8	**(387)**	(391)	(414)
Net compensation in respect of the Horev Claim	17	**-**	(3)	-
Receipt from issue of shares, net		**-**	-	447
Buyback of shares	20	**(16)**	-	-
Interest paid	13	**(333)**	(392)	(496)
Early repayment fees of loans and debentures	13	**(34)**	(65)	(93)
Payment for expired hedging transactions		**(30)**	(57)	(46)
Miscellaneous		**(2)**	(4)	(4)
Net cash used for financing activities		**(1,144)**	(2,062)	(2,618)
Net increase (decrease) in cash and cash equivalents		**104**	80	(290)
Cash and cash equivalents as of January 1		**894**	814	1,104
Cash and cash equivalents at the end of the year		**998**	894	814

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

1. General

1.1. The reporting entity

B Communications Ltd. (hereinafter "**the Company**") is a company registered in Israel, headquartered at 144 Menachem Begin Street, Tel Aviv, and whose shares are traded on the Tel Aviv Stock Exchange (regarding the delisting of the Company's shares from trading on NASDAQ, see Note 21.1.4). The Group's consolidated financial statements as of December 31, 2021, include those of the Company and its subsidiaries (hereinafter “**the Group**"), as well as the rights of the Group in affiliated companies.

On April 14, 2010, the company acquired 30.44% of the shares of Bezeq, the largest communications group in Israel, and became the controlling owner of the company. Bezeq's ordinary shares are listed for trading on the Tel Aviv Stock Exchange.

As of December 31, 2021, the Company holds approximately 26.72% of the issued share capital of Bezeq.

1.2. Control of the Company

As of December 2, 2019, Searchlight Capital Partners, through its subsidiary Searchlight II BZQ (hereinafter “Searchlight”) and the Forer family that controls TNR Investments Ltd. (hereinafter “the Forer Family”) have completed the acquisition of control of the Company in such manner that Searchlight has held 60.18% and the Forer Family has held 11.39% of the Company's ordinary and issued shares.

As of December 31, 2021, Searchlight holds a rate of 61.25% and the Forer family holds a rate of 11.59% of the Company's ordinary and issued shares. Their holdings increased following a repurchase of the Company's shares made by the Company during December 2021 (see Note 21).

For details regarding the holding rates of Searchlight and the Forer family after the balance sheet date, see Note 32.

1.3. Investigation by the Securities Authority and the Police

1.3.1 During 2017 and 2018, the Israel Securities Authority and the Israel Police conducted investigations into suspicions of committing offenses under the Securities Law and the Penal Code, 5737-1977 (the "Penal Code"), regarding transactions related to Bezeq's former controlling shareholder and the former Chairman of Bezeq’s Board of Directors, Mr. Shaul Elovitch ("Elovitch") regarding the purchase of Satellite Services 1998 Ltd (“DBS”) shares and the provision of satellite communication services to DBS, the Ministry of Communications' dealings with Bezeq ("the DBS Case") and suspicions of the exercise of powers by former Prime Minister Binyamin Netanyahu, to promote issues related to Elovitch’s business and his and Bezeq Group's economic interests. ("Case 4000"). Following the investigations, indictments were filed and notices were received as follows:

1.3.1.1. On January 28, 2020, an indictment was filed with the Jerusalem District Court against Elovitch for various offenses, including offenses of bribery and intentional misstatement in an immediate report in connection with suspicions of abuse of power by former Prime Minister Binyamin Netanyahu, promoting issues related to Elovitch’s business and his and Bezeq Group's economic interests.

1.3.1.2. On December 23, 2020, Bezeq received a notice from the Tel Aviv District Attorney's Office (Taxation and Economy) regarding the consideration of Bezeq's prosecution and its invitation to a hearing in Case 4000 (“the Notice"), according to which:

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

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

c. Also, according to the Notice, according to the suspicion, Bezeq's criminal responsibility for the reporting offense stems from the actions and criminal thought of Elovitch who was its organ in the period relevant to the suspicions, and the actions and criminal thought of Stella Handler (former Bezeq CEO), who was Bezeq's organ at the relevant time (see Note 1.3.1.3b). According to the allegation in this context, Bezeq reported on a letter from the Director General of the Ministry of Communications that allegedly included a misleading presentation (of which Elovitch and Stella Handler were aware), and only after the intervention of senior legal advisers was the letter corrected and reported by Bezeq to the public.

d. According to the announcement, before the Attorney General makes a final decision regarding the criminal prosecution of Bezeq, and insofar as Bezeq wishes to argue against the possibility of criminal prosecution, it must coordinate a 30-day hearing within 90 days of the Notice, and submit written arguments two weeks before the date determined for the hearing.

e. It should be noted that Walla (Bezeq's former subsidiary) received a similar notice according to which, after examining the evidence before him, the Attorney General is also considering filing an indictment against Walla on suspicion of bribery (an offense under Article 291 of the Penal Code and Article 23 of the Penal Code), while according to the suspicion, Walla's criminal responsibility for the bribery offense stems from Elovitch’s criminal actions and thought which was its organ in the period relevant to the suspicions.

f. Subsequently, on July 8, 2021, Bezeq and Walla submitted a written argument for the hearing. On August 12, 2020, a hearing was held for the companies with the Deputy State Attorney (Criminal Enforcement) and the team of attorneys handling the case. As of the date of publication of the report, a decision has not yet been made by the State Attorney's Office and the Attorney General regarding the filing of an indictment following the allegations raised at the hearing, and the companies have not been given an expected date for making the decision.

1.3.1.3. On December 23, 2020, to the best of Bezeq's knowledge, a notice was issued by the State Attorney's Office, according to which, among other things, the State Attorney's Office (Taxation and Economics) filed with the Tel-Aviv Court’s Economic Department, on the same day, an indictment against Elovitch, as well as former senior executives in the Bezeq Group and DBS, Or Elovitch, Amikam Shorer, Linor Yochelman, Ron Eilon and Miki Neiman as part of the DBS case. According to the publication:

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

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

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

1.3.1.4. Regarding DBS, which on November 20, 2017, received a "letter of suspect notification" according to which the investigation file in which it was questioned as a suspect was transferred to the State Attorney's Office for review - in accordance with the State Attorney's Office's notice received by DBS, after the Securities Authority's case in which it was questioned as a suspect was reviewed by the State Attorney's Office, it was decided on January 11, 2021 to shelf the case against it, without filing an indictment.

1.3.2 It should be noted that following the opening of such investigations, a number of civil legal proceedings were initiated against Bezeq and DBS, Bezeq’s officers in the relevant period, as well as companies of Bezeq’s former controlling group, including motions for approval of class actions and motions for disclosure of documents prior to filing a derivative claim. For details regarding these procedures, see Note 17.

1.3.3 Bezeq does not yet have complete information regarding the investigations, plans, materials and evidence in the possession of the law authorities in the matter (although in January 2021, Bezeq received the core of the investigation material in connection with Case 4000, following Bezeq's summons to a hearing on this matter as detailed in the above note 1.3.1.2). In accordance, Bezeq is not yet able to assess the effects of the investigations, their findings and their results on Bezeq, as well as the financial statements and estimates used in the preparation of these reports, if any.

1.4 Pandemic - Outbreak of COVID-19

The beginning of 2020 saw a worldwide outbreak of the Coronavirus (COVID-19) which is an event with many implications, including macroeconomic. Following the epidemic, many countries, including Israel, are taking significant steps in an attempt to prevent the spread of the virus, such as restrictions on the movement of citizens, gatherings, transport restrictions on passengers and goods, closing borders between countries, and so on. As a result, the incident and the actions taken as aforesaid have significant implications for many economies as well as for the capital markets in the world.

The effects of the COVID pandemic on the Group's operations in 2021 were mainly reflected in the damage to Pelephone's revenues from roaming services, as a result of the effects of the pandemic’s spread on the aviation and international tourism sectors, without significant negative effects in other areas of operations. 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 pre-COVID level of activity. In addition, the global chip shortage and disruptions in the supply chain cause, among other things, shortages and difficulties in the supply of, and sometimes price increases in, equipment from the main suppliers of the Bezeq Group companies. The Bezeq Group companies are taking various measures in light of the aforesaid to reduce the harm to their operations.

It should be noted that tests carried out by the Group companies indicate that at this point, the COVID-19 crisis had no material impact on the ability of the Group companies, including the Company, to meet the repayment of liabilities and on the indices of assets and liabilities, impairment of assets and recognition of expected credit losses. In addition, there was no material impact on critical estimates and considerations.

As of the date of approval of these financial statements, Bezeq Group's working assumption regarding the continued spread of the COVID-19 pandemic is that the eradication of the pandemic is characterized by a gradual decline that may be accompanied by repeated waves of outbreaks and mutations in the virus.. Accordingly, and subject to the above assumptions, Bezeq Group expects that the effects of the COVID-19 pandemic on its activities will be mainly reflected in the damage to Pelephone's revenues from roaming services, as a result of the effects of the spread of the pandemic on the aviation and international tourism segments, without significant adverse effects in other areas of activity. Bezeq Group also expects that the global chip shortage and disruptions in the global supply chain will affect commodity prices in the short term and increase the need for Bezeq Group companies to stock up. In addition, it is possible that the impact of the pandemic will cause a prolongation of projects that require technological equipment or other equipment.

At the same time, it is a variable incident which is not in the Group’s control, and therefore the continuation or exacerbation of the crisis beyond the Group's assumptions as set forth above, if any, may materially adversely affect the Group's results. These effects may be reflected, *inter alia*, in injury, beyond the estimates as stated above, to income from roaming services, as well as to the Group companies' revenues from the business segment, revenues from the sale of cellular end equipment, employee availability, customer service and technician activity systems, the supply chain, and the amounts and dates of collection from the Group's customers.

The Group's preparation as stated above may vary depending on various developments regarding the COVID-19 pandemic and its effects, in particular the duration and extent of the incident, the nature and extent of the economic and other restrictions that accompany it, as well as the intensity and duration of the economic recession that will develop as a result.

No effect on the Company's ability to meet its debt service is expected.

1.5 Definitions

In these financial statements:

The Company	B Communications Ltd.
The Group	The Company and its subsidiaries
Bezeq	Bezeq Israel Telecommunications Corporation Ltd. and its subsidiaries whose reports are fully consolidated, directly or indirectly, with the Company's reports as detailed in Note 12.
DBS	DBS Satellite Services (1998) Ltd.
Subsidiaries	Companies whose financial statements are consolidated in full, directly or indirectly, in the financial statements of the Company
Affiliated companies	Companies that the Group's investment in which is included, directly or indirectly, in the financial statements based on the equity method
Investee companies	Subsidiaries or affiliates
Related party	As defined in International Accounting Standard 24 regarding related parties
Stakeholders	Within the meaning thereof in Paragraph (1) of the definition of "stakeholder" in a corporation in Article 1 of the Securities Law, 5728-1968
CPI	The Consumer Price Index published by the Central Bureau of Statistics

2. Basis for the preparation of the financial statements

2.1. Declaration of compliance with international financial reporting standards

The consolidated financial statements have been prepared by the Group in accordance with International Financial Reporting Standards (hereinafter: "IFRS") and in accordance with the Securities Regulations (Annual Financial Statements), 5770-2010.

The consolidated financial statements were approved by the Board of Directors on March 23, 2022.

2.2. The currency of the activity and the currency of the statements

The consolidated financial statements are presented in new shekels, which is the currency of the Group's activity and is rounded to the nearest million. The shekel is the currency that represents the main economic environment in which the Group operates.

2.3. The basis for measurement

The consolidated financial statements have been prepared on the basis of historical cost, with the exception of the following items:

- Derivative financial instruments, measured at fair value through income
- Inventory measured as cost or net exercisable value, whichever is lower
- Deferred tax assets and liabilities
- Provisions
- Assets and liabilities in respect of employee benefits

For more information regarding the measurement of these assets and liabilities, see Note 3 regarding the main principles of accounting policy.

2.4. Operating cycle period

The Group's operating cycle does not exceed one year. therefore, Current assets and current liabilities include items that are intended and expected to materialize within one year from the date of the financial statements.

2.5. Format of expense analysis recognized in the statement of income

Costs and expenses in the statement of income are presented and analyzed according to a classification method based on the nature of the expenses. The said classification is appropriate for understanding the business of the Group, which deals with a wide range of services provided through a common infrastructure. All costs and expenses are used To provide the services.

2.6. Use of estimates and discretion

In preparing the financial statements in accordance with IFRS, the Group's Management is required to use discretion, assessments, estimates and assumptions that affect the implementation of accounting policies and amounts of assets and liabilities, income and expenses. It is hereby clarified that the actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates were updated and in any future period affected.

The following is information regarding significant estimates and discretion, a change in estimates and assumptions in respect of which has the potential to have a material effect on the financial statements of the next fiscal year:

Topic	Main assumptions	Possible consequences	Reference
Measuring the recoverable amounts of cash-generating units	Assuming the expected cash flows from the cash-generating units	Recognition of impairment loss or cancellation of impairment loss	Note 10
Duration of property, plant and equipment, intangible assets and other long-term assets	Assumptions regarding the useful duration of a group of property, plant and equipment, intangible assets and other assets	Change in the value of property, plant and equipment and intangible assets and other assets and in depreciation and amortization expenses	Notes 9, 10,11
Determining the lease period	For the purpose of determining the lease period, the Group takes into account the period during which the lease cannot be canceled, including extension options that are likely to be exercised and / or options for cancellation that are likely to be exercised	Increase or decrease in the measurement of right-of-use asset and liability in respect of lease and in depreciation and financing expenses in subsequent periods	Note 8
Uncertain tax positions	The degree of uncertainty regarding the accepting of the Group's tax positions (uncertain tax positions) and the risk that tax and interest expenses will be higher or lower than the expenses included in the reports. This is based on an analysis of a number of factors, including interpretations of the tax laws and the Group's past experience	Recognition or cancellation of income taxes expenses	Note 7
Provisions and contingent liabilities, including levies	Assessing the likelihood of claims against the Group companies and measuring the potential liabilities relating to the claims	Cancellation or creation of a provision in respect of a claim, recognition of revenue / expenses and recognition of revenue in respect of such a change, respectively	Note 15 and Note 17
	The Company's assumption of the estimated payment to the authorities in respect of levies on	Change in capital gain from the sale of a real estate asset in the "Sakia"	Note 6.6

	real estate in the "Sakia" complex	complex	
Employee benefits	Actuarial assumptions such as discount rate, future wage increase rate and departure rate	An increase or decrease in employee benefits liabilities and early retirement liabilities	Note 16
Deferred taxes	Discount on the expected exercise of the tax benefit in the future, including the assumption that it is more likely than not that transferred losses accrued in DBS for tax purposes will not be used	Recognition of deferred tax asset	Note 7
Existence of effective control over Bezeq	The possibility of appointing most of Bezeq's members of the Board of Directors, as a result of the Company's control permit in Bezeq, the control of the composition and distribution of the other Bezeq shareholders and the restrictions that apply to these shareholders under the Communications Law	Consolidation of Bezeq's financial statements or treatment of an investment in Bezeq using the equity method	Note 12.5

2.7. Determining fair value

For the purpose of preparing the financial statements, the Group is required to determine the fair value of certain assets and liabilities. Further information regarding the assumptions used in the fair value determination is provided in Note 30.7 regarding fair value.

3. Accounting policy principles

The accounting policies outlined below have been applied consistently to all periods presented in these consolidated financial statements by the Group entities.

In this note, where the Group has chosen accounting alternatives, which are permitted by accounting standards and / or accounting policies on a subject on which there is no explicit provision in accounting standards, the said disclosure is presented ***in bold***. The said emphasis does not attach more importance in comparison to the other accounting policies that were not emphasized.

3.1. Consolidation of 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 of acquisition of control until the date of loss of control.

Control exists when the Group is exposed to, or has rights in, returns that vary from its involvement in the acquired entity and has the ability to influence those returns through its power of influence in the acquired entity. In terms of control, real rights held by the Group and by others are taken into account.

3.1.2. Non-controlling interests

Non-controlling interests are the equity in a subsidiary that cannot be attributed, directly or indirectly, to the parent company and include additional components, such as a share-based payment that will be disposed of in the equity instruments of subsidiaries.

3.1.3. Allocation of income or other comprehensive profit among the shareholders

Income and any other component of other comprehensive profit are attributed to the owner of the Company and to non-controlling interests. The total income and the other comprehensive profit is attributed to the owner of the Company and to non-controlling interests even if as a result the balance of the non-controlling interests will be negative.

3.1.4. Transactions with non-controlling interests, while maintaining control

Transactions with non-controlling interests while maintaining control are treated as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is imputed to the Company owner's share in the equity directly to surplus. The amount by which the non-controlling interests are adjusted is calculated as follows: an increase in the holding rate, according to the proportionate share of the balance of the non-controlling interests in the consolidated financial statements on the eve of the transaction. Also, in the event of changes in the holding rate in a subsidiary, while retaining control, the Company reallocates the cumulative amounts recognized in other comprehensive profit between the owner of the Company and the non-controlling interests.

3.1.5. Transactions canceled in the consolidation

Mutual balances in the Group and revenue and expenses, arising from transactions between companies, were eliminated in the consolidated financial statements.

3.1.6. Contingent consideration for the merging of businesses

After the acquisition date, the Group recognizes changes in the fair value of a contingent consideration recognized in the merging of businesses, which is classified as a financial liability, **in the income statement under the financing expenses item.**

3.2. Foreign currency transactions

Foreign currency transactions are translated into the Group's operating currency according to the exchange rate in effect on the transaction dates. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the activity currency at the exchange rate in effect on that date.

3.3. Financial Instruments

3.3.1. **Non-derivative financial assets**

Non-derivative financial assets mainly include investments in deposits, customers and other trade receivables and cash and cash equivalents.

The Group initially recognizes financial assets at the date on which the Group becomes a party to the contractual provisions of the instrument, meaning the date on which the Group undertook to buy or sell the asset.

A financial asset is initially measured at fair value plus transaction costs that can be directly attributed to the acquisition or issuance of the financial asset. Customers who do not include a significant financing component are initially measured by the transaction price.

Financial assets are deducted when the Group's contractual rights to the cash flows arising from the financial asset expire, or when the Group transfers the rights to receive the cash flows arising from the financial asset in a transaction in which all risks and rewards of ownership of the financial asset are transferred in practice.

Classification of financial assets into groups and accounting treatment for each group

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

A financial asset is measured at reduced cost if it meets the two cumulative conditions below and is not intended to be measured at fair value through income:

a. Held as part of a business model that aims to hold assets to back up the contractual cash flows; and

b. The contractual terms of the financial asset provide entitlement at specified dates to cash flows that are only payments of principal and interest in respect of the principal amount that has not yet been repaid.

All financial assets in the Group that are not classified for measurement at amortized cost are measured at fair value through income.

The Group classifies financial assets as follows:

Cash and cash equivalents

Cash includes immediately available cash balances and on-demand deposits. Cash value includes short-term investments (when the time from the original deposit date to the redemption date is up to 3 months), at a high level of liquidity that can be easily converted into known amounts of cash and which are exposed to insignificant risk of changes in value.

Customers, trade receivables and deposits

The Group has balances of customers, other trade receivables and deposits held as part of a business model aimed at collecting contractual cash flows. Contractual cash flows in respect of these financial assets, include only principal and interest payments which reflect a consideration for the time value of the money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Subsequent measurement and income

Reduced financial assets are measured using the effective interest method minus impairment losses. Interest income, profit or loss from exchange rate differences and impairment are recognized in income. Any profit or loss arising from a deduction is also recognized in income.

Fair value financial assets through income are measured in subsequent periods at fair value. Net profit and loss, including income from interest or dividends, are recognized in income.

3.3.2. Non-derivative financial liabilities

Non-derivative financial liabilities include: debentures issued by the Group, loans and credit from banking corporations and other credit providers, suppliers and other trade payables.

The Group initially recognizes debt instruments issued at the time of their formation. The rest of the financial liabilities are recognized at the time of the transaction. Financial liabilities are initially recognized at fair value minus all attributable transaction costs. Once initially recognized, financial liabilities are measured at amortized cost using the effective interest method.

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

Change in terms of debt instruments

Exchanging debt instruments, with substantially different terms, between an existing borrower and an existing lender is treated as the settlement of the original financial liability and the recognition of a new financial liability at fair value. The difference between the reduced cost of the original financial liability and the fair value of the new financial liability is recognized under financing income or expenses item.

The terms differ materially if the discounted present value of the cash flows under the new terms, including any commissions paid, minus any commissions received and discounted using the original effective interest rate, is at least ten percent different from the discounted present value of the remaining cash flow of the financial liability.

In addition to the aforementioned quantitative test, the Group examines, among other things, whether there have also been changes in various economic parameters inherent in the replaced debt instruments.

In the event of a change in the terms (or replacement) of a non-material fixed-rate debt instrument, the new cash flows are discounted at the original effective interest rate, with the difference between the present value of the new financial liability and the present value of the original financial liability recognized in income ***under the item "Financing expenses (income)".***

The Group has chosen an accounting policy according to which when a portfolio of financial liabilities with the same characteristics is repaid / replaced, the calculation of profit or loss from subtraction / replacement will be performed using the FIFO method.

3.3.3. **Index-linked assets and liabilities that are not measured at fair value**

The value of CPI-linked assets and liabilities, which are not measured at fair value, is estimated in each period in accordance with the actual rate of increase / decrease of the index.

3.3.4. **Offsetting financial instruments**

A financial asset and a financial liability are offset and the amounts are presented net in the statement of financial position when the group has immediate existence (currently) an enforceable legal right to offset the amounts recognized as well as an intention to liquidate the asset and liability on a net basis or to realize the asset and eliminate the liability at the same time.

3.3.5. **A. Hedge accounting**

The Group holds derivative financial instruments for the purpose of hedging cash flow in respect of risks of future changes in the consumer price index in connection with the debentures issued by the Group.

At the time the hedge relationship is created, the Group documents the purpose of risk management and its hedging strategy. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in the cash flows of the hedged item and the hedging instrument are expected to offset each other.

Derivatives are initially recognized at fair value. Attributable transaction costs are recognized in income as incurred. After initial recognition, the derivatives are measured at fair value, with the effective portion of the changes in the fair value of the derivative being charged to a hedge fund under other comprehensive profit. The effective portion of the changes in the fair value of a derivative, which is recognized in other comprehensive profit, is limited to the cumulative change in the fair value of the hedged item (at present value), from the date of creation of the hedge. The part that is ineffective, the change in fair value is immediately recognized in income.

B. Economic hedging

In addition, the Group holds derivative financial instruments for the purpose of hedging cash flow in respect of foreign exchange risks. Hedge accounting is not applied to these instruments. Such derivative instruments are recognized at fair value; The changes in fair value are immediately recognized in the statement of income, **as financing income or expenses.**

3.4. Broadcasting rights

The broadcasting rights are presented according to cost, minus exercised rights and impairment losses.

Costs of acquired broadcasting rights for broadcasting content includes the amounts paid to the rights providers plus direct costs incurred for the purpose of adjusting the rights to the broadcast and costs of original productions. The broadcasting rights are reduced in a straight line according to the period of the rights agreement or the economic duration, whichever is shorter.

An examination of the impairment of broadcasting rights is made as part of the cash-generating unit with which the broadcasting rights are associated (see also Note 11).

The net change in broadcasting rights is presented as adjustments to profit as part of current operations in the statement of cash flows.

3.5. Property, plant and equipment

3.5.1. Recognition and measurement

The Group chose to measure the property, plant and equipment items by cost minus accumulated depreciation and impairment losses.

Cost includes costs that can be directly attributed to the purchase of the asset. The cost of self-constructed assets includes the cost of materials, direct salaries and financing costs, any additional costs that can be directly attributed to bringing the asset to the location and condition necessary for it to operate as Management intended, as well as an estimate of the costs of dismantling and removing the items and restoring the site where the item is located in cases where the Group is obligated to vacate and restore the site. The cost of purchased software, which is an integral part of the operation of the related equipment, is recognized as part of the cost of this equipment.

Spare parts, auxiliary equipment and backup equipment are classified as property, plant and equipment when they meet the definition of property, plant and equipment in accordance with IAS 16, otherwise they are classified as inventory.

When significant pieces of property, plant and equipment have different lifespans, they are treated as separate items (significant components) of property, plant and equipment.

Profit or loss from the deduction of a property, plant and equipment item is determined by comparing the consideration from the deduction of the asset to its book value. **Profit or loss from the sale of property, plant and equipment is included in the Other income or expenses item, as the case may be, in the statement of income.**

3.5.2. Subsequent costs

The cost of replacing part of a property, plant and equipment item is recognized as part of the book value in the of that item if it is expected that the future economic benefit inherent in the new part will flow to the Group and if its cost can be measured reliably. Ongoing maintenance costs of property, plant and equipment are recognized in income as they arise.

3.5.3. Depreciation

Depreciation is charged to the statement of income using the straight-line method over the estimated useful life of each of the items of property, plant and equipment, since this method best reflects the projected consumption pattern of the future economic benefits inherent in the asset.

An asset depreciates when it is available for use, that is, when it has reached the necessary position and condition in order for it to be able to act in the manner intended by Management.

Improvements in leased buildings generally depreciate over the lease term (which includes the period of extension options held by the Group, which it considers likely to materialize) and the useful life of the lease improvements, whichever is shorter.

The estimate of the useful duration for the current period is as follows:

	Years
Landline and international network equipment (switching, transmission and power)	2-10
Landline network	12-33
Multi-channel TV equipment and infrastructure	1-17
Subscription equipment and installations	4-8
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 on cellular network sites	Until December 31, 2037
Structures	25
Underwater cable	10-25

Estimates of the depreciation method, useful life and residual value are reviewed at least once every reporting year and adjusted as necessary.

3.6. Intangible assets

3.6.1. Goodwill

Goodwill created as a result of the acquisition of subsidiaries is included in the intangible assets item. After initial recognition, goodwill is measured at cost minus accumulated impairment losses. Reputation is reviewed at least once a year for impairment examination. See also Note 10.

3.6.2. Software development costs

Software development costs are recognized as an intangible asset only if: the development costs can be reliably measured; The software is technically and commercially applicable; A future economic benefit is expected from the development, and the Group has sufficient intention and resources to complete the development and use the software. The costs recognized as an intangible asset include the cost of materials, direct salary and overhead expenses that can be directly attributed to the preparation of the asset for its intended use. Other development costs are recognized in the statement of income as incurred.

Discounted development costs are measured at cost minus amortization and impairment losses.

3.6.3. Software

Software that is an integral part of the hardware, which cannot operate without the software installed on it, is classified as property, plant and equipment. In contrast, software licenses that stand on their own and add additional functionality to the hardware are classified as intangible assets.

3.6.4. Embedding costs of cloud computing arrangements

Embedding costs of cloud computing arrangements are discounted for the asset as long as the asset meets the definition of an intangible asset, and in particular to the extent that the Group controls the asset. To the extent that the Group does not recognize an intangible asset, the Group examines whether the services received are differentiated from the cloud computing service. To the extent that the services the Group receives are differentiated from the cloud computing services or provided by a third-party provider that is not the cloud computing provider, the Group recognizes the expense with the provision of the implementation services. To the extent that the services are not differentiated, the implementation costs are recognized as an expense in the rate of consumption of cloud computing services.

3.6.5. Rights to frequencies

Frequency rights refer to the frequencies allocated to Pelephone for cellular activity, following its winning special tenders conducted by the Ministry of Communications. Depreciation in respect of the asset is recognized in the statement of income according to the "straight line" method depreciates over the frequency allocation period, which begins on the date of their use. 3G frequencies (UMTS / HSEA) depreciate until the end of 2030. 4G frequencies (LTE) and 5G frequencies will depreciate until September 2032.

Amortization of rights in frequencies is attributed to the depreciation and amortization item in the statement of income.

3.6.6. Other intangible assets

Other intangible assets acquired by the Group, with a defined useful life, are measured at cost minus amortization and impairment losses.

3.6.7. Subsequent costs

Subsequent costs are recognized as an intangible asset only when they increase the future economic benefit inherent in the asset in respect of which they were incurred. Other costs, including those related to goodwill or self-developed brands, are recognized in the statement of income as incurred.

3.6.8. Amortization

Amortization of intangible assets is charged to the statement of income according to the straight-line method (except as stated below regarding the amortization of customer relationships), over the estimate of the useful life of the intangible assets from the date on which the assets are available for use. Goodwill is not systematically amortized, but is examined at least once a year for impairment.
The estimated useful life for the current period is:

Property type	Reduction period
Frequency use rights	3G frequencies - until December 2030 4G and 5G frequencies - until August 2032
Computer software and software use licenses	1-7 years depending on the license period or throughout the estimated duration of use of the software

Estimates of the depreciation method and useful duration are reviewed at least once every reporting year and adjusted as necessary.

3.7. Leasing

3.7.1. Determining whether an arrangement contains a lease

At the time of entering into the lease, the Group determines whether the arrangement is a lease or contains a lease, examining whether the arrangement transfers a right to control the use of an identified asset for a period of time in exchange for payment. In assessing whether the arrangement transfers the right to control the use of an identified asset, the Group assesses throughout the lease term whether it has the following two rights:

a) The right to obtain virtually all economic benefits from the use of the identified asset; also
b) The right to direct the use of the identified asset

For leases that include non-lease components, such as services or maintenance, related to a lease component, ***the Group has chosen to treat the contract as a single lease component without separating the components.***

3.7.2. Leased assets and liabilities in respect of lease

Contracts that give the Group control over the use of an identifiable asset over a period of time for consideration are treated as leases. At the 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 do not depend on the CPI or, change in any interest rate or change in exchange rate), and at the same time the Group recognizes the right-of-use asset in the amount of the liability, adjusted for lease payments that have been paid in advance or accumulated, plus the direct costs incurred in the lease.

Because the interest rate inherent in the lease cannot be easily determined, the Group's additional interest rate was used (the interest rate the Group was required to pay in order to borrow for a similar period and with similar collateral the amounts needed to obtain an asset with a similar right of use in a similar economic environment).

After initial recognition, the asset is treated according to the cost model, and is amortized over the lease term or the useful life of the asset (whichever is earlier).

3.7.3. Lease period

The lease period is determined as a period in which the lease is non-cancellable, and includes the periods for which there is an option to extend or cancel the lease if it is reasonably certain that the Group will exercise the options for extending the lease and will not exercise the option to cancel the lease.

3.7.4. Variable lease payments

Lease payments that are linked to the consumer price index are initially measured by using the existing index at the beginning of the lease and are included in the measurement of the lease liability. When there is a change in the cash flow of future lease payments resulting from the change in the index, the balance of the liability is updated against the right-of-use asset.

3.7.5. Amortization of right-of-use asset

After the date of commencement of the lease, the right of use property is measured using the cost method, minus cumulative depreciation And after deducting cumulative losses from impairments and adjusted for re-measurements of the liability in respect of the lease. ***Amortization is calculated on a straight-line basis*** over the useful duration or the contractual lease period, whichever is earlier, as follows:

Asset type	Weighted average of the agreement period as of December 31, 2021 (years)
Cellular communication sites	6
Structures	15
Vehicles	2

3.7.6. Subleases

In leases in which Bezeq Group leases the underlying asset in a sublease, Bezeq Group examines the classification of the sublease as a finance or operating lease in relation to the right-of-use obtained in the main lease. Bezeq Group examined existing leases at the date of initial application in accordance with the balance of their contractual terms as of that date.

3.8. Rights of use of capacities

Transactions for the purchase of an indefeasible right of use (IRU) in underwater cable capacities were treated as service acceptance transactions. The amount of the prepaid expense is amortized as part of the depreciation expenses, in a straight line, in accordance with the period specified in the agreement and no more than the estimated useful life of those capacities. The payment for the right to use the capacities is presented in cash flow from investment operations.

Capacities which identifiable and used exclusively by the Group are presented in the property, plant and equipment item. Capacities that cannot be specifically identified are shown in Other long-term assets. The asset is amortized in accordance with the period specified in the agreement, including an extension option that the Company expects to exercise and for no longer than the estimate or the expected useful life of those capacities. Capacity use rights are presented minus accumulated impairment losses. The amortization in respect of capacities is presented in the Depreciation, amortization and impairment item.

3.9. Inventory

The cost of inventory includes the costs of purchasing the inventory and bringing it to its existing place and condition.

Inventory is measured as the cost and net exercisable value, whichever is lower. ***The Group chose to determine the cost of inventory according to the weighted moving average method*.**

Stock includes end equipment and accessories intended for sale and service, as well as spare parts used for repairs as part of the repair service provided to customers.

Inventory of end equipment, accessories and spare parts whose consumption is slow are presented minus provisions for impairment.

3.10. Impairment

3.10.1. Non-derivative financial assets

The Group has chosen to measure the provision for projected credit losses in respect of customers and trade receivables in an amount equal to the contractual credit losses throughout the duration of the instrument.

Projected credit losses throughout the life of the instrument are projected credit losses resulting from all possible failure events throughout the life of the financial instrument.

Projected credit losses constitute a weighted estimate — probabilities of credit losses. Credit losses are measured at the present value of the difference between the cash flows to which the Group is entitled under the contract and the cash flows that the Group expects to receive and are discounted according to the effective interest rate of the financial asset.

Examination of projected credit losses for customer and trade receivable balances in substantial amounts is done on the basis of each asset separately. For the rest of the financial assets, projected credit losses are examined collectively, according to groups with similar credit risk characteristics, taking into account past experience.

Provision for projected credit losses is presented as a deduction from the gross book value of customers.

Regarding deposits in banks, for which the credit risk has not increased significantly from the date of initial recognition, the Group measures the provision for projected credit losses in an amount equal to the projected credit losses due to a failure incident in a period of 12 months.

When assessing whether the credit risk of a financial asset has increased significantly from the date of initial recognition and assessment of projected credit losses, the Group takes into account reasonable information that can be established, which is relevant and achievable without excessive cost or effort. Such information includes quantitative and qualitative information, as well as analysis, based on the Group's past experience and includes forward-looking information.

3.10.2. Non-financial assets (see also Note 10)

Timing of impairment examination

The book value of the Group's non-financial assets, that are not inventory and deferred tax assets, is reviewed at each reporting date to determine whether there are any indications of impairment. If there are indications, as stated, an estimate of the recoverable amount of the asset is calculated.

The Group performs once a year, on a fixed date, an assessment of the recoverable amount of goodwill, or more frequently, if there are indications of impairment.

Determining cash-generating units

For the purpose of examination of impairment, the assets are grouped together into the smallest group of assets which generates cash flows from continuous use, which are mainly independent of assets and other groups ("cash-generating unit"). See Note 10.

Measurement of recoverable amount

The recoverable amount of an asset or a cash-generating unit is the value in use and the fair value, whichever is higher, minus costs of sale. In determining the value in use, the Group discounts the projected future cash flows according to the discount rate, which reflects the market estimates of the time value of the money and the specific risks relating to the asset or cash-generating unit (for which future cash flows have not been adjusted).

Assignment of goodwill to cash-generating units

For the purpose of examining the impairment of goodwill, cash-generating units to which goodwill has been allocated are grouped so that the level at which the impairment is examined reflects the lowest level at which the goodwill is monitored for internal reporting purposes, but in any case is not larger than an activity segment. Goodwill acquired as part of merging businesses is assigned for the purpose of examining impairment to cash-generating units that are expected to generate benefits from the synergy of the merger.

Recognition of impairment loss

Loss from impairment of a cash-generating unit is recognized when the book value of the cash-generating unit, including goodwill, as applicable, exceeds its recoverable amount and is recognized in the statement of income. An impairment loss recognized in respect of a cash-generating unit is initially allocated to an impairment loss in the book value of goodwill attributable to the unit, and subsequently to an impairment loss in the book value of other assets in the cash-generating unit. For the purpose of allocating the impairment loss, the value of the assets is not reduced below the fair value minus exercise costs, their value in use (if determinable) or zero, whichever is higher.

Impairment loss resulting from a one-off update of forecasts for the coming years is classified in the statement of income under the Impairment loss item. On the other hand, an impairment loss resulting from a continuing adjustment of non-current assets of the Group companies to fair value minus exercise costs (resulting from the expectation of continued negative cash flow and negative operating value of those companies), is classified in the statement of income under the same items in which the current expenses in respect of these assets were classified. The said classification is more compatible with the presentation method based on the nature of the expense and is also more suitable for understanding the Group's business.

Accordingly, the statement of income shows the continuing impairment of broadcasting rights as part of "Operating and general expenses" while the continuing impairment of property, plant and equipment, intangible assets and Rights-of-use of capacities is presented as part of "Depreciation, amortization and impairment" expenses. See also Note 10.

Cancellation of impairment loss

Loss of goodwill impairment is not cancelled. As for other assets, in respect of which impairment losses have been recognized in previous periods, at each reporting date it is examined whether there are indications that these losses have decreased or that they no longer exist. Impairment loss is cancelled if there is a change in the estimates used to determine the recoverable amount, only to the extent that the book value of the asset, after the loss is deducted, does not exceed the book value less depreciation or amortization, which would have been determined if no impairment loss had been recognized.

3.11. Employee benefits

3.11.1. Post-employment benefits

The Group has a number of post-employment benefit plans. The plans are usually funded by deposits with insurance companies and are classified as defined deposit plans as well as defined benefit plans.

a. Defined deposit plans

A defined deposit plan is a post-employment plan whereby the Group pays regular payments to a separate entity without having any legal or implied liability to pay additional payments.

The Group's liabilities to deposit to the defined deposit plan are recognized as a loss in the statement of income for the periods during which the employees provided the services.

b. Defined benefit plans

The Group's net liability, which relates to a defined benefit plan for post-employment benefits, is calculated for each plan separately by estimating the future amount of the benefit that the employee will receive in return for his services in the current period and in past periods. This benefit is presented at present value less the fair value of the plan's assets. The calculations are conducted annually by a qualified actuary. The discount rate is determined according to the return on the reporting date for high-quality corporate bonds, whose currency is the same as the currency in which the benefit is paid or to which it is linked, and whose maturity date is similar to the Group's commitment terms.

Net interest costs in respect of a defined benefit plan are calculated by multiplying the net liability by the discount rate used to measure the liability in respect of a defined benefit, as determined at the beginning of the annual reporting period.

The Group chose to present the interest costs imputed to income, as part of the financing expenses item.

Recalculation of the net liability in respect of a defined benefit includes actuarial income and the return on plan assets (excluding interest). Re-measurements are imputed immediately, through other comprehensive profit directly to ***surplus***.

When there is an improvement or reduction in the benefits that the Group provides to its employees, some of the increased or reduced benefits relating to employees' past services are immediately recognized as profit or loss when the plan is amended or reduced.

3.11.2. Other long-term employee benefits

The Group's liability for long-term employee benefits (such as liability for accrued vacation and sick days), which do not relate to post-employment benefit plans, is in respect of the amount of future benefit to employees for services rendered in the current and past periods. The amount of these benefits is shown at its current value. The discount rate is determined in accordance with the return of high-quality indexed corporate bonds on the reporting date whose currency is the shekel, and their maturity date is similar to the Group's commitment terms. Actuarial changes are recognized in the statement of income in the period in which they were created. **The actuarial changes resulting from a change in the discount rate are recognized under the financing expenses / income item, while the remaining differences are imputed to salary expenses.**

3.11.3. Early retirement and dismissal benefits

Dismissal benefits are recognized as an expense when the Group has expressly committed, with no real possibility of cancellation, to the dismissal of employees, before they reach the usual retirement date according to a detailed formal plan. Benefits provided to employees in voluntary retirement are recognized as an expense when the Group has offered employees a plan that encourages voluntary retirement, and the employees accepted the offer or when the Company can no longer withdraw its offer.

Expenses in respect of early retirement and dismissal that have been imputed to income are presented in the item Other operating expenses (income). The actuarial changes resulting from a change in the discount rate of long-term benefits in respect of early retirement and dismissal are imputed to the item of financing expenses, while the other actuarial changes are imputed to other operating expenses (income).

3.11.4. Short-term benefits

Liabilities for short-term employee benefits are measured on a non-discounted basis, and the expense is recognized when the relevant service is provided. Liabilities in respect of short-term employee benefits regarding a cash bonus is recognized at the amount expected to be paid when the Group has a current legal or implied liability to pay the said amount for a service provided by the employee in the past and the liability can be reliably estimated.

The classification of benefits for employees as short-term benefits or as other long-term benefits for measurement purposes is determined in accordance with the forecast of the date of full disposal of the benefits.

The classification of benefits for employees as current benefits or as non-current benefits for the purpose of presenting them in the statement of financial position is made in accordance with the date on which the liability is due for payment.

3.11.5. Share-based payment transactions

The fair value at the date of grant of options to employees for the purchase of the Company's shares is charged as a salary expense in parallel with the increase in equity over the period in which the employees' entitlement to the options is obtained. The Group presents the increase in equity as part of the non-controlling interests.

For share-based payment grants conditional on performance conditions that constitute market conditions, the Group takes these conditions into account when estimating the fair value of the equity instruments granted, and therefore the Group recognizes an expense for these grants regardless of the fulfillment of these conditions.

The amount imputed as an expense is adjusted to reflect the number of stock options that are expected to mature.

3.12. Provisions

A provision is recognized when the Group has a current, legal or implied obligation as a result of a past incident that can be reliably estimated, and when it is expected that a flow of economic benefits will be required to discharge the liability.

3.12.1. Legal claims

The handling of pending lawsuits is in accordance with IAS37 and its accompanying provisions. According to the provisions, the claims are classified according to groups with similar characteristics, in accordance with the areas of probability for the realization of the risk exposures as detailed below:

a. Expected - probability above 50%.
b. Possible - probability is more than weak and smaller or equal to 50%.
c. Weak - probability less than or equal to 10%.

Regarding claims in respect of which the Group has a legal or implied liability as a result of an event that has occurred in the past that is likely to materialize, the financial statements include provisions which, in the opinion of the Group's Management, based, *inter alia*, on its legal counsel who handle such claims, are appropriate in the circumstances of each case, even though the above claims are denied by the Group companies. In addition, there is a limited number of legal proceedings, most of which have recently been accepted, the chances of which cannot be assessed at this stage, and for the aforesaid reason no provision has been made in respect thereof.

Note 17 provides details regarding the amount of the additional exposure due to pending claims that are likely to materialize.

3.12.2. Costs of dismantling and removing sites

The provision for a commitment to dismantle and remove sites is recognized in respect of such lease agreements in which Pelephone has an obligation to return the leased property to its former state at the end of the lease period, after dismantling and transferring the site and restoring the site when necessary. The provision is measured by discounting future cash flows at a risk-free discount rate that reflects the period of time until the expected end of the contract under which Pelephone was required to dismantle the site. The book value of the provision is adjusted in each period to reflect the lapse of time recognized in financing expenses.

3.12.3. Onerous contracts

When the Group expects that the unavoidable costs in respect of a contract will exceed the economic benefits expected to be received from the contract, a provision for an onerous contract is recognized. The provision is measured according to the present value of the projected cost for cancellation of the contract or the present value of the unavoidable costs (net of income) for the performance of the contract, whichever is lower. ***Inevitable costs are costs that the Group cannot avoid because it is subject to a contract (i.e., supplemental costs).***

3.13. Revenues

3.13.1. The Group recognizes revenue when the customer gains control of the promised goods or service. Revenue is measured by the amount of consideration that the Group expects to be entitled to in exchange for the transfer of goods or services promised to the customer, other than amounts collected for the benefit of third parties.

The model for recognition of revenue from contracts with customers includes five steps for analyzing transactions in order to determine the timing of revenue recognition and its amount:

a. Identifying the contract with the customer
b. Identifying separate performance obligations in the contract
c. Determining the transaction price
d. Assigning the transaction price to separate performance obligations
e. Recognition of revenue upon fulfillment of performance obligations

3.13.2. Contract identification

The Group handles a contract with a customer only when all of the following conditions are met:

1. The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are obligated to fulfill the obligations attributed to them
2. The Group can identify the rights of each party regarding the products or services to be exchanged
3. The Group can identify the terms of payment for the goods or services to be exchanged
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); and
5. The Group is expected to collect the consideration to which it is entitled for the goods or services that will be delivered to the customer

3.13.3. Identification of performance commitment

At the time of entering into the contract, the Group evaluates the goods or services promised under a contract with a customer and identifies as a performance obligation any promise to deliver to the customer one of the following two:

(1) Goods or services (or a package of goods or services) that are separate; or
(2) A series of separate goods or services to the customer that are in fact identical and have the same transfer pattern.

3.13.4. Determining the transaction price

The transaction price is the amount of consideration that the Group expects to be entitled to in exchange for the transfer of goods or services promised to the customer, in addition to amounts collected for the benefit of third parties. When determining the transaction price, the Group takes into account the effects of all of the following: variable consideration, the existence of a significant financing component in the contract, non-cash consideration and consideration to be paid to the customer.

Existence of a significant financing component

For the purpose of measuring the transaction price, Bezeq Group adjusts the amount of consideration promised for effects of the time value of the money if the timing of payments agreed between the parties provides the customer or Group with a significant financing benefit. In these cases the contract contains a significant financing component. In assessing whether a contract contains a significant financing component, Bezeq Group examines, *inter alia*, the expected length of time between the date on which Bezeq Group transfers the promised goods or services to the customer and the date on which the customer pays for these goods or services, and the difference, if any, between the amount of the promised consideration and the cash sale price of the promised goods or services.

When there is a significant financing component in the contract, ***Bezeq Group recognizes the amount of the consideration using the discount rate that will be reflected in a separate financing transaction between itself and the customer at the time of engagement***. The financing component is recognized as income or interest expenses during the period calculated in accordance with the effective interest method.

In cases where the difference between the date of receipt of payment and the date of transfer of the goods or service to the customer is one year or less, ***Bezeq Group applies the practical relief provided by the standard and does not separate a significant financing component***.

3.13.5. Existence of performance obligation

Revenue is recognized when Group maintains a performance obligation by transferring control of a customer or service promised to the customer.

3.13.6. Contract costs

Supplemental costs of obtaining a contract with a customer such as sales commissions paid to resellers and Group salespeople for sales and upgrades are recognized as an asset when the Group is expected to recoup those costs. Costs for obtaining a contract that would have arisen regardless of whether the contract was obtained are recognized as an expense at the time they were incurred, unless the customer can be charged for these costs.

Costs discounted as an asset are recognized in the statement of income on a systematic basis, depending on the expected duration of the subscribers and depending on their expected average churn rate according to the type of subscription and the service received (mainly for a period of between 2 to 4 years).

In each reporting period, the Group examines whether the book value of the recognized asset exceeds the balance of the consideration the entity expects to receive in return for the goods or services to which the asset relates, minus the costs directly attributable to the supply of those goods or services that were not recognized as expenses, and if necessary, recognized an impairment loss in the statement of income.

3.13.7. Major supplier or agent

When another party is involved in the supply of goods or services to the customer, the Group examines whether the essence of its promise is a commitment to provide the defined goods or services by itself, i.e., if the Group is a major supplier and therefore recognizes revenue in gross consideration amount, or act for another party to provide these goods or services, i.e. the Group is an agent and therefore recognizes income in the net commission amount.

The Group is a major supplier when it controls the goods or service promised prior to delivery to the customer. Indicators that the Group controls the goods or service prior to their transfer to the customer include, *inter alia*, the following: the Group is primarily responsible for keeping the promises in the contract; The Group has an inventory risk before the goods or service are delivered to the customer; And also if the Group has discretion in setting the prices for the goods or service.

3.14. Government grants

A government grant in respect of a frequencies tender is initially recognized at fair value when there is reasonable assurance that it will be accepted and that the Group will meet the conditions that qualify for their receipt. Government grants received for the purpose of purchasing an asset ***are presented as deferred revenue in the statement of financial position and are unfrozen in the statement of income throughout the useful duration of the asset. Thawing of revenue is recognized in the item Other operating revenue in the income statement.***

3.15. Financing income and expenses

Financing revenue mainly includes interest revenue accrued using the effective interest method in respect of the sale of end equipment in installments, interest revenue from deposits and changes in the fair value of financial assets presented at fair value through the statement of income. Total financing expenses mainly include interest expense and linkage on loans received and debentures issued, expenses in respect of early repayment of the debt as well as financing expenses in respect of benefits to employees.

In statements of cash flows, ***interest received is shown as part of cash flows from investing activities. The Group chose to present the interest rates and linkage differences paid in respect of loans and debentures as part of cash flows used for financing activity.***

3.16. Income tax expenses

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

Current taxes

The current tax is the amount of tax that is expected to be paid on the taxable income for the year, when it is calculated according to the tax rates that apply according to the laws that were enacted or enacted in fact at the date of the report. Current taxes also include changes in tax payments relating to previous years.

Uncertain tax positions

Provision for uncertain tax positions, including additional tax expenses and interest, is recognized when it is more likely than not that the Group will be required to use its financial resources to eliminate the liability.

Deferred taxes

Recognition of deferred taxes is with respect to temporary differences between the book value of assets and liabilities for financial reporting purposes and their value for tax purposes. The Group does not recognize deferred taxes in respect of the following temporary differences:

1. Initial recognition of goodwill
2. Differences arising from investment in subsidiaries and affiliates, if it is not expected that they will be reversed in the foreseeable future and if the Group controls the date of reversal of the difference.

Deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date they are implemented, based on the laws enacted or the enactment of which was completed in practice as of the reporting date.

Deferred tax asset is recognized in the books in respect of carried forward losses, tax benefits and deductible temporary differences, when it is expected that in the future there will be taxable income, against which it will be possible to exercise them. Deferred tax assets are reviewed at each reporting date, and if the related tax benefits are not expected to materialize, they are amortized (see also Note 7).

Offsetting assets and tax liabilities

The Group offsets deferred and current tax assets and liabilities if there is an enforceable legal right to offset deferred assets and liabilities, and they are attributed to the same taxable income taxed by the same tax authority in the same taxable company, which intends to eliminate deferred tax assets and liabilities on a net basis or if the deferred tax assets and liabilities are settled simultaneously.

Presentation of tax expenses as part of the statement of cash flows

Cash flows arising from income taxes are classified in the statement of cash flows as cash flows from operating activities, unless they can be specifically identified with investing activities and financing activities.

3.17. Dividend

An obligation relating to a dividend offered or declared after the date of the financial statements is recognized only in the period in which the announcement was made (approval of the general meeting). In statements of cash flows, ***dividend paid is presented as part of financing activity.***

3.18. New standards not yet adopted:

3.18.1. Correction to IAS1 Standard "Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current" (hereinafter: "the Amendment")

The Amendment replaces a certain classification requirement of liabilities as current or non-current. The amendment will enter into force in respect of reporting periods as of January 1, 2023. Early application is possible. The Amendment will be applied retrospectively, including an amendment to comparative figures. The Group is examining the implications of applying the amendment, including an additional proposal to amend the standard published in November 2021, on the financial statements.

3.18.2. Amendment to Standard IAS37 "Provisions, contingent liabilities and contingent assets" in respect of onerous contracts (hereinafter: "the Amendment")

According to the Amendment, when examining whether a contract is onerous, the costs of performing a contract that must be taken into account are costs that relate directly to the contract, which include the following costs:

- Additional costs; and
- Allocation of other costs directly related to the performance of a contract (such as depreciation expenses of property, plant and equipment used both to fulfill the contract in question and other additional contracts).

The date of initial application of the amendment is set for January 1, 2022, and it will be carried out by adjusting the surplus balance in respect of the cumulative effect of contracts for which the Company has not fulfilled its full obligations as of this date.

In accordance with the provisions of the Standard, the reporting entity is required to examine the existence of onerous contracts during each reporting period. As of the date of approval of the statements, in accordance with an examination performed by the Company and the Group companies to identify onerous contracts in accordance with the guidelines of the Amendment and based on the profit forecasts of the Group companies known as of this date, no material effect is expected on the balance of surpluses at the date of initial adoption of the Amendment to the Standard on January 1, 2022.

3.18.3. Amendment to IAS 12 "Income taxes" in the matter of deferred tax relating to assets and liabilities arising from a single transaction (hereinafter: "the Amendment")

The amendment reduces the applicability of the exemption from recognition of deferred taxes as a result of temporary differences created at the time of the initial recognition of assets and / or liabilities, so that the said exemption will not apply to transactions that create equal and offsetting timing differences. As a result, entities will be required to recognize an asset or deferred tax liability in respect of these temporary differences at the date of initial recognition of transactions that create equal and offsetting timing differences, such as leasing transactions and provisions for liquidation and rehabilitation.

The Amendment will be implemented starting from annual reporting periods beginning on January 1, 2023 by amending the opening equity balance. Early application is possible. The Group is examining the consequences of the implementation of the Amendment and in its assessment as of the date of approval of the statements, the implementation of the Amendment is not expected to have a material effect on the statements.

4. Cash and cash equivalents

Cash balance and cash value as of December 31, 2021 mainly includes deposits in banks for a period of up to 90 days as well as balances in checking accounts.

5. Investments

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
Banking deposits in shekels and foreign currency (1)	1,035	804
Investment in monetary funds and marketable securities measured at fair value through statement of income and others	99	77
	1,134	881

(1) Bank deposits in NIS and USD, due for repayment by December 2024.

6. Trade and other receivables

6.1. Composition of trade and other receivables:

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
Customers *		
Open debts and checks for collection	**849**	656
Credit cards	**473**	405
Revenue receivable	**238**	224
Long-term customer maturities	**297**	332
Related parties and stakeholders	**2**	4
	1,859	1,621
Other trade receivables and current tax assets*		
Current tax assets	**56**	42
Other receivables and authorities (mainly in respect of real estate sales)	**114**	105
Advance expenses	**36**	33
Frequencies grant receivable (see Note 10.1)	**74**	-
	280	180
Long-term trade and other receivables*		
Customers - open debts	**256**	256
Long-term trade receivables and authorities (in respect of real estate sales) **	**177**	185
Frequency grant receivable (see Note 10.1)	**-**	73
	433	514
	2,572	2,315

* Customer balances and trade receivables are presented minus provision for predicted credit losses.

** See Note 6.6

6.2. Discount rates of long-term customers are in line with the customers' credit risk estimates. The interest rates used by the Group for discount in 2021 are 2.49% - 4.38% (in 2020: 3.26%-8.5%).

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

Expected repayment dates	December 31, 2021
	NIS millions
2023	**230**
2024	**73**
2025 onwards	**130**
	433

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

	December 31, 2021		December 31, 2020	
	Gross customer balance	Provision for predicted credit losses	Gross customer balance	Provision for predicted credit losses
	NIS millions	NIS millions	NIS millions	NIS millions
Not in arrears	**1,922**	**(4)**	1,732	(5)
Arrears of up to one year	**175**	**(21)**	165	(37)
Arrears of between one and two years	**56**	**(20)**	30	(15)
Arrears of over two years	**30**	**(23)**	30	(23)
	2,183	**(68)**	1,957	(80)

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

	2021	2020
	NIS millions	NIS millions
Balance as of January 1	**80**	80
Impairment loss recognized	**6**	26
Loan-loss	**(18)**	(22)
No longer consolidated	**-**	(4)
Balance as of December 31	**68**	80

6.6 The balance of long-term receivables and authorities includes a receivable balance in the amount of NIS 106 million in respect of permit fees and improvement levies, paid by Bezeq to the Israel Land Authority and the Or Yehuda Local Authority for the sale of the Sakia complex in 2019. In addition, Bezeq provided guarantees in the amount of NIS 120 million, according to the requirements of the Israel Land Authority and the Or Yehuda Local Authority, to pay the balance of the permit fee and the improvement levy:

Bezeq recognized in its financial statements for 2019 a capital gain from the sale of the Sakia complex in the amount of NIS 403 million before tax. The recognition of the capital gain is based on Bezeq's estimates of the final amount to be paid to the authorities. It should be noted that to the extent that Bezeq's Management estimates are not realized, the final capital gain before tax will range between about NIS 250 million to about NIS 450 million.

The parties are in litigation since 2021.

7. Income taxes

7.1. Corporate tax rate

Current taxes for the reported periods and deferred tax balances as of December 31, 2021 are calculated according to the relevant tax rate for the group which is 23%.

7.2. Final tax assessments

7.2.1. The Company has final tax assessments up to and including 2018.

7.2.2. Bezeq has final tax assessments up to and including 2018.

On September 15, 2016, at the same time as signing an assessment agreement that ended the dispute between the Company and the Assessing Officer regarding financing income in respect of the owner's loans to DBS, the Tax Authority granted approval for tax purposes to merge DBS with and into the Company, in accordance with Article 103B of the Income Tax Ordinance. According to the approval, DBS' losses as of the date of the merger are allowed to be offset against the profits of the absorbing company, provided that in each tax year, no more than 12.5% (spread over 8 years) of the total losses of the transferring company and the absorbing company or 50% of the taxable revenue of the absorbing company in the same tax year before offsetting the loss from previous years, whichever is lower.

The approval is given in accordance with the tax laws applicable at the time it is given. Without derogating from the amount of losses stipulated in the assessment agreement, in the event of a change in the applicable tax law, the Tax Authority will re-examine the taxation decision in accordance with the tax law that will apply at the time of the merger. However, it was clarified that the approval is valid until December 31, 2019. The Tax Authority will extend the validity of the approval for an additional year each year subject to the Company and DBS' declaration that there has been no material change in their business and the terms of the taxation decision, and subject to interpretation given to tax law, provided such interpretation is published in writing. A change in tax law that does not require a change in the approval will not result in a change therein. The validity of the taxation decision has been extended twice since then, the first time until December 31, 2020 and the second time until December 31, 2021.

The balance of DBS losses for tax purposes, as of December 31, 2021, amounts to approximately NIS 5.2 billion. See Note 7.6 below regarding deferred taxes that were not recognized as carried forward losses.

7.2.3. Pelephone has final tax assessments up to and including 2018.

7.2.4. Bezeq International has final tax assessments up to and including 2019.

7.2.5. DBS has final tax assessments up to and including 2016.

7.2.6. Bezeq Online has final tax assessments up to and including 2017.

7.3. Income tax expenses components

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Current tax expenses			
Expenses for the current year	**289**	273	391
Adjustments for previous years	**14**	50	(11)
Total current tax expenses	**303**	323	380
Deferred tax expenses			
Write-off of a deferred tax asset in respect of transferred losses in DBS (see Note 7.6)	**-**	-	1,259
Creation and reversal of other temporary differences	**42**	48	(187)
Creation of deferred taxes in respect of losses for tax purposes from the sale of a subsidiary	**37**	(37)	-
Total deferred tax expenses	**79**	11	1,072
Income tax expenses	**382**	334	1,452

7.4. Correlations between the theoretical tax on profit before income taxes and tax expenses

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Profit (loss) before income taxes	**1,378**	1,234	(8)
Statutory tax rate	**23%**	23%	23%
Income taxes according to the statutory tax rate	**317**	284	(2)
Write-off of a deferred tax asset in respect of carried forward losses in DBS (see Note 7.6)	**-**	-	1,259
Impairment of goodwill in the cellular communications segment in respect of which no deferred taxes were created (see Note 10.2)	**-**	-	160
Impairment of assets in respect of which no deferred tax assets were created	**-**	47	(31)
Expenses that are not recognized for tax and other purposes as well as losses in respect of which deferred taxes were created, net	**65**	16	69
Creation of deferred taxes in respect of losses for tax purposes from the sale of a subsidiary	**-**	(37)	-
Write-off of provision for tax in respect of previous years	**-**	(7)	-
Deletion of tax asset due to non-anticipation of future profits	**-**	31	-
Temporary differences due to impairment of assets in respect of which deferred tax assets were not created (see Note 10.4)	**-**	-	(3)
Income tax expenses	**382**	334	1,452

7.5. Deferred tax assets and liabilities recognized

	Deferred tax assets in respect of employee benefit plans	Deferred tax liabilities in respect of property, plant and equipment and intangible assets	Tax asset in respect of loss for tax purposes from the sale of a subsidiary	Other deferred taxes	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2019	268	(640)	-	16	903
Changes imputed to income:					
Creation and reversal of temporary differences	(36)	(31)	37	19	(11)
Changes that were imputed to equity	(1)	-	-	(3)	(4)
Balance as of December 31, 2020	261	(538)	37	58	(182)
Changes imputed to income:					
Creation and reversal of temporary differences	**(11)**	**(9)**	**(37)**	**(22)**	**(79)**
Changes that were imputed to equity	**1**	**-**	**-**	**(12)**	**(11)**
Balance as of December 31, 2021	**251**	**(547)**	**-**	**24**	**(272)**

Book value	**As of December 31**	**As of December 31**
	2021	**2020**
	NIS millions	**NIS millions**
Deferred tax assets	**24**	108
Deferred tax liabilities	**(296)**	(290)
Balance as of December 31	**(272)**	(182)

7.6. Unrecognized deferred tax assets and liabilities

Following the acquisition of control by Bezeq of DBS in 2015 (as described in Note 12.2.1 below), the Group recognized a deferred tax asset in respect of transferred losses for tax purposes in DBS, the balance of which as of December 31, 2018 amounted to NIS 1,259 million. Bezeq's approval by the Tax Authority to utilize transferred losses for tax purposes is conditional on obtaining approval from the Ministry of Communications to eliminate the structural separation between the two companies, and requires the extension of the Tax Authority's approval in each year until the actual merger, as described in Note 7.2.1. above.

In 2019, the Group wrote off the tax asset by changing its estimate and recognizing tax expenses in the amount of NIS 1,259 million as part of the statement of income after Bezeq's assessment of the probability of utilizing the tax asset did not meet the threshold of more likely than not.

As of the date of the financial statements, no deferred taxes were recognized in respect of carried forward losses for the purpose of tax in DBS in the amount of NIS 5.2 billion and no deferred taxes were recognized in respect of loss from impairment of assets in DBS and Bezeq International (see Note 10). Is not expected in accordance with the Group’s estimate for the date of the financial statements.

In addition, the taxes that would have applied in the event of the exercise of the investment in subsidiaries are not recognized in calculating the deferred taxes, since it is the intention and within the ability of the Group to hold these investments. Also, deferred taxes for the distribution of profits in subsidiaries and affiliates are not recognized, because the dividends are not taxable. Also, the Company does not create deferred taxes in respect of its carried forward losses.

8. Leases

Under the lease agreements, the Group leases mainly cellular communication sites, buildings (including offices, warehouses, communication rooms and points of sale) and vehicles.

8.1. Right-of-use assets

	Communication sites	**Structures**	**Vehicles**	**Total**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**
Cost				
Balance as of January 1, 2020	1,041	646	287	1,974
Additions *	200	609	118	927
Deductions in respect of agreements or cancelled agreements	(51)	(146)	(80)	(277)
No longer consolidated	-	(14)	-	(14)
Balance as of December 31, 2020	1,190	1,095	325	2,610
Additions *	155	149	126	430
Deductions in respect of agreements or cancelled agreements	(83)	(50)	(120)	(253)
Balance as of December 31, 2020	**1,262**	**1,194**	**331**	**2,787**
Depreciation and impairment losses				
Balance as of January 1, 2020	367	237	153	757
Amortization for the year	179	116	102	397
Deductions in respect of agreements or cancelled agreements	(45)	(121)	(83)	(249)
Changes in agreements and others	(4)	(2)	(2)	(8)
No longer consolidated	-	(3)	-	(3)
Impairment loss (loss write-off)	(82)	(9)	3	(88)
Balance as of December 31, 2020	415	218	173	806
Amortization for the year	**168**	**106**	**118**	**392**
Deductions in respect of agreements or cancelled agreements	**(68)**	**(27)**	**(118)**	**(213)**
Changes in agreements and others	**(5)**	**1**	**(23)**	**(27)**
Impairment loss	**-**	**-**	**1**	**1**
Balance as of December 31, 2021	510	298	151	959
Book value				
As of January 1, 2020	674	409	134	1,217
As of December 31, 2020	775	877	152	1,804
As of December 31, 2021	**752**	**896**	**180**	**1,828**

* Additions in respect of new agreements and changes in existing agreements

8.2. Leasing liabilities

	Communication sites	Structures	Vehicles	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2020	790	428	167	1,385
Additions *	203	607	117	927
Deductions	(9)	(23)	(2)	(34)
Financing expenses in respect of lease liabilities	18	10	2	30
Lease payments	(169)	(117)	(105)	(391)
Balance as of December 31, 2020	-	(10)	-	(10)
Additions *	833	895	179	1,907
Deductions	**162**	**145**	**150**	**457**
Financing expenses in respect of lease liabilities	**(14)**	**(24)**	**(2)**	**(40)**
Lease payments	**17**	**21**	**2**	**40**
No longer consolidated	**(164)**	**(102)**	**(121)**	**(387)**
Balance as of December 31, 2021	**834**	**935**	**208**	**1,977**
Book value as of December 31, 2021				
Current tax liability maturities	230	97	88	415
Long-term lease liabilities	603	798	91	1,492
Total balance as of December 31, 2019	833	895	179	1,907
Book value as of December 31, 2020				
Current tax liability maturities	**250**	**113**	**103**	**466**
Long-term lease liabilities	**584**	**822**	**105**	**1,511**
Total balance as of December 31, 2021	**834**	**935**	**208**	**1,977**

* Additions in respect of new agreements and changes in existing agreements

8.3. Analysis of repayment dates of liabilities in respect of the Group's lease (Including principal and interest to be paid)

Expected repayment dates	December 31, 2021
	NIS millions
Up to one year	**485**
Between one and five years	**928**
Over five years	**816**
Total	**2,229**

8.4. Options for termination or extension of a lease

In most of its leases the Group has assumed that it was reasonably certain that the extension option existing in the agreements will be exercised and therefore there are no material liabilities in respect of leases not presented in the financial statements.
Most lease agreements include an option to cancel the agreement while giving prior notice and / or payment of a penalty in accordance with what is stipulated in the agreements. The Group assumed that it was reasonably certain that the cancellation options would not be exercised.

8.5. Information regarding material lease agreements that have not yet been included in the lease liability measurement

On October 7, 2021, a hosting services agreement was signed between Bezeq International and ServerFarm IIF Bnei Zion Limited Partnership (hereinafter: "ServerFarm"), according to which ServerFarm International will provide hosting services to Bezeq International in a server farm facility established by it. The delivery date is divided into two phases, with the first phase expected to be delivered in March 2023 and the second phase expected to be delivered in March 2024. The agreement period is 15 years, and there are options for extension until 2047. The cost of the agreement for the first period (without exercise of options) is about 250 million, which applies equally to both phases (except for the period between the date of delivery of the first phase and the date of delivery of the second phase). The server farm is expected to be used to provide hosting services to business customers.

9. Property, plant and equipment

	Land and buildings	Landline and international network equipment (switching, transmission, power)	Cables and landline and international network communications infrastructure	Cellular network	Equipment and infrastructure for multi-channel television	Subscriber equipment	Office equipment, computers and vehicles	Total
	NIS millions							
Cost								
Balance as of January 1, 2020	805	3,141	6,010	3,518	1,551	2,243	1,165	18,433
Additions	35	233	222	181	120	360	97	1,248
Subtractions *	(59)	(181)	(119)	(2)	(61)	(67)	(40)	(529)
Unconsolidation	(20)	-	-	-	-	-	(53)	(73)
Transfer from assets held for sale	47	-	-	-	-	-	-	47
Balance as of December 31, 2020	808	3,193	6,113	3,697	1,610	2,536	1,169	19,126
Additions	**76**	**248**	**426**	**136**	**115**	**332**	**71**	**1,404**
Subtractions *	**(126)**	**(185)**	**(29)**	**(2)**	**(301)**	**(336)**	**(66)**	**(1,045)**
Transfer from assets held for sale	**21**	**-**	**-**	**-**	**-**	**-**	**-**	**21**
Balance as of December 31, 2020	**779**	**3,256**	**6,510**	**3,831**	**1,424**	**2,532**	**1,174**	**19,506**
Depreciation and impairment losses								
Balance as of January 1, 2020	514	1,864	3,251	2,913	1,424	1,521	978	12,465
Depreciation for the year	28	230	180	167	36	258	69	968
Subtractions *	(32)	(174)	(119)	(1)	(54)	(51)	(38)	(469)
No longer consolidated	(15)	-	-	-	-	-	(51)	(66)
Transfer from held assets for sale	13	-	-	-	-	-	-	13
Impairment loss (loss reversal) (Note 10)	(4)	8	1	(63)	101	26	15	84
Balance as of December 31, 2020	504	1,928	3,313	3,016	1,507	1,754	973	12,995
Depreciation for the year	**22**	**229**	**182**	**177**	**45**	**278**	**60**	**993**
Subtractions	**(39)**	**(185)**	**(29)**	**(1)**	**(301)**	**(317)**	**(65)**	**(937)**
Transfer to assets held for sale	**20**	**-**	**-**	**-**	**-**	**-**	**-**	**20**
Impairment loss (loss reversal) (Note 10)	**13**	**9**	**(1)**	**-**	**77**	**8**	**17**	**123**
Balance as of December 31, 2021	**520**	**1,981**	**3,465**	**3,192**	**1,328**	**1,723**	**985**	**13,194**
Book value								
As of January 1, 2020	291	1,277	2,759	605	127	722	187	5,968
As of December 31, 2020	304	1,265	2,800	681	103	782	196	6,131
As of December 31, 2021	**259**	**1,275**	**3,045**	**639**	**96**	**809**	**189**	**6,312**

9.1. The residual value of the Group's copper cables is determined by valuation at the end of each quarter. The residual value is approximately NIS 237 million as of December 31, 2021 and NIS 191 million as of December 31, 2020.

9.2. The Group companies examined the lifespan of the property, plant and equipment within the framework of depreciation committees, in order to determine the estimated lifespan of their equipment. Following the findings of the depreciation committees, insignificant changes were made in the estimate of the useful life of certain assets. Such a change did not have a material effect on the Group's depreciation expenses

9.3. Most of the real estate assets used by Bezeq are in a discounted lease from the Israel Lands Administration from 1993 for a period of 49 years with an option to extend for another 49 years. The lease rights are amortized over the term of the lease.

9.4. Since 2013, Bezeq has been establishing a fiber optic network that will reach the customer's premises, as a basis for the future supply of advanced communication services and larger bandwidths than those provided to its customers today. During 2017, the scope of the fiber deployment reached the level necessary for them to operate when it was decided on the technology that would be used, and Bezeq began amortizing the network.

On September 14, 2020, Bezeq's Board of Directors approved the launch of Bezeq's fiber network deployment plan. Following the decision of the Board of Directors, Bezeq began deploying fiber to buildings, including deploying vertical equipment in buildings and on March 14, 2021, announced the launch of services to its customers on the fiber network. It should be noted that the customer connection will be carried out gradually.

On May 25, 2021, Bezeq's Board of Directors approved Bezeq's plan for the deployment of fiber and its submission to the Ministry of Communications in accordance with the Communications Law. As part of Bezeq's plan, an ultra-fast fiber network is expected to be deployed and operated, covering about 76% of Israel's population (according to Bezeq's estimate, about 80% of households).

On May 31, 2021, Bezeq submitted to the Ministry of Communications the list of statistical areas in which it chose to deploy as aforesaid, and on June 15, 2021, Bezeq received an amendment to Bezeq's license regarding the determination of advanced network deployment duties ("the License Amendment"). The License Amendment includes, among other things, the milestones for completing the network deployment within six years from the effective date (March 14, 2021). In this regard, see also Note 18 for the Group companies' obligation to pay into the incentive fund.

9.5. Pursuant to the Communications Order (Telecom and Broadcasting) (Determination of Essential Service Provided by Bezeq, the Israel Telecommunications Corporation Ltd.), 5757-1997, the approvals of the Prime Minister and the Minister of Communications were required to grant rights to certain Bezeq assets (including switches, cable network, transmission network and databases and information).

9.6. For liens in connection with loans and credit, see Note 13. For additional liens, see Note 19.

9.7. For engagements for the purchase of property, plant and equipment, see Note 18.

10. Intangible assets

	Goodwill	Computer software and licenses	Right to use cellular communication frequencies (see 10.1 below)	Customer relations and brand	Other	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cost						
Balance as of January 1, 2020	3,079	2,409	480	7,479	200	13,647
Self-developed acquisitions or additions	-	220	86	-	-	306
Subtractions	-	(36)	-	-	-	(36)
No longer consolidated	(10)	(11)	-	-	(119)	(140)
Balance as of December 31, 2020	3,069	2,582	566	7,479	81	13,777
Self-developed acquisitions or additions	**-**	**237**	**-**	**-**	**-**	**237**
Subtractions	**-**	**(40)**	**-**	**-**	**-**	**(40)**
Balance as of December 31, 2021	**3,069**	**2,779**	**566**	**7,479**	**81**	**13,974**
Depreciation and impairment losses						
Balance as of January 1, 2020	1,520	2,029	330	6,403	198	10,480
Amortization for the year	-	153	21	-	2	176
Subtractions	-	(36)	-	-	-	(36)
Impairment loss (loss cancellation) (see Notes 11.2, 11.4 and 11.5 below)	(10)	(6)	-	-	(119)	(135)
Balance as of December 31, 2020	-	89	(20)	(45)	-	24
Amortization for the year	1,510	2,229	331	6,358	81	10,509
Subtractions	**-**	**141**	**22**	**-**	**-**	**163**
No longer consolidated	**-**	**(40)**	**-**	**-**	**-**	**(40)**
Impairment loss (loss cancellation) (see Notes 11.2, 11.4 and 11.5 below)	**-**	**91**	**-**	**-**	**-**	**91**
Balance as of December 31, 2021	**1,510**	**2,421**	**353**	**6,358**	**81**	**10,723**
The value in the books						
As of January 1, 2020	1,559	380	150	1,076	2	3,167
As of December 31, 2020	1,559	353	235	1,121	-	3,268
As of December 31, 2021	**1,559**	**358**	**213**	**1,121**	**-**	**3,251**

10.1. Right to use cellular communication frequencies

In 2020, Pelephone won a collection of frequencies in a tender for advanced bandwidth cellular services, at a total cost of NIS 88.2 million (as of the balance sheet date, discounted amount of NIS 86 million), with the payment date set for September 2022.

In September 2020, upon the receipt of the frequencies, Pelephone began to activate the frequencies. In addition, Pelephone won a NIS 5 million deployment grant in accordance with the tender rules. The grant is expected to be received during the fourth quarter of 2022 and after the 5G license fee is paid on the date specified in the license. The amount of the grant is presented in the statement of financial position under the Trade receivables item.

10.2. Cash-generating units impairment examination

10.2.1. For the purpose of impairment testing, goodwill was attributed to the Group's operating segments as follows:

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
Fixed line communications (Bezeq) (See Note 10.4)	**1,559**	1,559
	1,559	1,559

10.2.2. The following is the composition of the impairment loss recognized by the Group during the years 2019-2021:

	2021	2020	2019
	NIS millions	NIS millions	NIS millions
Impairment loss in the Bezeq International segment (see Note 10.6 below)	**-**	279	354
Impairment loss (loss cancellation) in respect of Walla	**-**	(14)	-
Impairment loss (loss cancellation) in the cellular communication segment (see Note 10.3), net	**-**	(257)	975
	-	8	1,329

10.3. Cellular communications goodwill impairment test (Pelephone)

Due to the existence of an asset with an indefinite useful life (brand), the Company examined the recoverable amount of the cellular communication cash-generating unit as of December 31, 2021.

The value of use of the Cellular communication cash-generating unit as of December 31, 2021 is calculated using the method of discounting future cash flows (DCF) based on the forecast of cash flows from operations for a period of five years from the end of the current period plus scrap value (representative year). The cash flow forecast is based, among other things, on Pelephone's performance in recent years and estimates of the expected trends in the cellular market in the coming years (level of competition, price level, regulation and technological developments). A key assumption underlying the forecast is that competition in the market will continue at high intensity in the short term and that a stabilization and a certain increase in the price level will occur in the medium-long term. The revenue forecast is based on assumptions regarding Pelephone’s subscriber base, the average revenue per subscriber and the volume of sales of end equipment. The forecast of expenses and investments is based, among other things, on assumptions regarding Pelephone’s employee base and the salary expenses derived from them, while the rest of the operating expenses and the level of investments were adjusted to Pelephone's predicted scope of activity.

It will also be explained that the forecast includes estimates regarding the effect of the COVID-19 pandemic on Pelephone's performance for years to come, according to which the pandemic will have a material adverse effect on Pelephone’s revenues from roaming services in 2022. The forecast also assumes some damage to roaming revenue in later years and a return to “pre-COVID” situation in 2026, in light of the expected long and gradual recovery of the aviation and international tourism industries.

The nominal capital price used in the valuation is 9% (after tax) (in 2020 – 10.3%). In addition, a permanent growth rate of 1.5% was assumed (in 2020 – 2.5%).

The valuation is sensitive to changes in the rate of permanent growth and the discount rate. In addition, the valuation is sensitive to the net cash flow in the representative year in general, and to the estimated ARPU level (average revenue per subscriber) and the number of subscribers at the end of the forecast range (and in the terminal year) in particular (a change of NIS 1 in ARPU throughout the forecast years leads to a change in the value of the activity in the amount of approx. NIS 345 million, a change of 100K subscribers throughout the forecast years (and in the terminal year) leads to a change in the value of the activity in the amount of approx. NIS 580 million).

The valuation was conducted by an external valuator. Based on the valuation as explained above, Pelephone's recoverable amount amounted to NIS 798 million, compared with a book value in the Company's books of NIS 613 million. Accordingly, the Company was not required to perform amortization in accordance with the cancellation of impairment loss attributable to the cellular communications cash generating unit.

10.4. Fixed line communications goodwill impairment test (Bezeq)

The balance of goodwill attributable to the landline interior communications cash-generating unit is NIS 1,559 million. Therefore, the Company examined the recoverable amount of the landline interior communications cash-generating unit as of December 31, 2021.

Bezeq Group's value-in-use of the landline interior communications cash-generating unit is calculated using the method of discounting future cash flows (DCF) based on the forecast of cash flows from operations for a period of five years from the end of the current period plus scrap value (representative year).

The cash flow forecast is based, among other things, on the Company's performance in recent years and estimates of the expected trends in the landline market in the coming years (level of competition, price levels in retail and wholesale, regulatory aspects and technological developments).

The main assumptions underlying the forecast are: decrease in revenues from telephony (resulting from a decrease in the number of lines, erosion in consumption of call minutes per line and the effect of the decision by the Ministry of Communication regarding setting maximum rates for the Company's retail telephony), growth in Internet revenues (supported by market growth, the establishment of Internet services over the fiber network and the abolition of the separation between broadband infrastructure service and Internet access service), erosion in data communications and transmission revenues (due to expected declines in transmission revenues from **ISPs** and despite expected consistent growth in revenues from data communications services) and moderate growth in cloud and digital revenues. Operating, sales, marketing and investment expenses were adjusted to the scope of the segment's activities, including assumptions regarding the Company's employee base and the salary and retirement expenses derived from them, and assumptions regarding the rate of deployment of the fiber infrastructure.

The nominal capital price used in the valuation is 7% (after tax) (in 2020 - 7.5%). In addition, a permanent growth rate of 1% (in 2020 - 0%) was assumed.

The valuation was conducted by an external valuator. Based on the valuation as explained above, the Group was not required to perform amortization in respect of the impairment of the of Fixed Line communications cash-generating unit.

10.5. Multi-channel TV (DBS) goodwill impairment

Bezeq Group's value-in-use of the multi-channel television cash-generating unit as of December 31, 2021 was calculated using the method of discounting future cash flows (DCF) Based on the forecast of DBS's cash flows up to and including 2026, plus scrap value (representative year). The nominal cost of capital used in the valuation is 8.5% (after tax) (in 2020 – 8.5%). In addition, a permanent growth rate of 0% was assumed (in 2020 – 0%).

The cash flow forecast was based, among other things, on DBS's performance in recent years and estimates of expected trends in the television market for years to come including technology development, consumer preferences, competitors and level of competition, price level and regulatory obligations. The cash flow forecast used for the purpose of preparing the valuation did not result in any changes that may result from the decision to implement the alternative outline, which is set forth 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 over time by the IP product (TV broadcasts via the Internet) due to the technological gap between satellite and IP, customer experience, and the lower operation and maintenance costs of IP. As a result, the multi-year forecast reflects a planned outline of a gradual migration process (from satellite transmission to distribution of transmissions based on the Internet network) and accordingly, a gradual replacement of satellite converters with IP converters, upgrading the broadcasting infrastructure, building a support system for customer service and adjusting the content contracts to OTT (Over The Top) broadcasts. As stated above, the forecast period reflects the period of transition from satellite transmission to distribution of broadcasts over the Internet network up to complete exit from satellite. These circumstances, along with the expectation of a continued high level of competition throughout the forecast period and a relatively rigid expenditure structure, led to significant operating losses and negative cash flows in some of the forecast years. It should be noted that the actual implementation of the outline is carried out and will be carried out while continuously examining market conditions, competition and the technological environment and making the adjustments that will be required as a result.

The valuation was conducted by an external valuator. Based on the valuation as explained above, DBS's total operating value as of December 31, 2021 is negative in the amount of approx. NIS 271 million (as of December 31, 2021, total negative activity value of 145 NIS million).

The valuation is sensitive to the net cash flow in the representative year in general, and to the valuation of the ARPU level (average revenue per subscriber) and the subscriber base at the end of the forecast range in particular. A change of NIS 1 in ARPU throughout the forecast years (and in the terminal year) leads to a change in enterprise value in the amount of NIS 106 million and a change of 5 thousand subscribers throughout the forecast years (and in the terminal year) leads to a change in enterprise value of approx. NIS 79 million).

In light of the negative value of the activity, as of December 31, 2021, the value of DBS's non-current assets was determined to be their fair value or zero, whichever is higher, similar to the end of 2020 and the end of 2019. The fair value of DBS's assets net of exercise costs as of December 31, 2021 is negative in the amount of NIS 109 million.

in accordance, in 2021, the Group recognized loss due to impairment in the amount of approx. NIS 288 million. The impairment loss was attributed to DBS's assets as detailed below, and is included in the depreciation, amortization and impairment expenses item, as well as in the operating and general expenses item in the statement of income as stated in Note 3.10.2 above.

The following is a breakdown of the allocation of loss from the impairment of DBS's assets:

	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Broadcast rights – minus rights exercised *	**146**	170	202
Property, plant and equipment **	**91**	112	117
Intangible assets	**48**	29	44
Deferred expenses **	**4**	13	-
Rights to use leased assets **	**(1)**	-	(1)
Total recognized impairment	**288**	324	362

* The expense was presented as operating and general expenses
** The expense was presented as depreciation, amortization and impairment expenses

The following is information regarding the manner in which the Group determined the fair value (at level 3) of DBS assets in which the impairment occurred as detailed above:

Rights Broadcast - the fair value of the broadcasting rights is calculated taking into account legal restrictions on their sale and based on the stage of production, the probability of sale and the expected rate of return on investment therein.

Property, plant and equipment - the fair value of property, plant and equipment available for sale to a market participant (mainly converters) was based on an estimate of the amount that can be sold on the day of the assessment minus costs that will be required to make the sale.

Intangible assets – no material fair value was attributed to intangible assets of DBS because most of the software and licenses of DBS are uniquely adapted to DBS and therefore have no material value in a transaction between a voluntary buyer and a voluntary seller.

Use rights of leased assets - the fair value of the right-of-use assets is affected by the ability to lease the asset that is the subject of the lease to a third party, the lease fee of the asset on the market and the exit penalties in the lease contract.

Other receivables (advance expenses) - No material fair value was attributed to the advance expenses of DBS in respect of the maintenance of its systems, since most of the maintenance agreements were uniquely adjusted to DBS and therefore have no material value in the transaction between a voluntary buyer and a voluntary seller.

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

At the end of 2021, Bezeq International updated its forecasts for the coming years, taking into account trends and changes in its operating environment. The value in use of the Bezeq International cash-generating unit was calculated as of December 31, 2021, using the method of discounting future cash flows (DCF) based on the forecast of cash flows from operations for a period of five years from the end Year 2021 plus scrap value (representative year).

The cash flow forecast was based, among other things, on Bezeq international’s performance in recent years and estimates of the expected trends in the markets in which it operates for years to come (level of competition, price level, regulation and technological developments). The cash flow forecast used for the purpose of preparing the valuation did not take into account changes that may result from the decision to implement 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, will be significantly affected as a result of the Ministry of Communications' decision to abolish the separation between broadband and Internet access (ISP) services, as detailed in Note 12.3 below, including assumptions regarding users not using ISP services, assumptions regarding Bezeq International's activity in the international communications market and assessments regarding its development in the field of business communications services.

Operating, sales, marketing and investing expenses were adjusted to the scope of the segment's activity, including forecasts regarding the extent of the decline in Bezeq International's employee base, the salary expenses derived from them and assumptions regarding the development of Internet traffic costs (retail and wholesale rates and the development of Internet broadcasting in general and the expected migration of DBS from satellite TV broadcasts to Internet TV broadcasts in particular).

These assumptions, and especially the expected profound changes in Bezeq International's Internet operations, have predicted negative operating losses and negative cash flows in the coming years. The nominal capital price used in the valuation is 8.5% (after tax) (in 2020 – 9.7%). In addition, a permanent growth rate of 1% was assumed (in 2020 - 0%).

The valuation is sensitive to the net cash flow in the represented year in general, and the intensity of the changes in the field of Internet operations in particular (subscribers, ARPU and traffic costs).

The valuation was conducted by an external valuator. Based on the valuation as explained above, Bezeq International's enterprise value amounted to a negative amount of approximately NIS 196 million (as of December 31, 2020, total negative enterprise value in the amount of NIS 145 million). In light of the negative enterprise value, the value of Bezeq International's non-current assets was determined as of December 31, 2021, as their fair value minus exercise costs or zero, whichever is higher. The fair of value of Bezeq International's assets minus exercise costs as of December 31, 2021 Is about NIS 70 million. Accordingly, in 2021 the Group recognized a loss due to impairment in the amount of approximately NIS 122 million.

The following is a breakdown of the allocation of loss from the impairment of the Bezeq International's assets in 2020 and 2021:

	2021	**2020**
	NIS millions	**NIS millions**
Property, plant and equipment and intangible assets	****75**	148
Long-term and short-term advance expenses	***28**	18
Long-term advance expenses for capacities	***17**	110
Rights-of-use of leased assets	****2**	3
Total recognized impairment	**122**	***279

* The expense was presented as operating and general expenses
** The expense was presented as depreciation, amortization and impairment expenses
*** Presented under the item "Impairment loss" in the income statement for 2020

The following is information regarding the manner in which the Group determined the fair value (at level 3) of the assets minus exercise costs:

<u>Property, plant and equipment</u> - the fair value of property, plant and equipment that can be sold to a market participant was based on the cost approach which takes into account the cost of replacing new equipment minus physical wear and tear costs and technological obsolescence minus costs required to make the sale.

<u>Intangible assets</u> - no material fair value has been attributed to intangible assets, since most of Bezeq International's software and licenses have been uniquely adapted to Bezeq International and therefore have no material value in the transaction between a voluntary buyer and a voluntary seller.

<u>International capacity</u> - in light of the nature of the agreements signed, which do not allow these rights to be transferred except to the Company or sister company of Bezeq International, which is not considered a market participant (third party) for the purpose of calculating fair value according to International Accounting Standard IFRS13, these rights have no fair value.

<u>Short-term and long-term expenses</u> - no material fair value was attributed to advance expenses for the maintenance of Bezeq International's systems since most of the maintenance agreements were uniquely adjusted to Bezeq International and therefore have no material value in the transaction between a voluntary buyer and a voluntary seller.

Rights-of-use of leased assets - the fair value of the right-of-use assets is affected by the ability to lease the asset subject to the lease to a third party, the lease fee of the asset in the market and the exit penalties in the lease.

11. Deferred expenses and non-current investments

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
Subscriber acquisition assets, net (see Note 11.3 below)	**151**	165
Long-term investment in bank deposits	**80**	160
Deferred expenses (see Note 11.1 below)	**18**	37
Bank deposit used to provide loans to the Company's employees (see Note 11.2 below)	**36**	36
Derivative instruments	**16**	-
Investments in equity-held investee companies	**5**	4
	306	402

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

	Subscriber acquisition
	NIS millions
Cost	
Balance as of January 1, 2020	438
Additions	137
Subtractions	(98)
Balance as of December 31, 2020	477
Additions	**131**
Subtractions	**(129)**
Balance as of December 31, 2021	**479**
Depreciation and impairment losses	
Balance as of January 1, 2020	278
Depreciation	132
Subtractions	(98)
Balance as of December 31, 2020	312
Depreciation	**145**
Subtractions	**(129)**
Balance as of December 31, 2021	**328**
Book value	
As of January 1, 2020	160
As of December 31, 2020	165
As of December 31, 2021	**151**

11.2. The balance of deferred expenses as of December 31, 2021 is presented net of impairment of assets. See Note 10.6 regarding impairment of Bezeq International.

11.3. Bank deposit for the provision of loans to Bezeq employees without a repayment date.

11.4. Transactions for the purchase of indefeasible right of use ("IRU") in underwater cable capacities by Bezeq International are treated as ongoing service receipt transactions. Balance of rights-of-use of capacities is presented net of losses from the impairment of assets. See Note 10.6 regarding impairment of assets in Bezeq International.

12. Investee companies

12.1. Subsidiaries

12.1.1. The place of incorporation of the companies directly held by the Company is Israel. The following is a list of the companies and subsidiaries held by the Company and the Company's rights in the share equity of the subsidiaries as of December 31, 2021:

Bezeq the Israel Telecommunications Corporation Ltd.	26.72%
B Communications 2 Limited Partnership	100%
Bezeq subsidiaries:	
Pelephone Communications Ltd.	100%
Bezeq International Ltd. (see Note 12.3 below)	100%
DBS Satellite Services (1998) Ltd. (see Note 12.2 below)	100%
Bezeq Online Ltd.	100%

12.1.2. As of October 11, 2021, all Bezeq shares held by the Company are held directly by the Company, after on that day all Bezeq shares held by B Communications (SP2) Ltd. (a company wholly-owned and controlled by B Communications) were transferred to the direct holding of B Communications (SP1) Ltd., which is wholly-owned and controlled by the Company). Following the transfer of Bezeq’s shares to the Company, the companies B Communications (SP2) Ltd. and B Communications (SP1) Ltd. were closed.

12.1.3. Structural change in Bezeq's subsidiaries

Following on from previous resolutions adopted by Bezeq as well as Bezeq's subsidiaries - Bezeq International and DBS (“the Subsidiaries") regarding a structural change plan in which Bezeq International's private activities were to merge with and into DBS, and the spin-off of Bezeq International’s ICT activities into a new company wholly owned by Bezeq (“the merger / spin-off plan"). On March 16, 2022, Bezeq's Board of Directors decided, following the resolutions adopted that day by the Boards of Directors of Bezeq's subsidiaries, to approve the cancellation of the merger / spin-off plan, and to approve an alternative plan for Bezeq's subsidiaries to be presented within 60 days, according to which Bezeq International's ISP activity in the private segment will be reduced following the abolition of the separation between broadband infrastructure service and Internet access service (ISP) (as described in Note 12.3 below), and ISP activity will be established in DBS for the purpose of selling "triple" packages to customers (“the alternative outline"), while striving to achieve, as far as possible, the strategic, business and economic purposes that formed the basis for the resolution to promote structural change, which were, among other things, adapting the activity to the structure of the industry and the changing regulation, focusing on increasing revenues and growth, and increasing the operational synergy and streamlining.

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

Bezeq and its subsidiaries of Bezeq are unable to assess, at this stage, whether all the conditions required for the implementation of the alternative outline will be met, and when they would be met, if they are met, and accordingly there is no certainty that the alternative outline will materialize in the manner described above or at all.

12.2. DBS Satellite Services (1998) Ltd.

12.2.1. Until March 25, 2015, Bezeq held approximately 49.78% of the shares of DBS and also owned options which gave it a right to approximately 8.6% of the shares of DBS and which Bezeq refrained from exercising until that date. The balance of DBS shares was held by Eurocom DBS Ltd. (Bezeq, which was (indirectly) controlled by the controlling shareholders in the Company at the time). On March 25, 2015, Bezeq exercised the options granted to it, free of charge, and on June 24, 2015, Bezeq completed a transaction in which it acquired the entire holdings of Eurocom DBS in DBS, as well as all the owner loans that Eurocom provided to DBS (the "Purchase Transaction").

Upon completion, Bezeq transferred to Eurocom DBS the cash consideration for the Purchase Transaction in the amount of NIS 680 million.

In accordance with the terms of the Purchase Transaction, in addition to the cash consideration of NIS 680 million, the consideration also included two additional contingent items of consideration as follows: one additional item of consideration of up to NIS 200 million to be paid in accordance with the tax synergy according to the terms defined in the purchase agreement (“First Contingent Consideration"); And an additional item consideration in the amount of up to NIS 170 million, to be paid according to DBS’s business results in the years 2015-2017 ("Second Contingent Consideration ").

Upon completion of the said Purchase Transaction, DBS became a wholly owned (100%) subsidiary of Bezeq. Bezeq consolidates the financial statements of DBS as of March 23, 2015.

Most of the First Contingent Consideration was paid after Bezeq entered into an assessment agreement and a taxation decision with the Tax Authority regarding financing income, owner loans, DBS losses and a merger (see also Note 7).

In respect of the Second Contingent Consideration, Bezeq paid advances in the amount of approximately NIS 119 million. In return, Bezeq joined the Company as a creditor in the liquidation process of Eurocom Communications. In addition, following Bezeq's demand from Eurocom DBS to pay the Company the amount of the advance in respect of the Second Contingent Consideration, plus interest as stipulated in the agreement, after the objectives entitling Eurocom DBS to this consideration were not achieved, on April 22, 2018, the Tel Aviv District Court granted, at Bezeq's request, an order to dissolve Eurocom DBS, and Bezeq’s counsel was appointed as the liquidator of Eurocom DBS according to Bezeq's estimate for December 31, 2021, given the solvency of Eurocom DBS, no repayment of the advances is expected.

12.2.2. As of December 31, 2021, DBS has accumulated a loss balance of NIS 8,251 million since its inception, an equity deficit of NIS 48 million and a deficit in working capital of NIS 198 million. Also, as of December 31, 2021, DBS has an off-balance sheet liability in the cumulative amount of approximately NIS 1,058 million for the purchase of space segments, content, property, plant and equipment and other assets up to and including 2026 (see Note 18 for details).

Based on the valuation conducted as of December 31, 2021, DBS’s total enterprise value is negative in the amount of NIS 271 million (compared with a negative enterprise value of NIS 145 million as of December 31, 2020) (see Note for details. 10.5), which stems, among other things, from DBS’s forecasts to continue to accumulate operating losses in the years 2023 onwards.

On November 29, 2021, the Company's Board of Directors approved the issuance of an irrevocable commitment by the Company to DBS to provide a credit facility or investment in equity, in the amount of approximately NIS 40 million until December 31, 2022 (which has not yet been exercised as of the date of approval of these Statements).

In the opinion of DBS's Management, the sources of funding available to it, which include, *inter alia*, the continuation of the existing policy of working capital deficit, credit facility and capital investment framework from the Company, will satisfy the needs of DBS's operations until December 31, 2022.

12.2.3. For the assessment of Note 10.5 regarding impairment of assets recognized by DBS in the financial statements as of December 31, 2021.

12.3. Bezeq international Ltd.

12.3.1. <u>Separation between Broadband Infrastructure Service and Internet Access Service (ISP):</u>

On June 20, 2021, a decision by hearing by the Minister of Communications was received regarding the separation between broadband infrastructure service and Internet access service (ISP) will be abolished, including iun relation to the private customers. According to the decision, starting from the effective date, the restriction on infrastructure owners to offer Internet access service to private customers will be lifted. Also, it is no longer possible to sell services in a split format, but customers who receive a service in a split / semi-split configuration will be able to continue to consume the Internet services in this way. It should be noted that the abolition of said separation is expected to reduce the phenomenon of subscribers who do not use ISP services, as also stated in the Ministry of Communications' publication.

The move, which is expected to harm Bezeq International's results, was taken into account in the cash flow forecast, which was used to examine impairment as described in Note 10.6 above.

12.3.2. See Note 10.6 below regarding impairment of assets recognized by Bezeq International in the statements as of December 31, 2021.

12.4. The Company's control of Bezeq

The Company Holds the control permit in Bezeq and controls Bezeq on the basis of two facts: 1) The Company holds significantly more voting rights than any other shareholder, while the other holdings in Bezeq are highly dispersed. 2) Israeli law and regulation require the receipt of government approval for the entire body that wants to increase its holding of over 5% in Bezeq or that wishes take measures together with another shareholder in favor of appointing a director in Bezeq or to influence ongoing operational decisions in Bezeq. Through these restrictions and through the Company's representatives on Bezeq's Board of Directors, the regulatory regime ensures that no individual or entity will interfere in control of Bezeq except the holder of the control permit.

12.5. Acquisition of additional Bezeq shares by the Company

On December 10, 2020, the Company acquired 10,580,000 ordinary shares of the subsidiary Bezeq. The Company acquired such shares in exchange for the payment of a total amount of approximately NIS 40 million and at an average price of NIS 3.78 per share. Following the said acquisition, the Company holds 26.72% of the issued share equity and voting rights in the subsidiary

12.6. Bezeq's dividend distribution policy

12.6.1. After the date of the financial statements, on March 22, 2022, Bezeq's Board of Directors decided to approve a new dividend distribution policy for Bezeq, according to which Bezeq will distribute to its shareholders, every six months, a cash dividend of 50% of Bezeq's consolidated financial statements. This is starting from the next distribution (for 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, Bezeq needs and liabilities, Bezeq's cash balances, plans and position, as they will be from time to time, and subject to the approval of the General Meeting of Bezeq's shareholders regarding any specific distribution, as provided in Bezeq's Articles of Association.

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

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

Bezeq's Board of Directors was presented with, among other things, analysis and results of professional work as performed by Professor Aharon (Roni) Ofer, Bezeq's and the Bezeq Group's forecasts, as well as sensitivity analyzes for unforeseen deterioration in Bezeq's and Bezeq Group businesses. After Bezeq's Board of Directors examined all of the above, the Board of Directors determined that this decision reflects the correct balance between these needs as described above.

12.6.2. Following the decision regarding Bezeq's dividend distribution policy as detailed in Note 12.6.1 above, on March 22, 2022, Bezeq's Board of Directors decided to recommend to the General Meeting of Bezeq shareholders to distribute a cash dividend to Bezeq shareholders in the total amount of NIS 240 million. The said dividend has not yet been approved by the General Meeting of Bezeq's shareholders. The Company's expected share in the dividend to be distributed by Bezeq, subject to the approval of the General Meeting of Bezeq's shareholders, is approximately NIS 64 million.

12.7. Non-controlling interests

The table below presents data regarding the investee companies in the Group, including adjustments to fair value made on the day of acquisition, except for goodwill, the non-controlling interests in which are material to the Group:

	As of December 31						
	Rate of ownership held by the non-controlling interests	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets	Book value of non-controlling interests
	%	NIS millions					
2021	**73.28**	**4,138**	**10,837**	**3,773**	**9,323**	**1,878**	**1,454**
2019	73.28	3,447	10,835	3,559	10,091	632	534

	Year ended December 31					
	Revenue	Net profit (loss)	Other comprehensive profit	Comprehensive profit (loss)	Profit (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributable to non-controlling interests
	NIS millions					
2021	**8,723**	**1,008**	**(12)**	**996**	**743**	**732**
2020	8,929	(822)	(32)	(854)	(607)	(630)
2019	9,321	(1,154)	42	(1,112)	(850)	(819)

	Year ended December 31				
	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities (without dividend to non-controlling interests)	Dividend	Total increase (decrease) in cash and cash equivalents
	NIS millions				
2021	**2,839**	**(1,646)**	**(1,060)**	**-**	**133**
2020	3,220	(839)	(1,941)	-	440
2019	2,924	(883)	(2,531)	-	(490)

13. Debentures and loans

13.1. Composition:

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
Current liabilities		
Current maturities of debentures	**897**	583
Current loan maturities	**83**	202
	980	785
Non-current liabilities		
Debentures	**7,245**	7,578
Loans	**1,823**	1,907
	9,068	9,485
Total debentures, loans and credit	**10,048**	10,270

13.2. Terms of debentures and loans

	December 31, 2021		December 31, 2020		
	Book balance	Par value	Book balance	Par value	Interest rates range
	NIS millions	NIS millions	NIS millions	NIS millions	
Loans from banking corporations in Bezeq:					
Non-linked loans, bearing fixed interest rates	**712**	**711**	1,118	1,113	3.2% - 6.85%
Non-linked loans, bearing variable interest rates	**300**	**300**	-	-	P+0.53%
Total loans from banking corporations in Bezeq	**1,012**	**1,011**	1,118	1,113	
Loans from financial institutions in Bezeq:					
Non-linked loans, bearing fixed interest rates	**894**	**894**	974	975	3.22%-4%
Non-linked loans, bearing fixed interest rates	**-**	**-**	17	17	5.25%
Total loans from financial institutions in Bezeq	**894**	**894**	991	992	
Total loans in Bezeq	**1,906**	**1,905**	2,109	2,105	
Debentures issued to the public by the Company:					
Series C - Non-linked, bearing fixed interest rates	**951**	**1,010**	1,716	1,856	3.85%
Series D - Non-linked, bearing fixed interest rates	**-**	**-**	54	58	3.85%
Series E - Non-linked, bearing fixed interest rates	**-**	**-**	100	100	3.85%
Series D - Non-linked, bearing fixed interest rates	**1,035**	**1,040**	-	-	3.65%
Total debentures issued to the public in the Company	**1,986**	**2,050**	1,870	2,014	
Debentures issued to the public by Bezeq:					
Series 6 - linked to the consumer price index, bearing fixed interest rates	**540**	**500**	1,055	1,000	3.7%
Series 7 - Non-linked, bearing fixed interest rates	**36**	**36**	71	71	Annual avg. duration+0.4%
Series 9 - Non-linked, bearing fixed interest rates	**2,176**	**2,145**	2,186	2,145	3.65%
Series 10 - linked to the consumer price index, bearing fixed interest rates	**912**	**882**	894	882	2.2%
Series 11 - Non-linked, bearing fixed interest rates*	**839**	**835**	841	835	3.2%
Series 12 - linked to the consumer price index, bearing fixed interest rates *	**1,257**	**1,269**	1,244	1,269	1.7%
Series 13 - Non-linked, bearing fixed interest rates	**198**	**200**	-	-	2.79%
Series 14 - linked to the consumer price index, bearing fixed interest rates	**198**	**200**	-	-	0.58%
Total debentures issued to the public in Bezeq	**6,156**	**6,067**	6,291	6,202	
Total debentures	**8,142**	**8,117**	8,161	8,216	
Total loans and debentures	**10,048**	**10,022**	10,270	10,321	

* After the date of the financial statements, on January 23, 2022, Bezeq made a partial early redemption on the initiative of Bezeq's debentures (Series 9) in the amount of approximately NIS 370 million par value.

13.3. Debentures issued by the Company

13.3.1. Debentures Series C, D, E and F

On September 18, 2016, the Company issued Series C debentures with a par value of approximately NIS 1.9 billion to the public. In accordance with the original principal terms which were valid until the date of the Searchlight-Forer transaction, the debenture principal was due in five installments as follows: four equal annual installments at the rate of 7.5% of the debenture principal to be paid on November 30 of each of the years 2020 to 2023. The last payment at the rate of 70% of the debenture principal to be paid on November 30, 2024. Also, the debentures bore interest at the rate of 3.6% which To be paid twice a year on May 31 and November 30 of each of the years 2017 to 2024. The debentures are not indexed.

On January 16, 2017, and January 23, 2018, the Company completed private offerings to institutional investors in the amount of NIS 118 million par value Series C debentures for approximately NIS 118 million, and NIS 240 million par value Series C debentures for approximately NIS 249 million, by way of series expansion. The expansions were made under the same conditions as set forth in the original offering held in September 2016.

On December 2, 2019 (hereinafter – the Arrangement Date) as part of the Searchlight Forer transaction, the Company performed the following actions in connection with its debentures:

1. An early repayment of NIS 614 million par value for Series C debentures, including the accrued interest up to that date.

2. A private offering of NIS 310 million par value of Series C debentures for Internet Gold.

3. Conversion of NIS 58 million par value from Series C to Series D (new series).
4. Raising the coupon interest rate on Series G debentures 3.85%.

5. Replacement of all previous financial criteria related to credit rating, equity, etc. to current LTV financial criteria as described below.

6. Granting a second-degree lien on series C and D debentures on 26.34% of Bezeq's share equity.
7. Completion of a private placement of NIS 100 million par value Series E debentures (new series).

8. On December 2, 2019, and as part of the arrangement with its bondholders, the Company issued NIS 58 million in Series D in exchange for NIS 58 million in Series C.

9. In addition, at the same time, the Company issued NIS 100 million par value Series E for NIS 100 million.

The series of debentures B, D, and E will be paid in one installment on November 30, 2024. The annual coupon interest on the bond series is NIS 3.85%. The debentures are not linked to the consumer price index. The interest will be paid once every six months, on May 31 and November 30 each year from 2020 to 2024.

The Company examined the materiality of the change in the terms of its debt series following the arrangement with the debtors and came to the conclusion that the change in the terms is material. As a result, the Company deducted from the books the debentures from the original C series, and recognized new debentures series C and D which were measured as of the Arrangement Date according to the market price quoted as of that date. As a result, profit in the amount of NIS 177 million was created for the Company, which is presented as part of the financing income item in the statement of income for 2019.

On July 6, 2021, the Company held a tender for the purchase of Series F debentures, in the framework of which approximately NIS 394 million par value was issued to institutional entities and the public in exchange for approximately NIS 394 million from Series F. The annual interest rate (unlinked) determined in the tender is 3.65%. The interest on the Series F debentures will be paid in two semi-annual installments on May 31 and November 30 of each year from November 2021 to November 2026. The debenture principal will be repaid in one installment on November 30, 2026. The Company used the net consideration from the issuance of Series F debentures to make early repayments of its existing debentures as of the same date as detailed below.

On July 19, 2021, the Company made a full early repayment of the Series D debentures principal (plus accrued interest up to the due date) and a full early repayment of the Series E debentures principal (plus accrued interest up to the maturity date and an early repayment penalty as defined in the series of series E). In addition, the Company made a partial early repayment of approximately NIS 226 million in respect of the Series C debentures (plus accrued interest up to the due date). Following the early repayments, Series D and E were repaid in full and delisted from trading on the Tel Aviv Stock Exchange.

On December 7, 2021, the Company issued to institutions and the public approximately NIS 485 million in Series F debentures for approximately NIS 488 million in Series E. The Company used the net consideration from the issuance of Series F debentures to make a partial early repayment of approx. NIS 471 million in respect of its existing Series C debentures for that date (plus accrued interest up to the due date and an early repayment penalty as defined in the trust deed of the Series C debentures).

On December 9, 2021, the Company held a private placement of approximately NIS 161 million in Series F debentures for approximately NIS 161 million. The Company used the net consideration from the issuance of Series F debentures to make a partial early repayment of approximately NIS 157 million in respect of Series C debentures existing on that date (plus accrued interest up to the due date and an early repayment penalty as defined in the trust deed of the C series debentures).

On January 10, 2022, the Company exchanged approximately NIS 417 million in Series C debentures for approximately NIS 432 million in Series F debentures.

In accordance with the terms of the C and F debenture series, the Company undertook to deposit semi-annual interest in respect of the various debenture series in a trust account for the benefit of the bondholders. As of December 31, 2021, approximately NIS 39 million is deposited in the trust accounts for the benefit of the holders of Series C and F debentures.

As of December 31, 2021, the nominal value of Series C debentures that are not held by the Company is NIS 1,010 million and the nominal value of Series F debentures that are not held by the Company is NIS 1,040 million.

The following are the financial criteria that the Company has committed to in connection with the debenture series:

13.3.2. Debt to asset ratio (LTV):

The debt-to-asset ratio will be initially calculated 24 months after the date of the Searchlight-Forer transaction (December 2, 2019) and will not exceed the following thresholds for two consecutive quarters:

The ratio will not exceed the 80% threshold by November 30, 2023; and

The ratio will not exceed the 75% threshold from December 1, 2023 until the last payment of the debenture fund.

As of December 31, 2021, the Company complies with the debt-to-asset ratio.

13.3.3. Restrictions on the distribution of a dividend:

The Company undertook to refrain from distributing a dividend to its shareholders and / or to repurchase its shares and / or other distribution as defined in the Israeli Companies Law 5769-1999, unless all the conditions listed below are met:

1. The Company is not in breach of any of the financial criteria.
2. There is no ground for immediate repayment when the decision is made to make the distribution, and there is no such ground as a result of this distribution:
3. The debt to asset ratio after the distribution will not exceed 65% for Series C debentures and will not exceed 70% for Series F debentures.
   The debt to asset ratio after the distribution will not exceed 65% for Series C debentures and will not exceed 70% for Series F debentures.

13.3.4. Lien on Bezeq shares:

Series C and E have a first-class pari-passo lien on 728,373,713 Bezeq shares held by the Company.

13.3.5. Control of Bezeq:

The Company undertook to directly and / or indirectly hold at least 25% of Bezeq's issued and paid-up share capital, unless a regulatory approval is obtained in the form of a permit / approval that allows performance lower than the aforementioned holding rate.

13.3.6. Control of the Company

Searchlight and the Forer family undertook to refrain from transferring control of the Company (directly or indirectly) to another entity that had not received in advance the full regulatory approvals required, should such approvals be required, at the relevant time.

Change in the terms of the Company’s debenture series

13.3.7. On September 17, 2020, the meetings of the bondholders (Series C and E) approved the amendment of the trust deeds of the said series, in a manner that will allow the Company to raise additional debt that will be secured by a lien on Bezeq shares pledged in favor of Series C, *pari-passu* with Series C, under the following limitations:

a. The additional debt raised by the Company (minus the issue expenses) will first repay debentures (Series D) and debentures (Series E) in full, so that after its raising and after completing the conditions required for the release of the proceeds from issuing the additional series and amending existing liens in favor of Series C, a first-degree lien will be recorded on the pledged Bezeq shares (as defined in the trust deed) for the benefit of the bondholders (Series C) instead of the second-degree lien currently registered in their favor (as long as the debentures (Series E) are in circulation).
b. After the full repayment of the debt in respect of debentures (Series D) and debentures (Series E), the balance of net proceeds from the issue of the additional debt will be used for the purpose of repayment of the debentures (Series C), by early redemption (full or partial), according to the terms of the existing trust deed.

   The duration of the new series issued by the Company will be longer than that of the debentures (Series C) and the payment of the first principal in respect of the debentures from the new series as aforesaid will be only after full repayment of the debentures (Series C).

In addition, the amount of early repayment to be paid to the bondholders in the event of early repayment of the debentures by the Company has been amended as follows:

In relation to the debentures (Series C) - in the case of a partial early repayment of the debentures (Series C), the price of the partial early repayment will be the par value of the debentures (Series C) or their market value according to the 30 trading days preceding the early redemption, whichever is higher.

In relation to bondholders (Series E) - the full early repayment price will be: (1) The market value of the debentures according to the price of the debentures on the stock exchange in the 30 trading days preceding the early redemption, the early repayment price, but not more than 103.5% of the par value, or (2) the par value of the debentures (Series E), whichever is higher.

13.4. Loans and debentures issued by Bezeq

The following is a list of the terms that Bezeq undertook in relation to the loans received and the debentures issued:

13.4.1. In relation to the total Bezeq debt, common reasons for immediate repayment of the debentures and loans were included, including default incidents, insolvency proceedings, liquidation or receivership proceedings, etc. In addition, a right has been established for immediate repayment in the event that a third-party lender has made payments of Bezeq's debts immediately repayable in an amount exceeding the determined amount.

In addition, Bezeq undertook not to create additional liens on its assets unless the consent of the bondholders will be obtained in advance, in a special decision, which allows Bezeq to create the lien in favor of the third party, or if Bezeq simultaneously creates liens for the benefit of all lenders (negative liens). The lien includes exceptions, *inter alia*, in the matter of the lien on assets that will be acquired or expanded by Bezeq, if the obligations for which the lien was secured were created for the purpose of purchasing or expanding the said assets and in the matter of a token lien.

13.4.2. In relation to Bezeq's public debentures, for loans from banking corporations the balance of which as of December 31, 2021 is approximately NIS 1 billion, and in relation to loans from financial institutions the balance of which as of December 31, 2021, is approximately NIS 0.9 billion, Bezeq undertook that in case it commits to any party in an undertaking in connection with compliance with financial criteria, Bezeq will also commit towards the said lenders with the same undertaking (subject to certain exceptions).

13.4.3. In relation to Bezeq's public debentures, as well as in respect of loans from financial institutions in the amount of NIS 0.9 billion, a ground for immediate repayment was included in the event that the communications sector ceases to be the Group's main area of activity.

13.4.4. With respect to Bezeq's public debentures, and with respect to loans from financial institutions in the amount of NIS 0.9 billion, Bezeq undertook to the lenders to ensure that, as far as it is under its control, such debentures will be monitored in terms of rating by at least one rating agency, as long as there are debentures from that series in circulation or loan balance, respectively.

13.4.5. In relation to debentures from series 9-14, as well as in relation to loans from financial institutions in the amount of NIS 0.9 billion, a reason for immediate repayment was included in the event of a change in control as a result of which Bezeq's controlling shareholders (as defined in the said agreements) will cease to have control over it and transfer the control to a third party ("the Transferee "), except: (1) transfer of control to a Transferee who has received approval to control Bezeq in accordance with the provisions of the Communications Law and / or the Communications Order or (2) transfer of control in which the Transferee has control of Bezeq together with the controlling shareholders and provided that the shareholding of the controlling shareholders in the Company in Bezeq shares is not less than 50.01% of the total Bezeq shares held by the controlling shareholders jointly holding or (3) a change of control approved by the meeting of the bondholders / lenders.

13.4.6. In addition, in relation to Series 9-12 debentures, and in relation to loans from financial institutions in the amount of NIS 1 billion, grounds for immediate repayment of the debentures were included in the event of a "going concern" note in Bezeq's financial statements for a period of two consecutive quarters, in case of a material deterioration in Bezeq's business compared to its position at the time of the issue, and there is a real concern that Bezeq will not be able to repay the debentures / loans on time (as stated in Article 35H1(a)(1) of the Securities Law).

As of December 31, 2021 and at the time of the approval of the financial statements, Bezeq met all its obligations as aforesaid, there were no grounds for granting credit for immediate repayment and no financial criteria were set as detailed above.

13.5. Activity in liabilities arising from financing activities

	Debentures (including accrued interest)	Loans (including accrued interest)	Total
	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2020	8,054	3,401	11,455
Changes as a result of cash flows from financing activities			
Proceeds from the issuance of debentures and the receipt of loans, minus transaction costs	718	-	718
Repayment of debentures and loans	(577)	(1,273)	(1,850)
Interest paid	(278)	(114)	(392)
Total net cash arising from financing activities	(137)	(1,387)	(1,524)
Financing expenses imputed to income statement	268	103	371
Balance as of December 31, 2020	8,185	2,117	10,302
Changes as a result of cash flows from financing activities			
Proceeds from the issuance of debentures and the receipt of loans, minus transaction costs	**1,430**	**300**	**1,730**
Repayment of debentures and loans	**(1,572)**	**(500)**	**(2,072)**
Interest paid	**(265)**	**(68)**	**(333)**
Total net cash arising from financing activities	**(407)**	**(268)**	**(675)**
Financing expenses imputed to the income statement	**387**	**63**	**450**
Balance as of December 31, 2021	**8,165**	**1,912**	**10,077**

14. Trade and other payables

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
Trade payables		
outstanding debts and expenses payable *	**955**	940
Total suppliers	**955**	940
Current payables including derivatives		
Liabilities to employees and other liabilities due to salary and wages	**352**	397
Deferred income	**158**	168
Commitment to payment for frequencies **	**87**	-
Institutions	**110**	66
Derivative instruments	**35**	51
Accrued interest	**29**	31
Current tax liabilities	**5**	80
Other	**24**	33
Total current trade payables including derivatives	**800**	826
Total current trade and other payables	**1,755**	1,766
Non-current trade payables		
Frequency payment liabilities	**65**	72
Deferred income in respect of government grants**	**69**	75
Deferred income	**-**	86
Derivative instruments	**-**	66
Other	**8**	8
Total non-current payables	**142**	307
Total current and non-current suppliers and trade payables	**1,897**	2,073

* Of which the balance of suppliers who are related parties and stakeholders as of December 31, 2021 is NIS 4 million (as of December 31, 2020 - NIS 3 million).

** See Notes 10.1 and 3.14 regarding frequency tender and government grant

15. Provisions

	Customer Claims	Additional claims	Dismantling and disposal of mobile sites and liability	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Balance as of January 1, 2021	112	1	56	169
Provisions formed	**6**	**1**	**3**	**10**
Provisions exercised	**(23)**	**(2)**	**(1)**	**(26)**
Provisions canceled	**(31)**	**-**	**(4)**	**(35)**
Balance as of December 31, 2021	**64**	**-**	**54**	**118**
Presented in the statement of financial position as follows:				
Current provisions	**64**	**-**	**5**	**69**
Non-current provisions	**-**	**-**	**49**	**49**
	64	**-**	**54**	**118**

For details regarding legal claims, see Note 17.

16. Employee benefits

Employee benefits include severance pay, post-employment benefits, other long-term benefits, and short-term benefits. See also Note 26 regarding share-based payment.

16.1. Composition of liabilities in respect of employee benefits

		2021	2020
	Note	**NIS millions**	**NIS millions**
Current liabilities in respect of:			
Vacation		**126**	122
Sick leave	16.4	**150**	161
Provision for an early retirement plan at Bezeq	16.5.1	**98**	87
Provision for early retirement for employees transferred from government employment in Bezeq	16.5.2	**100**	62
Provision for streamlining plan in Pelephone, Bezeq International and DBS	16.5.3	**29**	43
Current maturity of benefits to pensioners	16.3.3	**7**	7
Total current liabilities in respect of benefits to employees		**510**	482
Non-current liabilities in respect of:			
Liability for benefits to pensioners	16.3.3	**139**	140
Provision for early retirement for employees transferred from government employment	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 streamlining plan in Pelephone, Bezeq International and DBS		**11**	-
Total non-current liabilities in respect of employee benefits		**243**	335
Total liabilities in respect of employee benefits		**753**	817
The following is the composition of the liability in respect of severance:			
Liability in respect of severance pay		**223**	214
Fair value of plan assets		**(163)**	(156)
		60	58

16.2. Defined deposit plans

16.2.1. The liability in respect of benefits for employees reaching retirement age in respect of their period of service in the Company and in the subsidiaries and in respect of the employees to whom Article 14 of the Severance Pay Law, 5733-1963 ("**Severance Pay Law**") applies, are fully covered by current payments to pension funds and insurance companies.

	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Deposits recognized as an expense in respect of a defined deposit plan	**218**	219	223

16.2.2. In respect of some of the employees, the Group has a liability to complete severance pay in excess of the amount accumulated in the compensation fund of the employees (see note 16.3.1 below).

16.3. Defined benefits plan

Liabilities in respect of defined benefit plans in the Group include the following liabilities:

16.3.1. Liability for severance pay in respect of the balance of the liability that is not covered by deposits and / or insurance policies in accordance with existing employment agreements and the Severance Pay Law. In respect of this part of the liability, there is a designated allocation that is deposited in the name of the Group companies in pension funds and insurance companies. Allocations in pension funds and insurance companies include accrued linkage differences and interest. Withdrawal of allocation funds is conditional on compliance with the provisions set forth in the Severance Pay Law.

16.3.2. Liability under the personal employment agreements of senior employees in the Group, to pay a benefit in respect of an advance notice upon termination of the employee-employer relationship. In addition, the Company has a commitment to a number of senior employees, who are entitled to early retirement conditions (pension and retirement grants) that are not dependent on the existing retirement agreements for all employees.

16.3.3. Bezeq pensioners receive, in addition to pension payments, benefits that are mainly holiday gifts (linked to the dollar exchange rate), financing the maintenance of pensioners' clubs and social activities. Bezeq's liability for these costs accrues during the work period. Bezeq includes the liability for the expected costs in the period after the employment period in its financial statements.

16.4. Provision for sick leave

The statements include a provision for redemption and exercise of sick days. The right to accrue sick days was taken into account for all employees of the Group and the right to redemption of sick days only for eligible employees in accordance with the conditions set out in the employment agreements. The provision was calculated on the basis of an actuarial calculation that includes assuming a positive accumulation of days for most employees and exercising days using the "last-in-first-out" method (LIFO).

16.5. Early retirement and dismissal benefits

16.5.1. According to the collective bargaining agreement between Bezeq and the employees organization and the New Histadrut from December 2006 and in accordance with amendment Number 6 to the agreement dated December 2020, Bezeq was entitled, at its discretion, to terminate the employment of up to 50 permanent and veteran employees in each of the years 2021 - 2026 (the Company's right accumulates over the years), which is in addition to the retirement quota of about 300 permanent employees remaining from the previous agreement, the employment of whom the Company will be able to terminate at the end of the current agreement period.

Bezeq recognizes an expense in respect of early retirement since Bezeq has clearly undertaken, without any real possibility of cancellation, to lay off employees before they reach the usual retirement date, according to a defined plan. The collective bargaining agreement entitles Bezeq to dismiss employees, but does not create a significant commitment for Bezeq without a real possibility of cancellation. Therefore, the expenses for early retirement are recognized in Bezeq's books at the time the plan is approved.

On November 11, 2021, Bezeq's Board of Directors approved, as part of the implementation of a streamlining plan in the Company, the retirement of about 50 permanent employees Veterans in an early retirement route with a total cost of approximately NIS 71 million. In light of the aforesaid, Bezeq recorded in its financial statements for the fourth quarter of 2021 an expense in the amount of approximately NIS 67 million, and is due for repayment in 2022.

16.5.2. On December 16, 2018, an early retirement plan was approved, by the end of 2021, for all Bezeq employees who were transferred to the Company from the Ministry of Communications (94 employees). The balance of the provision in respect of the commitment for the retirement of employees as aforesaid as of December 31, 2021 is NIS 100 million.

16.5.3. Pelephone, Bezeq International and DBS are bound by collective bargaining agreements between them and the Histadruyot and the employees committees. The balance of the provision for streamlining and grant payments in respect of these agreements as of December 31, 2021 is approximately NIS 43 million.

16.6. Actuarial assumptions

The main actuarial assumptions regarding defined benefit plans as of the reporting date are:

16.6.1. The mortality rates are based on the rates published in the Capital Market Authority's 2017-3-6 pension circular. Future reductions in mortality rates are based on the rates published in the 2019-1-10 circular.

16.6.2. The rates of departure were determined on the basis of past experience of Bezeq and its subsidiaries, with a distinction between the various employee populations and in accordance with the years of seniority. Departure rates include a distinction between departures that entitle to full severance pay and departures that do not confer full severance pay.

16.6.3. The (nominal) discount rate is based on the yield of high-quality index-linked corporate bonds that have a duration similar to the duration of the gross liability.

The following are the main discount rates:

	December 31, 2021	December 31, 2020
	Average discount rate	**Average discount rate**
Severance Pay	**3%**	2.7%
Benefits for retirees	**3.3%**	2.8%

16.6.4. Assumptions regarding salary updates for the purpose of calculating liabilities were made on the basis of Management’s assessments, distinguishing between groups of employees. The main assumptions (in nominal terms) regarding salary updates for major employee groups are:

	Assuming an annual wage increase
Permanent and veteran employees of the Company	The calculation was based on individual assumptions regarding expected wage increases for years 2022 until 2026, resulting from the collective bargaining agreement signed in August 2015 and in December 2020.
New permanent employees in the Company	An average update of 5.8% for young employees gradually decreases to 2.7% at age 66. (In 2020: An average update of 3.2% for young employees gradually drops to 1.4% at age 66).
Bezeq employees who are not permanent	6.4% for young employees gradually decreases to 0.1%, 2% (in real terms) for senior employees.
Pelephone employees, Bezeq International and DBS	The rates of wage increases were determined on the basis of the collective agreements signed. The average annual wage growth rate that is 1% to 2.95%.

16.6.5. Details of the weighted duration of liabilities in respect of post-employment main benefits:

	December 31, 2021	December 31, 2020
	Years	**Years**
Severance Pay	**12**	12
Benefits for retirees	**16**	16

16.7. Sensitivity analysis of major actuarial assumptions

The following is an analysis of the possible impact of the changes in key actuarial assumptions on employee benefit liabilities. The calculation is made in relation to each assumption separately, assuming that the rest of the assumptions remain unchanged.

	December 31, 2021	December 31, 2020
	NIS millions	**NIS millions**
Discount rate - increase of 0.5%	**(32)**	(35)
Future wage increases rate - increase of 0.5%	**33**	34
Employee departure rate - an increase of 5%	**(14)**	(20)
Mortality rate assumption - 5% Increase	**(3)**	(3)

17. Liabilities

17.1. Claims against the Company

17.1.1 On March 30, 2020, the Company reached a settlement regarding the derivative claim that was filed in July 2016 in the Tel Aviv-Yafo District Court (hereinafter "the Horev Claim"). As part of the settlement agreement, the Company received during the third quarter of 2020, a total amount of NIS 22 million (principal plus accrued interest) of the Company's Series C debentures held by Internet Gold - Gold Lines Ltd. (hereinafter "Internet Gold"), in exchange for waiving the derivative claim against Internet Gold. In addition, the derivative plaintiff received an amount of NIS 4.23 million in respect of attorneys' expenses and monetary compensation (which were paid out of the NIS 22 million that Internet Gold is required to pay). The net amount received by the Company is charged directly to the Company's shareholders' equity under the loss balance item.

17.1.2 In addition, on June 2, 2020, the Company and former directors of the Company signed a settlement agreement as part of the Horev Claim, according to which the directors will pay NIS 2.5 million (hereinafter "the Directors’ Settlement Amount") to the Company in order to settle all derivative claims in this matter. During July 2020, the District Court approved the settlement agreement, and the directors' insurance paid the Company the full Directors’ Settlement Amount. As part of the settlement, the Company paid the derivative plaintiff and his attorney a total of NIS 720,000. The net amount received by the Company is charged directly to the Company's shareholders' equity under the loss balance item.

17.1.3 On March 4, 2020, the Company signed a settlement agreement that settles the class action lawsuit filed against the Company with the New York Southern District Court in the United States that was filed against the Company in 2017. On August 10, 2020, the final approval was obtained from the court for settlement in respect of which settlement payments were made. The Company paid a sum of USD 1.2 million, which was fully covered by the insurance of the directors and officers of the Company, which absolved the Company from all claims related to the class action by both the plaintiffs and the members of the arrangement, without any admission of guilt.

17.1.4. In June 2017, two motions for approval of a class action lawsuit in the total amount of NIS 1.8 billion were filed against the Company, Bezeq, group officers and companies from Bezeq's then controlling group regarding the purchase of DBS's shares by Bezeq from Eurocom. In accordance with a court decision, the filing of a unified motion is expected to replace these two motions. The said procedure was delayed at the request of the Attorney General several times, while as of this date, the procedure was delayed until July 2022. According to the assessment of the Company's legal counsel, at this preliminary stage, it is not possible to assess the chances of acceptance of the motion, see also note 17.2 below.

17.1.5 In November 2020, a claim was filed with a motion for approval as a class action by a private person who he claims is a shareholder of Bezeq ("the Applicant") against the Company, Bezeq, and members of Bezeq's Board of Directors ("the Respondents"). The matter of the motion is the approval of a class action for compensation of the Applicant and the members of the represented group for damages caused to them, according to the motion, "due to Bezeq's failure to report and disclose on the Tel Aviv Stock Exchange (hereinafter: "TASE") and concealment of material information from investors. In connection with a report to the public "on moves by the Ministry of Communications to eradicate the phenomenon of dual subscribers in the field of ISP Internet services, on the extensive and substantial scope of the phenomenon of dual subscribers in the Bezeq International subsidiary (hereinafter: "Bezeq International") and their material negative impact on the business of the subsidiary and Bezeq". According to the claim in the motion, the damage caused to the group members as a result of the events that are the subject of the lawsuit amounts to approximately NIS 55 million to NIS 65 million, based on an expert opinion attached to the motion.

17.1.6. In July 2021 the respondents filed a response alleging that the motion for approval was unfounded, *inter alia*, due to the fact that the information alleged in the motion for approval as required for publication did not meet the statutory standards for establishing reporting obligation and was accompanied by an arrangement procedure and professional consultants and supervised by the Board of Directors, and therefore all appropriate measures have been taken to comply with the provisions of the law and that these findings contradict the applicant's contention.

In December 2021 the Company filed a motion for *in limine* dismissal of the motion for approval against it, *inter alia*, because the motion for approval does not specify claims against the Company, and because for most of the relevant period the Company was a dual company, so the law applicable to it is US law, and because the motion is not supported by an opinion of an expert on foreign law.

After several hearings for responses and a pre-trial hearing in February 2022, a decision was made in which the parties were asked to update whether they wished to hold a mediation, an additional preliminary hearing or to coordinate a hearing. The parties have announced that they are working to coordinate deadlines for evidentiary hearings.

At this stage, the opinion of the Company's legal counsel is that the chances of dismissal of the claim on its merits are higher than its chances of acceptance.

17.1.7. In November 2020, a claim was filed with a motion for approval as a class action by a private individual ("the Applicant") who claims to be a shareholder of the Company, who claims to hold shares in the Company and Bezeq, against the Company, Bezeq and 72 other respondents, including past and present officers in both companies (“the Respondents"). The matter of the motion is the approval of a class action for compensation of the Applicant and the members of the represented group for damages caused to them, as alleged in the motion, as a result of acts and omissions of the Respondents when they refrained from disclosing to the investing public allegedly material information that they had to disclose in accordance with the provisions of the law, in connection with the two companies' report dated November 9, 2020 that Bezeq International books have unexplained net asset balances (receivables minus payables) of tens of millions of NIS, a considerable part thereof originates, allegedly, in past periods of more than 15 years. The amount of the class action specified in the statement of claim is "over NIS 2.5 million (for the purposes of substantive authority)" when in accordance with the economic opinion attached to the motion "the estimate for the decline in the price of the security" for the information included in the immediate report of November 9, 2020 stands at 5.26%-5.40% I relation to Bezeq and 9.07% - 9.36% in relation to the Company.

In January 2021, the Company submitted a motion for *in limine* dismissal of the motion for approval and a motion for extension. In April 2021, a hearing was held on the motion for dismissal, in which it was determined that only after a date has been set for the hearing of the request for disclosure of documents, a date will be set for submitting answers to the request and another hearing will be scheduled. As of this date, a hearing for the disclosure of documents is scheduled for April 2022 and a date for a hearing is expected to be scheduled for May 2022. The opinion of the Company's legal counsel is that at this early stage, in which claims have not yet been filed on behalf of the Company, they are unable to assess the chances of acceptance of the motion for approval.

17.2. Claims against Bezeq Group

During the day-to-day business, claims have been filed against Bezeq Group companies or various legal proceedings are pending against it (hereinafter in this note: "Legal Claims").

In the opinion of the managements of Bezeq Group companies, which is based, among other things, on legal opinions regarding the probability of Legal Claims, the financial statements included adequate provisions (as detailed in Note 15), where provisions were required to cover the exposure as a result of such Legal Claims.

In the opinion of the managements of the Bezeq Group companies, the amount of the additional exposure (in addition to the aforesaid provisions), as of December 31, 2021, due to Legal Claims filed against Bezeq Group companies in various matters and whose probability of realization is not expected, amounted to a total of approximately NIS 3.6 billion. In addition, there is an additional exposure in the amount of about NIS 2.5 billion in respect of claims whose chances cannot be assessed at this stage.

In addition, requests were filed against the companies of the Bezeq Group to recognize the claims as class actions that did not specify the exact amount of the claim, for which the Group has additional exposure beyond the aforementioned.

The additional exposure amounts in this Note are nominal.

For updates regarding subsequent changes, see Note 17.3 below.

The following is a description of the contingent liabilities of Bezeq Group valid as of December 31, 2021 classified according to groups with similar characteristics:

Claims group	The nature of the claims	The balance of the provision	The amount of additional exposure	The amount of exposure in respect of claims whose chances cannot yet be assessed
		NIS millions		
Customer claims	Mainly motions for approval of class actions (and claims by virtue thereof) that concern allegations of illegal collection of funds and harm to the provision of services provided by the Group companies.	**64**	**2,787**	**663**
Claims of enterprises and companies	Claims in which the liability of the Group companies' liability is claimed in connection with their operation and / or their investments.	**-**	**752**	**(1) 1,813**
Claims of employees and former employees of the Group companies	Mainly individual claims filed by employees and former employees of Bezeq Group which concern various payments.	**-**	**1**	**-**
State and authority claims	Various legal proceedings by the State of Israel, various governmental bodies and state authorities (hereinafter: "the Authorities"). These are mainly procedures in the field of regulation applied to the Group companies and various financial disputes regarding funds paid by the Group companies to the authorities (including property tax payments). See also Note 6.6.	**-**	**-**	**7**
Miscellaneous	Other legal claims, including tort claims (except for claims in which there is no dispute as to the existence of insurance coverage), real estate, infrastructure, etc.	**-**	**23**	**23**
Total claims against Bezeq and its subsidiaries		**113**	**64**	**3,563**

(1) The total includes two motions for approval of a class action lawsuit totaling approximately NIS 1.8 billion filed in June 2017 against Bezeq, Group officers as well as companies from Bezeq's controlling group at the time regarding the transaction for the purchase of DBS shares from Eurocom DBS Ltd. by Bezeq. In accordance with a court decision, the filing of a consolidated motion is expected to replace these two motions. The procedure is delayed in light of the criminal proceedings that follow the investigation of the Securities Authority (as described in Note 1.3) and at the request of the Attorney General at this stage, until September 6, 2021 (as described in Note 1.3).

17.3. After the date of the financial statements, a motion for approval of a class action without a financial estimate was submitted against Bezeq Group companies. As of the date of approval of the statements, the chances of the motion have not yet been assessed. Also, three claims without monetary valuation as well claims for which the exposure was approximately NIS 501 million were terminated.

18. Engagements

18.1. DBS is bound by agreements to purchase space segments (As detailed in Note 19.2 below), Content and Copyright, until the end of 2026. Amounts of future contracts in respect of these contracts per day31/12/2020 Are as follows:

For the year ended December 31	Space segments	Content and Copyright	Total
	NIS millions	NIS millions	NIS millions
2022	**77**	**394**	**471**
2023	**78**	**175**	**253**
2024	**60**	**38**	**98**
2025	**56**	**-**	**56**
2026 onwards	**9**	**-**	**9**
	280	**607**	**887**

18.2. According to an agreement with Space Communications Ltd. ("**Space**") from 2013, as amended (including amendment dated July 2021), DBS leases space segments in satellites from the "Amos" series ("**Space Agreement**").

In accordance with the provisions of the Space Agreement, DBS leases a number of space segments on the "Amos 3" satellites (whose estimated end of life is at the beginning of 2026), as well as the "Amos 7" satellite, in which Space has the right to lease space segments under an agreement between it and the rights holder on this satellite, which is leased to DBS until February 2024, while DBS may extend the lease period by an additional six months.

<u>The leased space segments</u> - according to the Space Agreement, subject to unavailability events and until the end of the “Amos 7” satellite leasing period, DBS will lease 12 space segments from space, in accordance with the division between the relevant satellites stipulated in the agreement according to the various periods after which DBS will lease ten space segments in "Amos 3". The Agreement also regulates the provision of backup segments for the leased space segments during the term of the Agreement, under the terms and restrictions set forth therein.

<u>Early termination of the agreement</u> - According to the Space Agreement, DBS may announce an early termination without cause of the Space agreement, subject to 12 months' prior notice and payment of the lease in "Amos 7" plus payment of parts of the lease balance in the space segments in "Amos 3" ".

18.3. Cellular infrastructure equipment in the UMTS / HSPA and LTE networks and 5G are manufactured by LM Ericsson Israel Ltd. ("Ericsson"), which serves as Pelephone's supplier for the deployment of 4G (LTE) and 5G radio networks. In addition, Erickson is a significant supplier of Pelephone in the field. The Pelephone has multi-year agreements for maintenance, support and software upgrades for the UMTS / HSPA network, as well as an agreement for the purchase of 4G (LTE) and 5G equipment with Ericsson, and in its opinion it may depend on it for network support and expansion. As of December 31, 2021 Pelephone has engagements with Ericsson for the purchase of end equipment and the receipt of services as aforementioned in the total amount of approximately NIS 22 million.

18.4. In April 2021, a new contract agreement entered into force, between Pelephone and International Distribution Apple (“Apple") for the purchase and distribution of iPhones, according to which Pelephone undertook to purchase a minimum annual amount of devices for an additional three years at prices that will be valid at the time of actual purchase.

18.5. For the purpose of its activities, Bezeq International procures irrevocable rights-of-use in capacities (IRU) from service providers. During the first quarter of 2021, Bezeq International signed an agreement to extend the periods of use of the capacities until July 2030 with the supplier. In respect of the rights-of-use, Bezeq International pays payments spread over annual payments throughout the period of use of the capacities. The balance of the liability under the agreement as of December 31, 2021 is USD 10.1 million.

18.6. The Bezeq Group companies, as of December 31, 2021, have contracts for the purchase of end equipment, property, plant and equipment, intangible assets and additional assets in the amount of approximately NIS 449 million.

18.7. Further to the aforesaid in Note 9.4 above regarding the deployment of a fiber optic network by Bezeq, in accordance with the provisions of Article 14C of the Communications Law, with the amendment of the Bezeq license, the communications companies including Bezeq and its subsidiaries Pelephone, DBS and Bezeq International are required to pay 0.5% of their annual revenue during the deployment period to the incentive fund. The incentive fund will be managed by the Accountant General in the Ministry of Finance, for the benefit of encouraging fiber deployment while participating in its financing in statistical areas that are not included in the deployment areas chosen by Bezeq. The Minister of Communications, with the consent of the Minister of Finance and with the approval of the Economy Committee, may change this rate.

18.5. For information on engagements with related parties, see Note 29.

19. Collateral, liens and guarantees

Bezeq Group's policy is to provide tender, execution and legal guarantees as provided by law. Also, Bezeq provides bank guarantees for bank liabilities of subsidiaries as needed.

19.1. The Bezeq Group companies provided guarantees to the Ministry of Communications in connection with securing the terms of their licenses in the total amount of approximately NIS 132 million (of which approximately 55 million are linked to the consumer price index).

19.2. The Bezeq Group companies provided bank guarantees to third parties in the total amount of approximately NIS 199 million (including guarantees in the amount of approximately NIS 120 million in respect of the Sakia complex. For details, see Note 6.6).

19.3. Restrictions on the creation of liens on the assets of Bezeq Group companies:

19.3.1. According to the Bezeq license, the license and any part of it cannot be transferred, encumbered or foreclosed. Transfer, encumbrance or foreclosure of an asset from the license assets that were not expressly permitted in the license requires the approval of the Minister who may, in special cases, allow the transfer of a license in the event of structural changes, if he is convinced that the transferee licensee meets all conditions as in the transferor. In addition, to the extent that rights to the assets from the assets used to provide Bezeq services are granted to a third party, Bezeq must ensure that no situation arises in which the exercise of the rights in the said asset may impair Bezeq's obligations under the license.

19.3.2. According to Pelephone's cellular license, it is not authorized to sell, rent or lease property from the properties used for the execution of the license without the consent of the Minister of Communications, ("the License Assets"), unless the consent of the Minister of Communications has been given, after he has assumed that the exercise of the rights by the third party will not cause harm to the provision of the services under the license, except:

A. Pledge of a license property for the benefit of a banking corporation operating legally in Israel, for the purpose of obtaining bank credit, provided that it has notified the Ministry of Communications of the lien it intends to register, according to which the lien agreement includes a clause guaranteeing that in any case the exercise of the rights by the banking corporation will not cause any harm to the provision of the services under the license.

B. Sale of equipment items when performing an upgrade procedure, including sale of equipment using the trade-in method.

C. Sale, rental, mortgage or transfer of the license assets to the holder of a mobile radio telephone infrastructure license of which Pelephone is a customer.

19.3.3. Pursuant to Bezeq International's license, it may not sell, rent or mortgage any of the assets necessary to secure the licensee's services, unless the Minister of Communications' consent has been given after he has assumed that the exercise of the rights by the third party will not impair the license. Notwithstanding the foregoing, Bezeq International may pledge an asset from the license assets in favor of a banking corporation operating legally in Israel, for the purpose of obtaining bank credit, provided that it gives prior notice of the lien it intends to make, and the lien agreement includes a clause which ensures that the exercise of the rights by the banking corporation will not result in a violation of the provision of services under the license.

19.3.4. With respect to the DBS broadcasting license, the Communications Law and the license provisions set limits with respect to the transfer, foreclosure and lien of the license and of assets from the license assets. The broadcasting license requires the approval of the Minister in relation to certain changes in the maintenance of means of control in the DBS and imposes reporting obligations regarding the holders of the means of control; There are also certain restrictions regarding the license to perform uplink operations (transferring broadcasts from DBS’s broadcasting center to the broadcast satellite and performing ancillary set-up and operation operations).

19.4. Regarding the conditions that the Company undertook in connection with loans and credit, see Note 13.

20. Equity

20.1. Share capital

Ordinary shares of NIS 0.1 par value each

	Number of ordinary shares	
	2021	2020
Issued and paid up capital as of January 1	**116,316,563**	116,316,563
Shares issued during the year	**(1,457,573)**	-
Issued and paid up capital as of December 31	**114,858,990**	116,316,563
Registered capital as of December 31	**300,000,000**	150,000,000

* As of December 31, 2021, 1,476,803 of the Company's shares are held as treasury shares.

20.2. On August 26, 2020, the Company announced its intention to delist its shares from trading on the Nasdaq Stock Exchange and terminate its reporting obligation to the US Securities and Exchange Commission (SEC). The documents required for the delisting were submitted on September 9, 2020 and the Company's share ceased to be traded on the Nasdaq on the same day. The termination of the Company's reporting liability on the Nasdaq Stock Exchange began on September 21, 2020, following the submission of a required document to the US Securities and Exchange Commission In the same day.

20.3. On March 31, 2021, the General Meeting of the Company approved the increase of the registered share equity of the Company so that after the said increase of registered equity, the registered equity of the Company will be NIS 30,000,000, divided into 300,000,000 ordinary shares of NIS 0.1 each, and accordingly, an amendment to the Company's Articles of Association was approved.

20.4. On November 30, 2021, the Company's Board of Directors approved the repurchase of its shares in the amount of up to NIS 30 million from December 1, 2021 until: (1) the purchase of shares of the Company in the amount of NIS 30 million; Or (2) March 1, 2022, whichever is earlier.

As of December 31, 2021, the Company purchased a total of 1,457,573 of its shares as part of the acquisition plan for approximately NIS 16 million.

See Note 32 on the purchase of the Company's shares after the balance sheet date and the completion of the repurchase plan.

On March 23, 2022, the Company's Board of Directors approved a repurchase of its shares in the amount of up to NIS 20 million from March 24, 2022 until the earliest of: (1) the purchase of shares of the Company in the amount of NIS 20 million; Or (2) May 12, 2022.

21. Revenues

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Fixed Line communication - Bezeq Fixed Lines			
Internet - Infrastructure	**1,562**	1,537	1,497
Landline 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 communication - Pelephone			
Cellular services and end equipment	**1,606**	1,550	1,674
Sale of end equipment	**643**	577	642
	2,249	2,127	2,316
Multi-channel TV - DBS	**1,270**	1,286	1,344
Internet (ISP), international communications, network endpoint services and ICT solutions– Bezeq International	**1,186**	1,217	1,283
Other	**271**	280	229
Total revenues	**8,821**	8,723	8,929

22. Operating and general expenses

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Connectivity and payments to communications operators in Israel and abroad	**717**	776	757
End equipment and materials	**803**	747	806
Content costs	**553**	589	644
Marketing and general	**546**	471	502
Maintenance of buildings and sites	**238**	246	271
Services and maintenance by subcontractors	**348**	303	270
Vehicle maintenance *	**60**	50	71
	3,265	3,182	3,321

* Operating and general expenses are presented minus expenses incurred in 2021 in respect of investments in property, plant and equipment and intangible assets in the amount of NIS 49 million (in 2020 approximately NIS 38 million and in 2019 approximately NIS 43 million).

23. Salaries

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Total salary and ancillary expenses	**2,416**	2,442	2,476
Share-based payment	**27**	-	-
Deducting salary attributed to investments in property, plant and equipment and intangible assets	**(555)**	(548)	(539)
	1,888	1,894	1,937

24. Other operating expenses (income), net

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Capital gain (mainly from sale of real estate)	**(175)**	(18)	(475)
Receipts from a compromise agreement	**(5)**	(9)	-
Termination of an employee-employer relationship in early retirement in Bezeq (see Note 16.5.1)	**95**	64	109
Provision for a collective bargaining agreement signing grant in Bezeq (see Note 16.5.1)	**-**	40	-
Termination of an employer-employee relationship in early retirement and a streamlining agreement in Pelephone, Bezeq International and DBS (Note 16.5.3)	**37**	9	167
Provision for claims	**(23)**	11	10
Other expenses (income)	**(6)**	(2)	1
Profit from the sale of an investee (see Note 12.4)	**-**	(22)	-
Other operating expenses (income), net	**(77)**	73	(188)

25. Financing expenses (income), net

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Interest expenses in respect of financial liabilities	**395**	*382	458
Financing expenses in respect of benefits to employees	**7**	8	89
Costs due to early repayment of loans and debentures (see Note 13)	**34**	*65	93
Linkage differences and exchange rate	**49**	23	46
Financing expenses for liabilities in respect of leases	**40**	30	29
Other financing expenses	**8**	6	14
Change in the fair value of financial assets measured at fair value through statement of income	**-**	11	9
Total financing expenses	**533**	525	738
Income from credit grossing in sales	**28**	30	29
Income from change in debentures terms (see Note 13)	**-**	-	191
Other financing income	**16**	*15	*32
Change in the fair value of financial assets measured at fair value through statement of income	**11**	*6	*14
Total financing income	**55**	51	266
Financing expenses, net	**478**	474	472

* Reclassified

26. Share-based payment

26.1. Plan terms

During 2021, Bezeq allocated options to officers, managers and senior employees in Bezeq and its subsidiaries. The options were allocated to each offeree in three grants, each grant at a rate of one-third of the total options allocated to the offeree. Each grant will mature in four annual installments, with a different exercise price set for each grant. Exercise of each option is subject to the condition that after the maturity of the option, the price conditions for the exercise of the option were met (the average closing price of a Bezeq share in a period of at least thirty 30 consecutive trading days prior to the examination is equal to the price that is a condition for the exercise or higher). The following is a list of exercise prices and share price targets for exercise:

	Exercise price	**Share price exercise condition**
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 the number of option deeds

	Number of options
	2021
	Millions
Options granted throughout the year	**62**
Options canceled during the year due to the departure of the offerees	**(2)**
Balance in turnover at the end of the period	**60**
Can be exercised at the end of the period (subject to meeting the conditions of the share exercise price)	**15***

* As of the date of approval of the Statements, approximately 5 million options met the terms of the share price and are exercisable.

26.3. Details regarding the measurement of the fair value of a share-based payment plan

The fair value of the options granted, which was estimated by an external valuator while applying the Monte Carlo model, is approximately NIS 46 million, in accordance with the vesting period and the exercise conditions as detailed above. The following are the main parameters used to assess the value:

	Bezeq Chairman of the Board of Directors	**Bezeq CEO**	**CEO of Pelephone, Bezeq International and DBS**	**Executives and senior employees of Bezeq**
Number of options (millions)	**12**	**9**	**9**	**32**
The fair value at the time of the grant (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
Predicted volatility	29.82%	29.82%	29.82%	- 29.79% 29.83%
Risk-free interest rate	0.54%	0.54%	0.54%	0.79% - 0.54%
Dividend yield	A zero dividend yield	A zero dividend yield	A zero dividend yield	A zero dividend yield
Predicted early exercise	2.8	2.8	2.8	2.2
Duration of options	6.9 years	6.9 years	6.9 years	7-8 years
Churn rate after vesting	0%	0%	0%	0%

26.4. Salary expenses recognized by the Bezeq Group in respect of share-based payment

	לשנה שהסתיימה ביום 31 בדצמבר		
	2021	2020	2019
	NIS millions	NIS millions	NIS millions
Salary expenses	**27**	-	-

26.5. Options granted to the CEO of the Company

On February 13, 2020, a special meeting of the Company's shareholders was held at which the terms of employment of the Company's new General Manager, Mr. Tomer Raved, were approved. As part of the terms of his employment, Mr. Raved was granted options to purchase up to 2,677,362 ordinary shares of the Company, which constitute 2.25% of the issued and paid-up capital of the Company as of the date of commencement of his employment. The expense recorded in the Company's books in respect of the options granted to the CEO in 2020 and 2021 amounted to approximately NIS 280,000 in each of the years.

27. Profit (loss) per share

The calculation of the basic and diluted profit per share was based on profit (loss) attributed to ordinary shareholders and according to the weighted average number of ordinary shares presented in the calculation as follows:

	2021	2020	2019
Net profit (loss) attributed to Company shareholders (NIS millions)	**129**	157	(853)
Number of shares attributed to shareholders			
Balance as of January 1	**116**	116	30
Impact of shares issued during the year	**-**	-	13
Weighted average of common shares (basic and diluted) as of December 31	**116**	116	43
Basic and diluted profit (loss) per share (NIS)	**1.11**	1.35	(19.75)

28. Segmental reporting

The Group operates in four different segments in the communications industry in such a way that each company in the Group operates in one separate business segment.

Each company provides services in the segment in which it operates through the property, plant and equipment and infrastructure it owns (see also Note 21). The infrastructure of each company is used to provide its services. Some Group companies use infrastructure owned by other companies in the Group.

The main reporting format, according to business segments, is based on the Group's administrative and internal reporting structure.

The business segments of the Bezeq Group are as follows:

1. "Bezeq" The Israel Telecommunications Corporation Ltd. – Fixed Line communications;
2. Pelephone Communications Ltd. - Cellular communications;
3. Bezeq International Ltd. - Internet, international communications, network endpoint services and ICT solutions) (hereinafter - "Bezeq International services segment");
4. DBS Satellite Services (1998) Ltd. - Multi-channel TV.

The other companies in the Group are listed in the "others" item. Other activities include customer service centers (Bezeq Online) and Internet content services (in 2019-2020). These activities are not reported as reportable segments as they do not meet the quantitative thresholds in the reporting years.

Inter-segmental pricing is determined according to the price set in transactions in the regular course of business.

Segment results, assets and liabilities include items that can be allocated directly to the segment as well as those that can be reasonably allocated. The results of the multi-channel television segment are presented net of losses from impairment of assets described in Note 10.5. This is in accordance with the way in which the Group's chief operating decision maker evaluates the performance of the segments and makes decisions regarding the allocation of resources to such segments.

The capital expenditure of a segment is the total cost incurred during the period in respect of the acquisition of property, plant and equipment and intangible assets.

28.1. Activity segments

	For the year ended December 31, 2021						
	Fixed Line communication	Cellular communication *	Bezeq International Services	Multi-channel TV *	Others	Adjustments	Consolidated
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
External revenues	3,845	2,249	1,186	1,270	271	-	8,821
Inter-segmental revenue	337	40	51	-	6	(434)	-
Total revenue	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	58	1,856
Financial expenses	357	23	5	4	-	144	533
Financing income	(15)	(65)	(3)	(3)	-	31	(55)
Total financing expenses (income), net	342	(42)	2	1	-	175	478
Segment profit (loss) after financing expenses, net	1,406	84	20	(42)	27	(117)	1,378
Share in profits (losses) of equity-held investee companies	-	-	-	-	-	-	-
Segment profit (loss) before income taxes	1,406	84	20	(42)	27	(117)	1,378
Income taxes	343	20	12	1	6	-	382
Segment results - net profit (loss)	1,063	64	8	(43)	21	(117)	996
Segment assets	9,245	4,452	778	1,293	100	(874)	14,994
Investment in affiliated companies	-	-	5	-	-	-	5
Goodwill	-	-	-	-	-	1,560	1,560
Segment liabilities	11,415	1,753	566	474	37	844	15,089
Investments in property, plant and equipment, intangible assets and deferred expenses	1,197	289	111	188	5	-	1,790

* The results of the multi-channel TV segment are presented net of the overall impact of impairment recognized starting from 2018. This is in accordance with the way in which the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. See also Note 31.3 for a summary of selected data from the financial statements of DBS.

	For the year ended December 31, 2020						
	Fixed Line communication	**Cellular communication ***	**Bezeq International Services**	**Multi-channel TV ***	**Others**	**Adjustments**	**Consolidated**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
External revenues	3,813	2,127	1,217	1,286	280	-	8,723
Inter-segmental revenue	346	59	54	1	6	(466)	-
Total revenue	4,159	2,186	1,271	1,287	286	(466)	8,723
Depreciation, amortization and impairment	877	599	149	310	14	(91)	1,858
Segment results - operating profit (loss)	1,705	(84)	(241)	(42)	44	326	1,708
	419	18	5	15	1	67	525
Financial expenses	(16)	(66)	(3)	(2)	-	36	(51)
Financing income	403	(48)	2	13	1	103	474
Total financing expenses (income), net	1,705	(84)	(241)	(42)	44	326	1,708
Segment profit (loss) after financing expenses, net	1,302	(36)	(243)	(55)	43	223	1,234
Share in losses of equity-held investee companies	-	-	-	-	-	-	-
Segment profit (loss) before income taxes	1,302	(36)	(243)	(55)	43	223	1,234
Income taxes	262	(11)	32	2	4	45	334
Segment results - net profit (loss)	1,040	(25)	(275)	(57)	39	178	900
Segment assets	8,471	4,371	781	1,365	96	(694)	14,390
Goodwill	-	-	4	-	-	-	4
Investment in affiliated companies	-	-	-	-	-	1,559	1,559
Segment liabilities	11,764	1,742	580	505	42	893	15,526
Investments in property, plant and equipment, intangible assets and deferred expenses	975	437	123	165	12	-	1,712

***** Impairment loss in the cellular communications segment is presented as part of the adjustments.

****** The results of the multi-channel TV segment are presented net of the overall impact of impairment recognized since 2018. This is in accordance with the way in which the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. See also Note 31.3 for a summary of selected data from the financial statements of DBS.

	For the year ended December 31, 2019						
	Fixed Line communication	**Cellular communication ***	**Bezeq International Services**	**Multi-channel TV ***	**Others**	**Adjustments**	**Consolidated**
	NIS millions	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**	**NIS millions**
External revenues	3,757	2,316	1,283	1,344	229	-	8,929
Inter-segmental revenue	316	46	56	1	9	(428)	-
Total revenue	4,073	2,362	1,339	1,345	238	(428)	8,929
Depreciation, amortization and impairment	861	633	190	334	14	32	2,064
Operating segment profit (loss) results	2,142	(99)	(196)	(135)	1	(1,247)	466
Financial expenses	608	23	8	17	1	81	738
Financing income	(39)	(62)	(2)	(5)	-	(158)	(266)
Total financing expenses (income), net	569	(39)	6	12	1	(77)	472
Segment profit (loss) after financing expenses, net	1,573	(60)	(202)	(147)	-	(1,170)	(6)
Share in profits (losses) of affiliated companies	-	-	1	-	(4)	-	(3)
Segment profit (loss) before taxes on income	1,573	(60)	(202)	(147)	(2)	(1,170)	(8)
Income taxes	381	(13)	(45)	2	-	1,127	1,452
Segment results - net profit (loss)	1,192	(47)	(157)	(149)	(2)	(2,297)	(1,460)
Segment assets	8,091	4,088	1,080	1,491	149	(900)	13,999
Goodwill	-	-	-	-	-	1,559	1,559
Investment in affiliated companies	-	-	4	-	2	-	6
Segment liabilities	12,466	1,434	604	576	79	843	16,002
Investments in property, plant and equipment, intangible assets and deferred expenses	914	335	110	222	9	-	1,590

***** Impairment loss in the cellular communications segment is shown as part of the adjustments.

** The results of the multi-channel TV segment are presented net of the overall impact of impairment presented in Note 11.5. This is in accordance with the way in which the Group's chief operating decision maker evaluates the segment's performance and makes decisions regarding the allocation of resources to the segment. See also Note 31.4 for a summary of selected data from the financial statements of DBS**.**

28.2. Adjustments for reported segments of revenue, income, assets and liabilities

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Revenue			
Revenue from reportable segments	**8,978**	8,903	9,119
Revenue from other segments	**277**	286	238
Elimination of revenue from inter-segmental sales	**(434)**	(466)	(428)
Consolidated Revenue	**8,821**	8,723	8,929
Income			
Operating profit in respect of reportable segments	**1,771**	1,338	1,712
Financing expenses, net	**(478)**	(475)	(472)
Loss (loss write-off) from impairment of assets (see Note 10.2)	**-**	286	(1,133)
Adjustments for the multi-channel television segment	**72**	81	80
Share in losses of affiliated companies	**-**	-	(2)
Reducing cost overruns	**-**	(22)	(185)
Profit (loss) due to activities classified in other category and other adjustments	**13**	26	(8)
Consolidated profit (loss) before income taxes	**1,378**	1,234	(8)

	December 31, 2021	December 31, 2020
	NIS millions	**NIS millions**
Assets		
Reportable segment assets	**15,773**	14,992
Assets associated with activities classified in the other category	**100**	96
Goodwill not attributed to the activity segment	**1,560**	1,559
Net of loss from impairment of assets (see Note 10), cross-segmental assets and other adjustments	**(2,280)**	(2,188)
Assets and cost surpluses that are not attributed to a reportable segment	**1,406**	1,494
Consolidated assets	**16,559**	15,953
Liabilities		
Liabilities of reportable segments	**14,208**	14,591
Liabilities associated with activities classified in the other category	**37**	42
Deducting cross-segmental liabilities	**(1,407)**	(1,242)
Liabilities related to non-reportable segments	**2,251**	2,135
Consolidated assets	**15,089**	15,526

29. Transactions with stakeholders and related parties

29.1. Identity of stakeholder and related parties

The stakeholders and related parties of the Company as defined in the Securities Law and International Accounting Standard 24 regarding related parties, are mainly Searchlight and TNR, their related parties (including entities that were related parties of the Company or of Searchlight and TNR during the reported period, however, are not related parties of the Company or of Searchlight and TNR as of the date of the report), affiliates, directors and key management personnel of the Company or of Searchlight and TNR.

It should be noted that the transactions described below with stakeholders and related parties do not include a reference to the aforesaid in Note 1.3 regarding investigations by the Securities Authority and the Israel Police or its possible consequences.

29.2. Balances With stakeholders and related parties

	As of December 31	
	2021	**2020**
	NIS millions	**NIS millions**
Customers and trade receivables - affiliated company	**1**	2
Related parties, net	**(2)**	(1)
Eurocom DBS Ltd. in respect of excess advances paid in respect of contingent consideration (excluding interest) (see Note 12.2.1)	**99**	99

29.3. Transactions with stakeholders and related parties

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Revenue			
Related parties	**1**	2	**1**
From affiliates	**(2)**	(1)	**(2)**
Expenses	**99**	99	**99**
To related parties	**1**	2	**1**
To affiliates	**(2)**	(1)	**(2)**

29.3.1. Negligibility procedure in Bezeq Group

Bezeq's Audit Committee decided to adopt guidelines, criteria and rules for classifying a transaction by Bezeq or its subsidiary with Company officers or in which an officer of Bezeq has a personal interest (hereinafter - "transaction with an officer") and a transaction with Bezeq’s controlling shareholder or in which the controlling shareholder has a personal interest (hereinafter - "transaction with a controlling shareholder") as a negligible transaction.

The criteria set forth in the procedure, as will be updated from time to time in accordance with its instructions, may be used by Bezeq, *inter alia*, for the following purposes:

A. For the classification of the transaction as a negligible transaction as provided in Regulation 41 (a3) of the Securities Regulations (Annual Financial Statements), 5771-2010.
B. To examine the scope of disclosure in the periodic report and prospectus (including shelf offer reports) regarding a transaction of Bezeq, a corporation controlled by it and its subsidiary or affiliate with a controlling shareholder, or in which the controlling shareholder has a personal interest as provided in Regulation 22 of the Securities Regulations, 5730-1970 (hereinafter - "Periodic Reporting Regulations") and in Regulation 54 of the Securities Regulations (Prospectus and Draft Prospectus - Structure and Form), 5729-1969.
C. In addition, the criteria for examining the negligibility of a transaction specified in this procedure may be used as a tool to examine the negligibility of other business relationships, such as: the business relations with a candidate for office as an external director or independent director being negligible relations as stated in the Companies Regulations (Matters that Do Not Constitute an Affiliation), 5767-2006 and as stated in Article 240(f) of the Companies Law, 5769-1999 ("Companies Law").

Bezeq and its subsidiaries, from time to time, enter into transactions with Bezeq's officers and controlling shareholders, including transactions of the types and with characteristics as detailed below.

1. Sales of services and communication products by Bezeq Group companies - including various basic communication services (infrastructure, telephony, transmission and - PRI) and hosting on server farms; Providing cellular services and value-added services and selling and upgrading cellular end equipment; Internet access services, international telephony services, hosting services and data communication services; TV services.
2. Lease agreements, management and purchase of real estate, including, *inter alia*: lease of areas used for communication facilities and warehouses.
3. Receipt of consulting and training services for Bezeq Group companies or their employees.
4. Purchase of goods and services used by Bezeq Group companies in their activities, such as the purchase of fuels and energy products, repair services, financial / banking services and more.

In the absence of special quality considerations arising from all the circumstances of the case, a transaction will be considered a negligible transaction if all the following parameters are met:

A. The transaction is not an exceptional transaction (that is, a transaction made in the ordinary course of business, under market conditions and which may not materially affect Bezeq's profitability, property or liabilities, all in accordance with Bezeq's procedures).
B. The scope of the engagement specified in it for Bezeq (solo, and not on a consolidated basis) (or in any of the subsidiaries) will not exceed NIS 10 million.
C. Bezeq is not required to report the transaction in an immediate manner in accordance with Regulation 36 or Regulation 37(a) of the Periodic Reports Regulations or under other law.
D. The transaction does not include terms of office and employment (as defined in the Companies Law, 5769-1999) of a stakeholder or a related party, or does not constitute a contract as stated in the last part of Article 270 (4) of the Companies Law (contract of a public company with its controlling shareholder or with a relative, directly or indirectly, including through a company under his control, for the purpose of Bezeq receiving services from him, and if he also holds an office therein - as to the terms of his office and employment, and if he works for the company and does not hold an office therein).

As a rule, each transaction will be examined separately for the purpose of examining its compliance with the conditions for classification of a transaction as negligible as detailed above. Notwithstanding the above, separate transactions that form part of the same contract or ongoing transactions or very similar transactions that are performed frequently and repeatedly or with the same entity and with corporations under its control, or transactions between which there is a dependency or stipulation, will be examined as a single transaction on an annual basis for the purpose of their examination.

Subject to the provisions of the Companies Law, as they will be from time to time, once a year, before the publication of the annual financial statements, the Audit Committee will examine the parameters listed above and the need to update them, and will approve them or approve updates therein.

The Audit Committee may from time to time and at its discretion, change the above parameters to classify a negligible transaction.

The following are transactions listed in Article 270 (4) of the Companies Law that are not considered negligible transactions:

The date of approval of Bezeq's general meeting (after receiving the approval of the Audit / Remuneration Committee and the Board of Directors of the Company), unless otherwise stated	Nature of the transaction	Transaction sum	The essence of personal interest
April 3, 2017	Approval of Bezeq's vote at the general meeting of DBS in favor of DBS's engagement with Space Communications Ltd. ("Space" and the "Parties" respectively) in the amendment / addition to the existing agreement between the parties dated November 4, 2013 for the lease of satellite segments in Space's satellites ("the Engagement"), including the refinement of the Engagement and its execution.	Total nominal cost of up to approximately USD 263 million for the entire engagement period (until December 31, 2028) which reflects an average annual cost of approximately USD 21.9 million per year. See further details regarding the Space Agreement in Note 18.1 and 18.2.	Note A below

a. The Company had a personal interest in the transaction at the time of its approval, in light of the fact that as of the date of the said transaction, Space was under the control of Eurocom Communications, which at that time controlled (along the chain) B Communications. To the best of Bezeq's knowledge and in accordance with the information provided to Bezeq by Eurocom Communications, as of May 3, 2018, the connection between Eurocom Communications and Space was severed and Bezeq ceased to consider Space as a related party.

For transactions listed in Article 270 (4) of the Companies Law, which concern insurance and an obligation to indemnify directors and officers of the Company, see Note 29.6 below.

29.4. Benefits for the Group's key executives

Benefits for employing key management personnel in the Group in the years 2019-2021 include:

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS thousands	**NIS thousands**	**NIS thousands**
Number of key executives *	**5**	6	6
Salary **	**8,163**	8,246	8,163
Grant***	**7,780**	4,995	3,834
Management fees for the Chairman of the Board ****	**-**	1,919	2,400
Share-based payment	**13,530**	280	-
	30,713	15,440	14,397

* Key management personnel in the Group in the reporting year include the Chairman of the Company's Board and the Company's CEO (who also served as a director in the Company until November 29, 2021), as well as the former Bezeq Board of Directors, the Company's CEO and the CEO of Pelephone, Bezeq International and DBS.

Regarding options for the Company's shares granted to the Company's CEO, see Note 20.1.3.

** In 2021, the changes in other provisions in Bezeq (included in the total salary) mainly include provisions for vacation and sick leave in the amount of approximately NIS 0.2 million. The salary of the Company's CEO in 2021 also includes the remuneration of directors he received as a director of the Company until November 29, 2021, as well as a special grant in the amount of approximately NIS 2.3 million for the year 2020 and for the year 2021..

In 2020, the changes in other provisions in Bezeq (included in the total salary) mainly include a provision for prior notice and for the non-compete period for the Chairman of Bezeq's Board of Directors in the amount of NIS 0.9 million.

In 2019, the changes in other provisions (included in the total salary) mainly include an increase in the provision for prior notice, vacation and sick leave to the CEO of Bezeq in the amount of approximately NIS 0.6 million.

For information regarding share-based compensation, see Note 26.

29.5. Benefits to the Company's directors

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS thousands	**NIS thousands**	**NIS thousands**
Remuneration to Board of Directors members*	**635**	712	937
Number of directors receiving the remuneration**	**6**	6	10

* The directors' remuneration of the CEO of the Company who also served as a director in the Company until November 29, 2021 and the remuneration of the Chairman of the Company's Board of Directors in 2021 are presented in note 29.4 above due to their being key executives.

** In 2021, a new director was appointed on behalf of the Company's controlling shareholders, an external director has retired, a new external director was appointed by the General Meeting after the balance sheet date.

29.6. Additional benefits for the Company's directors and officers

Date of approval of the general meeting (after receiving approval from the Company's Board of Directors), unless otherwise stated	Nature of the transaction	Transaction sum
April 30, 2020	Approval of the Company's contract with run-off insurance policy to cover the liability of directors and officers of the Company.	Limit of liability of up to USD 10 million per claim and in total for the entire insurance year plus reasonable legal expenses. The total annual premium is approximately USD 300K. The deductible amount for the Company is up to USD 250K per case.
April 30, 2020	Amendment of the letter of indemnity and exemption to the directors and officers of the Company regarding the maximum amount of indemnification.	Up to 25% of the Company's equity according to the Company's latest reports published prior to the actual indemnification or up to a total of USD 15 million, whichever is higher.
November 29, 2020 Approval of the Company's Board of Directors in accordance with Regulation 1b1 of the Relief Regulations	Approval of the Company's contract in an insurance policy to cover the liability of directors and officers of the Company and its subsidiaries, in accordance with the Company's remuneration policy for the period up to December 31, 2022.	Limit of liability of up to USD 20 million per claim and in total for the entire insurance year plus reasonable legal expenses. The total annual premium is approximately USD 598K. The amount of the Company's deductible is up to USD 150,000 per case for claims outside the United States and Canada, up to USD 250K per case in claims in the United States and Canada and up to USD 325K per case in securities claims in Israel.

30. Financial instruments

30.1. General

The Group is exposed to the following risks arising from the use of financial instruments:

a. Credit risk
b. Liquidity risk
c. Market risk (including currency risk, interest rate risk and CPI risks).

This note provides quantitative and qualitative information regarding the Group's exposure to each of the above risks, an explanation of how to manage the risks and the measurement processes.

30.2. The framework for financial risk management

The comprehensive responsibility for establishing and supervising the Group's financial risk management framework lies with the Board of Directors. The Group's financial risk management aims to define and monitor the various risks on an ongoing basis and to determine the level of exposure to risk that needs to be complied with and the possible effects arising from this exposure in accordance with the Board's assessments and expectations.

The Group's policy is to manage, in accordance with rules established by the Board of Directors, the exposure arising from fluctuations in foreign exchange rates, changes in interest rates and changes in the consumer price index.

30.3. Credit risk

Management monitors the Group's exposure to credit risks on an ongoing basis. Cash and investments in deposits and securities are deposited in high-rated banking corporations.

Customers and other trade receivables
The Group's Management regularly monitors customers' debts and the financial statements include provisions for loan-loss that adequately reflect, according to Management's assessment, the loss inherent in debts whose collection is in doubt. In addition, there is a large distribution of customer balances.

Investments in financial assets
To the extent that investments are made in securities, they are made in liquid, tradable and low-risk securities. Transactions involving derivatives are conducted with entities with a high credit rating.

As of the reporting date, there is no significant concentration of credit risks.

30.4. Liquidity risk

The Group's policy for managing its liquidity is to ensure, as far as possible, sufficient liquidity to meet its existing and expected obligations at the time of their existence, in a normal business scenario and under extreme conditions, without causing it undesirable losses or goodwill damage. The cash balances held by the Group are managed mainly through liquid investment channels, subject to the financing needs of current operations and the debt service. The Group regularly examines existing and expected cash needs in the foreseeable future, even in the event of an unexpected deterioration in its business. These forecasts take into account, *inter alia*, debt raising and turnover from banking and non-banking sources. In accordance with the conclusions, active activity is carried out to minimize the risk.

Regarding the terms of bonds issued by the Group companies and the loans received, see Note 13 above.

The Group has a contractual obligation to make purchases, property, plant and equipment, end equipment and other current services. For further information regarding the engagements, see Note 18 on engagements.

The following are the contractual maturity dates of financial liabilities that were actually received as of December 31, 2021, including an estimate of interest payments (based on data from the Consumer Price Index and interest known as of December 31, 2021):

	As of December 31, 2021						
	Book value	**Contractual cash flow**	**H1/2021**	**H2/2021**	**2023**	**2024 to 2026**	**2027 onwards**
				NIS millions			
Non-derivative financial liabilities							
Trade and other payables	**1,566**	**1,566**	**1,542**	**24**	**-**	**-**	**-**
Loans	**1,906**	**2,194**	**85**	**50**	**141**	**1,04**	**876**
Debentures	**8,142**	**9,158**	**105**	**997**	**1,135**	**4,70**	**2,216**
	11,614	**12,918**	**1,732**	**1,071**	**1,276**	**5,74**	**3,092**
Financial liabilities in respect of derivative instruments	**35**	**35**	**6**	**29**	**-**	**-**	**-**

The table above does not include early repayment of Bezeq's 9 bonds, which were executed in January 2022 in the amount of NIS 370 million. In addition, the table above does not include the replacement of the Company's Series C bonds with the Company's Series F bonds, which was executed in January 2022 in the amount of NIS 417 million. Other than that, the Group anticipates that it will not be required to repay the liabilities as set forth above or in various amounts, substantially.

30.5. Market risks

The purpose of market risk management is to manage and monitor exposure to market risks within accepted parameters to prevent significant exposures to market risks that will affect the Group's results, liabilities and cash flow.

As part of the Group's exposure management policy, it was decided to establish a mix of exposure to debt for interest and linkage as well as to reduce exposure to foreign currency. Accordingly, during its ordinary course of business, the Group performs full or partial hedging operations and takes into account the effects of the exposure in its considerations in determining the type of loans it takes out and in managing its investment portfolio.

30.5.1. Exposure to consumer price index risk and foreign currency

Consumer price index risk

Changes in the inflation rate affect the Group's profitability and its future cash flows, mainly due to its index-linked liabilities. As part of the implementation of a policy to reduce index exposure, the Group executes forward transactions against the index. The hedging transactions are carried out against the repayment schedules of the hedged debt. The Company applies hedge accounting to these forward transactions.

A significant portion of the cash balances are invested in shekel deposits that are exposed to a change in the real value as a result of changes in the rate of the consumer price index.

Foreign exchange risk

The Group is exposed to foreign exchange risks mainly due to payments for the purchase of end equipment and property, plant and equipment denominated or linked in part to the dollar and the Euro. In addition, the Group provides services to customers and receives services from around the world in foreign currency, mainly in dollars. The Group's policy is to minimize foreign exchange purchase agreements as much as possible, as well as to partially hedge the dollar exposure through forward transactions against the dollar and manage deposits in dollars.

The following is a report on the financial position according to linkage bases as of December 31, 2021:

	As of December 31, 2021				
	Without linkage	Linked to the price index	In forex or forex-linked currency (mainly dollars)	Non-monetary balances	Total balances
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets					
Cash and cash equivalents	**967**	**-**	**31**	**-**	**998**
Investments	**1,078**	**35**	**21**	**-**	**1,134**
Trade receivables	**1,833**	**15**	**11**	**-**	**1,859**
Other receivables	**131**	**112**	**-**	**37**	**280**
Inventory	**-**	**-**	**-**	**74**	**74**
Total current assets	**4,009**	**162**	**63**	**111**	**4,345**
Non-current assets					
Trade receivables	**254**	**179**	**-**	**-**	**433**
Broadcast rights – net of rights exercised	**-**	**-**	**-**	**60**	**60**
Right-of-use assets	**-**	**-**	**-**	**1,828**	**1,828**
Property, plant and equipment	**-**	**-**	**-**	**6,312**	**6,312**
Intangible assets	**-**	**-**	**-**	**3,251**	**3,251**
Deferred expenses and non-current investments	**117**	**16**	**-**	**173**	**306**
Deferred tax assets	**-**	**-**	**-**	**24**	**24**
Total non-current assets	**371**	**195**	**-**	**11,648**	**12,214**
Total assets	**4,380**	**357**	**63**	**11,759**	**16,559**
Current liabilities					
Debentures and loans	**359**	**621**	**-**	**-**	**980**
Current maturities of liabilities in respect of leases	**6**	**460**	**-**	**-**	**466**
Trade payables	**1,317**	**44**	**240**	**154**	**1,755**
Employee benefits	**507**	**-**	**3**	**-**	**510**
Provisions	**69**	**-**	**-**	**-**	**69**
Total current liabilities	**2,258**	**1,125**	**243**	**154**	**3,780**
Non-current liabilities					
Debentures and loans	**6,773**	**2,295**	**-**	**-**	**9,068**
Liabilities in respect of leases	**23**	**1,488**	**-**	**-**	**1,511**
Employee benefits	**199**	**-**	**44**	**-**	**243**
Derivatives and other liabilities	**-**	**-**	**-**	**142**	**142**
Deferred tax liabilities	**-**	**-**	**-**	**296**	**296**
Provisions	**49**	**-**	**-**	**-**	**49**
Total non-current liabilities	**7,044**	**3,783**	**44**	**438**	**11,309**
Total liabilities	**9,302**	**4,908**	**287**	**592**	**15,089**
Total exposure in the statement of financial position	**(4,922)**	**(4,551)**	**(224)**	**11,167**	**1,470**
Forward transactions	**(1,096)**	**880**	**216**	**-**	**-**

The following is a report on the financial position according to linkage bases as of December 31, 2020:

	As of December 31, 2020				
	Without linkage	Linked to the price index	In forex or forex-linked currency (mainly dollars)	Non-monetary balances	Total balances
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets					
Cash and cash equivalents	815	-	79	-	894
Investments	822	-	59	-	881
Trade receivables	1,592	16	13	-	1,621
Other receivables	50	90	-	40	180
Inventory	-	-	-	73	73
Assets held for sale	-	-	-	10	10
Total current assets	3,279	106	151	123	3,659
Non-current assets					
Trade receivables	323	191	-	-	514
Broadcast rights – net of rights exercised	-	-	-	67	67
Property, plant and equipment	-	-	-	1,804	1,804
Intangible assets	-	-	-	6,131	6,131
Right-of-use assets	-	-	-	3,268	3,268
Deferred tax assets	196	-	-	206	402
Deferred expenses and non-current investments	-	-	-	108	108
Total non-current assets	519	191	-	11,584	12,294
Total assets	3,798	297	151	11,707	15,953
Current liabilities					
Debentures and loans	268	517	-	-	785
Current maturities of liabilities in respect of leases	2	413	-	-	415
Trade payables	1,294	126	179	167	1,766
Employee benefits	479	-	3	-	482
Provisions	115	2	-	-	117
Total current liabilities	2,158	1,058	182	167	3,565
Non-current liabilities					
Debentures and loans	6,814	2,671	-	-	9,485
Liabilities in respect of leases	4	1,488	-	-	1,492
Employee benefits	286	-	49	-	335
Derivatives and other liabilities	89	66	-	152	307
Deferred tax liabilities	-	-	-	290	290
Provisions	52	-	-	-	52
Total non-current liabilities	7,245	4,225	49	442	11,961
Total liabilities	9,403	5,283	231	610	15,526
Total exposure in the statement of financial position	(5,604)	(4,986)	(80)	11,097	427
Forward transactions	(1,477)	1,215	262	-	-

30.5.2. Data on the Consumer Price Index:

In 2021, the known consumer price index decreased by 2.4% (in 2020 a decrease of 0.6%, and in 2019 - an increase of 0.3%).

30.5.3. Sensitivity analyzes in relation to a change in the consumer price index for a change in the exchange rate of the dollar

A 1% increase / decrease in the consumer price index at the reporting date would not materially affect net profit and equity.

A 10% increase / decrease in the exchange rate of the dollar at the reporting date would not materially affect earnings and equity.

30.5.4. Interest rate risk

As of December 31, 2021, the exposure to the risk of interest rates due to a liability in respect of floating-rate debt instruments is negligible.

a. Type of interest

The following is a breakdown of the interest rate type of interest-bearing financial instruments of the Group.

	Book Value	
	2021	2020
	NIS millions	NIS millions
Fixed rate instruments		
Financial assets (mainly deposits and trade receivables)	**1,964**	1,919
Financial liabilities (loans and debentures)	**(9,712)**	(10,199)
	(7,748)	(8,280)
Instruments at floating interest rates		
Financial liabilities (debentures)	**(336)**	(71)

b. Analyzing the sensitivity of fair value in respect of fixed-rate instruments

The Group's fixed interest assets and liabilities are not measured at fair value through the statement of income. Thus, a change in interest rates at the reporting date will have no effect on the statement of income.

c. Analysis of cash flow sensitivity for instruments at variable interest rates

An increase / decrease of 1% in the interest rates at the time of reporting would have negligible effect on net profit and equity.

30.6. Hedging

30.6.1 Cash flow hedge accounting

Bezeq entered into forward transactions, as detailed in the table below, for the purpose of reducing the exposure to changes in the consumer price index in respect of index-linked debentures. These transactions define a specific cash flow of some of the debentures and are recognized in accounting as a hedge of cash flows. The expiration date of these transactions is consistent with the repayment schedules of the debentures they were intended to protect. The fair value of forward transactions is determined by the use of marketable data (Level 2 in the fair value hierarchy).

			Par value	Fair value	Capital principal balance
Hedged item	**Repayment dates**	**Transactions**	**NIS millions**	**NIS millions**	**NIS millions**
As of December 31, 2021					
Series 6 debentures	12.2022	**1**	**330**	**(29)**	**4**
Series 10 debentures	12.2022 to 12.2025	**4**	**300**	**3**	**9**
Series 12 debentures	6.2026 to 6.2030	**5**	**250**	**13**	**16**
		10	**880**	**(13)**	**29**
As of December 31, 2020					
Series 6 debentures	12.2020 to 12.2022	3	665	(78)	(9)
Series 10 debentures	12.2022 to 12.2025	4	300	(15)	(6)
Series 12 debentures	6.2026 to 6.2030	5	250	(10)	(5)
		12	1,215	(103)	(20)

30.6.2 Economic hedging

a. During 2021, Bezeq engaged in forward transactions for the purpose of reducing the exposure to changes in the dollar exchange rate. The net fair value of these transactions as of December 31, 2021 is a liability of approximately NIS 4 million (as of December 31, 2020 - NIS 2 million).

b. DBS is involved in forward transactions for the purpose of reducing exposure to changes in the dollar exchange rate. The net fair value of these transactions as of December 31, 2021 is a liability of about NIS 2 million (as of December 31, 2020, a liability of approximately 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 millions	NIS millions
Level 1 - Investment in marketable securities measured at fair value through income (see 30.7.2)	**99**	77
Level 2 - Forward contracts (see 30.7.3)	**(19)**	(117)

30.7.2 The fair value of marketable securities is determined with reference to their suggested selling price quoted at the closing of trading, at the reporting date (Level 1).

30.7.3 The fair value of forward contracts on the consumer price index or foreign exchange is based on discounting the difference between the price specified in the forward contract and the price of the current forward contract for the remainder of the contract period until maturity, using an appropriate interest rate (Level 2). The assessment is made under the assumption that a market participant takes into account the credit risks of the parties in pricing such contracts.

30.8 . Financial instruments measured at fair value for disclosure purposes only

The table below lists the differences between the book value and the fair value of financial liabilities.

The fair value of debentures issued to the public is determined according to their purchase price quoted at the close of trading, at the reporting date (Level 1).

The fair value of non-traded loans and debentures is measured on the basis of the present value of future cash flows in respect of the principal and interest component, discounted at the market rate corresponding to similar liabilities plus the required adjustments for risk premium and non-marketability as of the financial statements (Level 2).

	As of December 31, 2021			As of December 31, 2020		
	Book value (including accrued interest)	Fair value	Discount rate (weighted average)	The value in the books	Fair value	Discount rate (weighted average)
	NIS million		%	NIS million		%
Loans from banks and institutional entities (unlinked)	**1,612**	**1,713**	**1.93**	2,118	2,252	1.97
Debentures issued to the public (index-linked)	**2,913**	**3,249**	**(1.25)**	3,199	3,394	0.44
Debentures issued to the public (unindexed)	**5,215**	**5,543**	**1.76**	4,913	5,187	2.8
	9,740	**10,505**		10,230	10,833	

30.9. Offsetting financial assets and financial liabilities

The Group has agreements with various communications companies for the provision and receipt of communications services. Under some of the agreements, each party has the right to offset the amounts that each party owes. The table below shows the book value of balances offset as presented in the statement of financial position:

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
Balance of trade and other receivables, gross	**97**	93
Amounts offset	**(87)**	(84)
Balance of customers and trade receivables presented in the statement of financial position	**10**	9
Gross balance of suppliers	**104**	102
Amounts offset	**(87)**	(84)
Balance of suppliers presented in the statement of financial position	**17**	18

31. Summary of selected data from the financial statements of Bezeq the Israel Telecommunications Corporation Ltd., Pelephone Communications Ltd., Bezeq International Ltd. and DBS Satellite Services (1998) Ltd.

31.1 Bezeq the Israel Telecommunications Corporation Ltd.

Data from the statement on the financial position:

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
Current assets	**2,554**	2,014
Non-current assets	**9,957**	9,600
	12,511	11,614
Current liabilities	**2,393**	2,096
Non-current liabilities	**9,022**	9,668
Total liabilities	**11,415**	11,764
Equity	**1,096**	(150)
	12,511	11,614

Data from the statement of income:

	For the year ended December 31		
	2021	2020	2019
	NIS millions	NIS millions	NIS millions
Revenue	**4,159**	4,073	4,196
Operating expenses			
Salary	**934**	919	911
Depreciation and amortization	**938**	877	861
Operating and general expenses	**667**	590	565
Other operating expenses (income), net	**(105)**	68	(406)
Total operating expenses	**2,434**	2,454	1,931
Operating profit	**1,748**	1,705	2,142
Financing expenses (income)			
Financial expenses	**357**	419	608
Financing income	**(15)**	(16)	(39)
Financing expenses, net	**342**	403	569
Profit after financing expenses, net	**1,406**	1,302	1,573
Share in profits (losses) of equity-held investee companies, net	**120**	(244)	(2,386)
Profit (loss) before income taxes	**1,526**	1,058	(813)
Income taxes	**343**	262	381
Profit (loss) for the year	**1,183**	796	(1,194)

31.1. Pelephone Communications Ltd.

Data from the statement on the financial position:

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
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

Data from the statement of income:

	For the year ended December 31		
	2020	2019	2018
	NIS millions	NIS millions	NIS millions
Revenue			
Revenue from jobs	**1,642**	1,591	1,709
Revenue from the sale of end equipment	**647**	595	653
Total revenue from jobs and sales	**2,289**	2,186	2,362
Operating expenses			
Operating and general expenses	**1,346**	1,329	1,373
Salary	**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)
Financing expenses (income)			
Financial expenses	**23**	18	23
Financing income	**(65)**	(66)	(62)
Financing income, net	**(42)**	(48)	(39)
Profit (loss) before income taxes	**84**	(36)	(60)
Expenses (income) before taxes on income	**20**	(11)	(13)
Profit (loss) for the year	**64**	(25)	(47)

31.2. Bezeq International Ltd.

Data from the report on the financial position:

	December 31, 2021	December 31, 2020
	NIS millions	**NIS millions**
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

Data from the statement of

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS millions	**NIS millions**	**NIS millions**
Revenue	**1,237**	1,271	1,339
Operating expenses			
Operating, general and impairment expenses	**799**	802	827
Salary	**237**	248	261
Depreciation, amortization and impairment expenses	**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)
Financing expenses (income)			
Financial expenses	**5**	5	8
Financing income	**(3)**	(3)	(2)
Financing expenses, net	**2**	2	6
Profit (loss) before taxes on income	**20**	(243)	(202)
Expenses (income) before taxes on income	**12**	32	(45)
Profit (loss) for the year	**8**	(275)	(157)

31.3. DBS Satellite Services (1998) Ltd.

Data from the report on the financial position:

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
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

Data from the statement of income:

	For the year ended December 31		
	2021	2020	2019
	NIS millions	NIS millions	NIS millions
Revenue	**1,270**	1,287	1,345
Operating expenses			
Operating, general and impairment expenses	**835**	857	923
Salary	**188**	203	216
Depreciation, amortization and impairment expenses	**203**	203	219
Other operating expenses (income),	**12**	(15)	42
Total operating expenses	**1,238**	1,248	1,400
Operating profit (loss)	**32**	39	(55)
Financing expenses (income)			
Financial expenses	**4**	15	17
Financing income	**(3)**	(2)	(5)
Financing expenses, net	**1**	13	12
Profit (loss) before income taxes	**31**	26	(67)
Expenses before income taxes	**1**	2	2
Net profit (loss) for the year	**30**	24	(69)

32. Subsequent events

32.1. On January 10, 2022, the Company exchanged Series C bonds for Series F bonds. For details, see Note 13.3.1.

32.2. On January 23, 2022, Bezeq made a partial early redemption on its own initiative of bonds (Series 9) in the amount of approximately NIS 370 million par value.

32.3. After the date of the statements, and until March 1, 2022, the date on which the repurchase plan for the Company's shares came to an end, the Company acquired a total of 820,360 of the Company's shares for approximately NIS 11 million. At the end of the acquisition plan, Searchlight holds a 61.38% interest and the Forer family holds a 11.62% interest of the Company's ordinary and issued shares.

32.4. Regarding the resolution by Bezeq's Board of Directors, after the date of the Statements, regarding the cancellation of a structural change plan in the Bezeq Group and regarding the alternative outline, see Note 12.1.3.

32.5. Regarding the resolution by Bezeq's Board of Directors dated March 22, 2022 regarding Bezeq's dividend distribution policy and the resolution by Bezeq's Board of Directors to recommend to the General Meeting of Bezeq shareholders a dividend distribution, and the Company's expected share in the said dividend, see Note 12.6.

32.6. For details regarding another acquisition plan approved by the Company's Board of Directors on March 23, 2022, see Note 20.4.

Separate Financial Information for the Year Ended December 31, 2021

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Somekh Chaikin
KPMG Millennium Tower
17 HaArbaa Street P.O.B. 609
Tel Aviv 6100601
03 684 8000

To:
Shareholders of B Communications Ltd.

Dear Sirs,
Re: Special report of the auditors on separate financial information under Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We audited the separate financial information presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of B. Communications Ltd. (hereinafter – “the Company") as of December 31, 2021, and 2020 and for each of the three years the last of which ended on December 31, 2021. The separate financial information is within the responsibility of the Company's Board of Directors and Management. It is our responsibility to form an opinion on the separate financial information based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel. According to these standards, we are required to plan and perform the audit with the aim to obtain a reasonable degree of assurance that the separate financial information does not constitute a material misstatement. Our audit includes a sample examination of evidence supporting the amounts and details contained in the separate financial information. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company’s Board of Directors and Management, as well as evaluating the overall adequacy of the presentation of the financial statements. We believe that our audit and the reports of the other auditors provide an adequate basis for our opinion.

In our opinion, based on our audit, the separate financial information has been prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Without limiting our above opinion, we draw attention to what is stated in Note 1 which refers to Note 1.3 in the consolidated statements, regarding the Securities Authority’s investigation of a suspicion of committing offenses under the Securities Law and the Penal Code concerning, *inter alia,* transactions related to the former controlling shareholder and the transfer of the case to the State Attorney's Office, as well as what is stated in said note regarding the filing of an indictment against the former controlling shareholder in the Company, for various offenses, including offenses of bribery and intentional misstatement in an immediate report. As stated in the above note, at this stage, the Company is unable to assess the effects of the investigations, their findings and results on the Company as well as on the financial statements and estimates used in the preparation of these reports, if any.

In addition, without limiting our above opinion, we draw attention to what is stated in Note 17 to the Company’s consolidated financial statements, regarding claims filed against Group companies and the exposure in respect of which cannot be assessed or calculated at this stage.

Somekh Chaikin
Certified Public Accountants

March 23, 2022

Separate financial information as of December 31, 2021

Financial position data as of December 31

	Note	2021 NIS millions	2020 NIS millions
Assets			
Cash and cash equivalents		**25**	55
Short-term investments and bank deposits	**3**	**180**	157
Other receivables		**14**	23
Total current assets		**219**	235
Long-term deposits	**4**	**79**	160
Investment in investee companies	**5**	**1,724**	1,398
Total non-current assets		**1,803**	1,558
Total assets		**2,022**	1,793
Liabilities			
Trade and other payables	**6**	**7**	7
Total current liabilities		**7**	7
Debentures	**7**	**1,999**	1,893
Total non-current liabilities		**1,999**	1,893
Total liabilities		**2,006**	1,900
Equity (deficit)	**9**	**16**	(107)
Total liabilities and equity		**2,022**	1,793

Darren Glatt Chairman of the Board of Directors	**Tomer Raved** CEO	**Itzik Tadmor** CFO

Date of approval of the financial statements: March 23, 2022

The notes attached to the separate financial information form an integral part thereof.

Separate financial information as of December 31, 2021

Statement on income for the year ended December 31

	Note	2021	2020
	Note	**NIS millions**	**NIS millions**
Operating expenses			
Salaries		**5**	3
Operating and general expenses		**8**	8
Total operating expenses		**13**	11
Operating loss		**(13)**	(11)
Financing expenses (income)			
Financing expenses		**184**	110
Financing income		**(10)**	(6)
Financing expenses, net		**174**	104
Loss after financing expenses, net		**(187)**	(115)
Share of the profit in equity accounted investee, net		**316**	265
Profit before tax income		**129**	150
Income tax	10	**-**	7
Profit for the year		**129**	157

Comprehensive profit for the year ended December 31

	2021	2020
	NIS millions	**NIS millions**
Profit for the year	**129**	157
Profit (loss) items including other, net of tax	**10**	(3)
Total comprehensive profit for the year	**139**	154

The notes attached to the separate financial information form an integral part thereof.

Data on cash flows for the year ended December 31

	2021	2020
	NIS millions	NIS millions
Cash flows from operating activities		
Profit for the year	**129**	157
Adjustments:		
Share of profit of equity accounted investee, net	**(316)**	(265)
Financing expenses, net	**174**	106
Change in trade payables and credit balances	**-**	(7)
Change in other trade receivables	**10**	(1)
Net cash used for operating activities	**(3)**	(10)
Cash flows from investing activities		
Investment in subsidiary	**-**	(40)
Change in deposits and investments, net	**66**	(229)
Interest / dividend received in cash	**1**	2
Net cash generated from (used in) investing activities	**67**	(267)
Cash flows used for financing activities		
Issuance of debentures	**1,035**	-
Repayment of debentures	**(1,015)**	-
Repurchase of shares	**(16)**	-
Interest paid	**(79)**	(78)
Costs for early repayment of debentures	**(19)**	-
Net compensation for the Horev Claim	**-**	(3)
Net cash used for financing activities	**(94)**	(81)
Decrease in cash and cash equivalents	**(30)**	(358)
Cash and cash equivalents as of January 1	**55**	413
Cash and cash equivalents as of December 31	**25**	55

The notes attached to the separate financial information form an integral part thereof

1. General

The following are financial data from the Group's consolidated financial statements as of December 31, 2021 (hereinafter - "Consolidated Financial Statements"), which are published in the periodic reports, attributed to the Company itself (hereinafter - "Separate Financial Information"), presented in accordance with Regulation 9C (hereinafter - "the Regulation") and the Tenth Addendum (hereinafter – "the Tenth Addendum") to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 regarding separate financial information of the corporation.

The Separate Financial Information should be read in conjunction with the Consolidated Financial Statements.

In this Separate Financial Information -

"The Company" - "B Communications Ltd."

"Affiliated company", "subsidiary", "group", "investee company", "stakeholder": per the definition of these terms in the Group's Consolidated Financial Statements for 2021.

For an investigation by the Securities Authority and the Police, see Note 1.3 to the Consolidated Financial Statements.

2. Note on the main accounting policies applied in the Separate Financial Information

The accounting policy rules set forth in the Consolidated Financial Statements have been applied consistently to all periods presented in the Separate Financial Information by the Company, including the manner in which the financial data in the Consolidated Financial Statements have been classified as required by the following:

2.1. Presentation of the financial data

The data on the financial position, income, comprehensive income and cash flows include information contained in the Consolidated Financial Statements and attributed to the Company itself. The investment balances and results of operations of investee companies are treated according to the equity method. Cash flows from operating activities, investing activities and financing activities in respect of transactions with investee companies are presented separately in net terms, as part of the relevant activity in accordance with the nature of the transaction.

2.2. New standards that have not yet been adopted

Regarding new standards that have not yet been adopted, see Note 3.18 to the Consolidated Financial Statements.

3. Short-term investments and deposits

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
Investments in marketable securities (1)	**99**	76
Short-term deposits	**81**	81
	180	157

(1) The deposits are due for repayment by December 2022.

4. Long-term deposits

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
Long-term deposits (1)	**79**	160
	79	160

(1) The deposits are due for repayment by December 2024**.**

5. Subsidiaries

Subsidiaries directly held by the Company**:**

	Company rights in capital	Investment in subsidiary (according to the equity method) as of	
		December 31, 2021	December 31, 2020
		NIS millions	NIS millions
Bezeq	**26.72%**	**1,724**	1,398
		1,724	1,398

5.1. On December 10, 2020, the Company acquired 10,580,000 ordinary shares of the subsidiary Bezeq. The Company purchased shares as aforesaid in exchange for payment of a total amount of approximately NIS 40 million and at an average price of NIS 3.78 per share. Following the said acquisition, the Company holds 26.72% of the issued share capital and voting rights in the subsidiary. The shares are purchased when they are free and free from any pledge, mortgage, lien, foreclosure or any other right of any third party, including, from any other obligation to banks, financial institutions and others.

5.2. As of October 11, 2021, all Bezeq shares held by the Company are held directly by the Company, after on that day all Bezeq shares held by B Communications (SP2) Ltd. (a company wholly-owned and controlled by B Communications) were transferred to the direct holding of B Communications (SP1) Ltd., which is wholly-owned and controlled by the Company). Following the transfer of Bezeq's shares to the Company, the companies B Communications (SP2) Ltd. and B Communications (SP1) Ltd. were closed.

5. Subsidiaries (Cont.)

5.1. After the date of the financial statements, on March 22 ,2022, Bezeq's Board of Directors decided to approve a new dividend distribution policy for Bezeq, according to which Bezeq will distribute to its shareholders, every six months, a cash dividend of 50% of the semi-annual profit (after tax) according to Bezeq's consolidated financial statements. This is starting from the next distribution (for 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, Bezeq needs and liabilities, Bezeq's cash balances, plans and position as from time to time, and subject to the approval of the general meeting of Bezeq's shareholders regarding any specific distribution, as provided in Bezeq's Articles of Association.

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

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

Bezeq's Board of Directors was presented with, among other things, analysis and results of professional work as performed by Professor Aharon (Roni) Ofer, Bezeq's and the Bezeq Group's forecasts, as well as sensitivity analyzes for unforeseen deterioration in Bezeq's and Bezeq Group businesses. After Bezeq's Board of Directors examined all of the above, the Board of Directors determined that this resolution reflects the correct balance between these needs as described above.

5.2. On March 22, 2022, following the resolution regarding Bezeq's dividend distribution policy as detailed above, Bezeq's Board of Directors decided to recommend to the general meeting of Bezeq's shareholders to distribute a cash dividend to Bezeq shareholders in the total amount of NIS 240 million. As of the date of approval of the statements, the said dividend has not yet been approved by the general meeting of Bezeq's shareholders. The Company's expected share in the dividend to be distributed by Bezeq, subject to the approval of the general meeting of Bezeq's shareholders, is approximately NIS 64 million.

6. Trade and other payables

	December 31, 2021	December 31, 2020
	NIS millions	NIS millions
Trade payables	**1**	1
Interest payable	**6**	6
	7	7

7. Debentures

	December 31, 2021		December 31, 2020	
	Balance in books	Face value	Balance in books	Face value
	NIS millions	NIS millions	NIS millions	NIS millions
Debentures issued to the public:				
Series C **debentures**	**951**	**1,010**	1,739	1,878
Series D **debentures**	**-**	**-**	54	58
Series E **debentures**	**-**	**-**	100	100
Series F **debentures**	**1,035**	**1,040**	-	-
Total debentures	**1,986**	**2,050**	1,893	2,036

On September 17, 2020, the meetings of the holders of the Company's debentures (Series C and E) approved the amendment of the trust deeds of the said series, in a manner that will enable the Company to raise additional debt that will be secured by a lien on Bezeq shares pledged in favor of Series C, *pari-passu* with Series C, under the following restrictions:

a) The additional debt that will be raised by the Company (less the expenses of issuance) will first repay the debentures (Series D) and the debentures (Series E) in full, so that after the raising thereof and after completing the conditions required for release in exchange for issuing the additional series and amending existing liens in favor of Series C, a first level lien will be recorded on the pledged Bezeq's shares (as defined in the trust deed) for the benefit of the bondholders (Series C), in lieu of the second level lien currently registered in their favor (as long as the debentures (Series E) are in circulation).

b) After the full repayment of the debt in respect of the debentures (Series D) and the debentures (Series E), the balance of the proceeds from the net issue of the additional debt will be used for the purpose of repayment of the debentures (Series C), by early redemption (full or partial), according to the terms of the existing trust deed.

c) The duration of the new series issued by the Company will be longer than that of the debentures (Series C) and the payment of the first principal in respect of the debentures from the new series as aforesaid will be only after full repayment of the debentures (Series C).

In addition, the amount of early repayment to be paid to the bondholders in the event of early repayment of the debentures by the Company has been amended as follows:

In relation to the debentures (Series C) - in the case of a partial early repayment of the debentures (Series C), the price of the partial early repayment will be the highest of the par value of the debentures (Series C) or their market value according to the 30 trading days preceding the early repayment.

In relation to bondholders (Series E) - the full early repayment price will be the highest of: (1) The market value of the debentures according to the price of the debentures on the stock exchange in the 30 trading days preceding the early repayment, the early repayment price, but not more than 103.5%, or (2) the par value of the debentures (Series E).

On July 6, 2021, the Company held a tender for the purchase of Series F debentures, in the framework of which approximately NIS 394 million par value was issued to institutional entities and the public in exchange for approximately NIS 394 million from Series F. The annual interest rate (unlinked) determined in the tender is 3.65%. The interest on the Series F debentures will be paid in two semi-annual installments on May 31 and November 30 of each year from November 2021 to November 2026. The bond principal will be repaid in one installment on November 30, 2026. The Company used the net consideration from the issuance of Series F debentures to make early repayments of its existing debentures as of the same date as detailed below.

On July 19, 2021, the Company made a full early repayment of the Series D debentures principal (plus accrued interest up to the due date) and a full early repayment of the Series E debentures principal (plus accrued interest up to the maturity date and an early repayment penalty as defined in the series of series E). In addition, the Company made a partial early repayment of approximately NIS 226 million in respect of the Series C debentures (plus accrued interest up to the due date). Following the early repayments, Series D and E were repaid in full and delisted from trading on the Tel Aviv Stock Exchange.

On December 7, 2021, the Company issued to institutions and the public approximately NIS 485 million in Series F debentures for approximately NIS 488 million in Series E. The Company used the net consideration from the issuance of Series F debentures to make a partial early repayment of approx. NIS 471 million in respect of its existing Series C debentures for that date (plus accrued interest up to the due date and an early repayment penalty as defined in the trust deed of the Series C debentures).

On December 9, 2021, the Company held a private placement of approximately NIS 161 million in Series F debentures for approximately NIS 161 million. The Company used the net consideration from the issuance of Series F debentures to make a partial early repayment of approximately NIS 157 million in respect of Series C debentures existing on that date (plus accrued interest up to the due date and an early repayment penalty as defined in the trust deed of the C series debentures).

On January 10, 2022, the Company exchanged approximately NIS 417 million in Series C debentures for approximately NIS 432 million in Series F debentures.

For further details, see Note 13 to the Consolidated Financial Statements.

8. Contingent liabilities

8.1. On March 30, 2020, the Company reached a settlement regarding the derivative claim that was filed in July 2016 in the Tel Aviv-Yafo District Court (hereinafter "the Horev Claim"). As part of the settlement agreement, during the third quarter of 2020, the Company received a total amount of NIS 22 million (principal plus accrued interest) in the Company's Series C debentures held by Internet Gold - Gold Lines Ltd. (hereinafter "Internet Gold") in exchange for waiving the derivative claim against Internet Gold. In addition, the derivative plaintiff received an amount of NIS 4.23 million in respect of attorneys' expenses and monetary compensation (which were paid out of the NIS 22 million that Internet Gold is required to pay). The net amount received by the Company is imputed directly to the Company's shareholders' equity under the loss balance item.

8.2. In addition, on June 2, 2020, the Company and the Company's former directors signed a settlement agreement as part of the Horev Claim, according to which the directors will pay NIS 2.5 million (hereinafter "the Directors' Settlement Amount") to the Company to settle all derivative claims in this matter. During July 2020, the District Court approved the settlement agreement, and the directors' insurance paid the Company the full Directors' Settlement Amount. As part of the settlement, the Company paid the derivative plaintiff and his attorney a total of NIS 720,000. The net amount received by the Company is imputed directly to the Company's shareholders' equity under the loss balance item.

8.3. On March 4, 2020, the Company signed a settlement agreement that settles the class action lawsuit filed against the Company in the New York Southern District Court in the United States that was filed against the Company in 2017. On August 10, 2020, final approval of the settlement was obtained from the Court as part of which the settlement payments were made. The Company paid a sum of USD 1.2 million, which was fully covered by the insurance of the directors and officers of the Company, which absolved the Company from all claims related to the class action by both the plaintiffs and the members of the settlement, without any admission of guilt.

8.4. In June 2017, two motions for approval of a class action lawsuit totaling approximately NIS 1.8 billion were filed against Bezeq, Group officers and companies from the then controlling group in Bezeq regarding the purchase of DBS shares by Bezeq from Eurocom. In accordance with a court decision, the filing of a unified motion is expected to replace these two motions. The said procedure was stayed at the request of the Attorney General several times, while as of this date, the procedure was delayed until July 2022.

8.5. In November 2020, a lawsuit was filed with a motion for approval as a class action by a private individual who claims to be a shareholder of Bezeq ("the Applicant") against the Company, Bezeq, and members of Bezeq's Board of Directors ("the Respondents"). The matter of the motion is the approval of a class action for compensation of the Applicant and the members of the represented group for damages caused to them, according to the motion, "due to Bezeq's failure to report and disclose on the Tel Aviv Stock Exchange (hereinafter: "TASE") and concealing material information from investors, in connection with a public report "on moves by the Ministry of Communications to eradicate the phenomenon of dual subscribers in the field of ISP Internet services, on the extensive and substantial scope of the phenomenon of dual subscribers in the subsidiary Bezeq International (hereinafter: "Bezeq International") and their material negative impact on the subsidiary and Bezeq. According to the claim in the motion, the damage caused to the group members as a result of the incidents that are the subject of the lawsuit amounts to approximately NIS 55 million to NIS 65 million, based on an expert opinion attached to the motion.

In July 2021 the respondents filed a response alleging that the motion for approval was unfounded, *inter alia*, due to the fact that the information alleged in the motion for approval as required for publication did not meet the statutory standards for establishing reporting obligation and was accompanied by an arrangement procedure and professional consultants and supervised by the Board of Directors, and therefore all appropriate measures have been taken to comply with the provisions of the law and that these findings contradict the applicant's contention. In December 2021 the Company filed a motion for *in limine* dismissal of the motion for approval against it, *inter alia*, because the motion for approval does not specify claims against the Company, and because for most of the relevant period the Company was a dual company, so the law applicable to it is US law, and because the motion is not supported by an opinion of an expert on foreign law. After several instances for responses and holding a pre-trial hearing in February 2022, a decision was made in which the parties were asked to update whether they wished to hold a mediation, an additional preliminary hearing or to coordinate a hearing. The parties have announced that they are working to coordinate deadlines for evidentiary hearings. At this stage, in the opinion of the Company's legal counsel, the chances of the claim being dismissed are higher than its chances of acceptance.

8.6. In November 2020, a claim was filed with motion for approval as a class action by a private individual ("the Applicant") claiming to be a shareholder of the Company, who claims to hold the Company's shares and Bezeq shares, against the Company, Bezeq and 72 other respondents, including former and present officers in both companies ("the Respondents"). The matter of the motion is the approval of a class action for compensation of the Applicant and the members of the represented groups for damages caused to them, as alleged in the motion, as a result of acts and omissions of the Respondents when they failed to disclose to the investing public allegedly material information, that they had to disclose in accordance with the provisions of the law, in connection with the two companies' report dated November 9, 2020 that Bezeq International's books have unexplained net asset balances (receivables minus payables) of tens of millions of NIS, most of which originate, probably, from past periods of over 15 years. The amount of the class action specified in the statement of claim is "over NIS 2.5 million (for the purposes of substantive authority)" when in accordance with the economic opinion attached to the motion "the estimate of the fall in the price of the security" for the information included in the immediate report of November 9, 2020 stands at 5.26%-5.40% in relation to Bezeq and 9.07% - 9.36% in relation to the Company.

8.7. In January 2021, the Company submitted a motion for *in limine* dismissal of the motion for approval and a motion for extension. In April 2021, a hearing was held on the motion for dismissal, in which it was determined that only after a date has been set for the hearing of the request for disclosure of documents, a date will be set for submitting answers to the request and another hearing will be scheduled. As of this date, a hearing for the disclosure of documents is scheduled for April 2022 and a date for a hearing is expected to be scheduled for May 2022. In the opinion of the Company's legal counsel, at this early stage, in which claims have not yet been filed on behalf of the Company, they are unable to assess the chances of acceptance of the motion for approval.

9. Equity

Ordinary shares 0.1 NIS par value each

	Number of ordinary shares	
	2021	**2020**
Issued and paid-up capital as of January 1	**116,316,563**	116,316,563
Purchase of treasury shares	**(1,457,573)**	-
Issued and paid-up capital as of December 31	**114,858,990**	116,316,563
Registered capital as of December 31	**300,000,000**	150,000,000

* As of December 31, 2021, 1,476,803 of the Company's shares are held as treasury shares.

9.1. On February 13, 2020, a special meeting of the Company's shareholders was held at which the terms of employment of the Company's new CEO, Mr. Tomer Raved, were approved. As part of the terms of his employment, Mr. Raved was granted options to purchase up to 2,677,362 ordinary shares of the Company, which constitute 2.25% of the Company’s issued and paid-up capital as of the date of commencement of his employment. The vesting period of the options granted to the Company's CEO is 3 years. The expense recorded in the Company's books in respect of the options granted to the CEO in the years 2020 and 2021, and amounted to approx. NIS 280K in each of the years.

9.2. On August 26, 2020, the Company announced its intention to delist its shares from trading on the Nasdaq Stock Exchange and terminate its reporting obligation to the US Securities and Exchange Commission (SEC). The documents required for the delisting were submitted on September 9, 2020 and the Company's share ceased to be traded on the Nasdaq on the same day. The termination of the Company's reporting obligation on the Nasdaq Stock Exchange began on September 21, 2020, on the same day of submitting a required document to the US Securities and Exchange Commission (SEC).

9.3. On March 31, 2021, the General Meeting of the Company approved the increase of the registered share capital of the Company so that after the said increase of registered capital, the registered capital of the Company will be NIS 30,000,000, divided into 300,000,000 ordinary shares of NIS 0.1 each, and accordingly, an amendment to the Company's Articles of Association was approved.

9.4. On November 30, 2021, the Company's Board of Directors approved the repurchase of its shares in the amount of up to NIS 30 million from December 1, 2021 until: (1) the purchase of shares of the Company in the amount of NIS 30 million; Or (2) March 1, 2022, whichever is earlier.

9.5. On March 23, 2022, the Company's Board of Directors approved the repurchase of its shares in the amount of up to NIS 20 million from March 24, 2022 until: (1) the purchase of shares of the Company in the amount of NIS 20 million; Or (2) May 12, 2022, whichever is earlier.

10. Note on taxes on income

The Company has final tax assessments until 2018. In December 2020, the Company signed an assessment agreement with the tax authorities for the years 2015-2018, according to which the Company was not required to pay any tax for these years. Following the signing of the assessment agreement, the Company wrote off a tax provision in the amount of approximately NIS 7 million in 2020.

11. Liquidity risk

The following are the predicted maturities of financial liabilities, including an estimate of interest payments (based on the known interest data as of December 31, 2021):

	December 31, 2021					
	Book value	Contractual cash flow	H1/2022	H2/2022	2023	2024-2026
	NIS millions					
Non-derivative financial liabilities						
Trade and other payables	**7**	**7**	**7**	**-**	**-**	**-**
Debentures	**1,986**	**2,351**	**32**	**39**	**77**	**2,203**
Total	**1,993**	**2,358**	**39**	**39**	**77**	**2,203**

12. Events during the reporting period and subsequent events

12.1. On January 10, 2022, the Company exchanged Series C debentures for Series F debentures. For further information, see Note 13.3.1 in the consolidated financial statements.

12.2. After the date of the financial statements, and until March 1, 2022, the date on which the repurchase plan for the Company's shares came to an end, the Company acquired a total of 820,360 of the Company's shares for approximately NIS 11 million. At the end of the acquisition plan, Searchlight holds a 61.38% interest and the Forer family holds a 11.62% interest of the Company's ordinary and issued shares.

12.3. For details on another acquisition plan approved by the Company's Board of Directors on March 23, 2022, see Note 9.5.

12.4. Regarding the decision of Bezeq's Board of Directors dated March 22, 2022 regarding Bezeq's dividend distribution policy and the decision of Bezeq's Board of Directors to recommend to the General Meeting of Bezeq shareholders a dividend distribution, and the Company's expected share in the said dividend, see Notes 5.3 and 5.4.

Chapter IV

Additional Details about the Corporation and Corporate Governance Questionnaire

for the Period ended December 31, 2021

Regulation 10a: Condensed statements of consolidated quarterly income for each of the quarters in the reported year

See Section 1.3 of the Board of Directors' report attached in the second part of this report.

Regulation 10c: Use of proceeds from securities

On July 6, 2021, the Company held a tender for the purchase of Series F debentures, in the framework of which approximately NIS 394 million were issued to institutional entities and the public in exchange for NIS 394 million from Series F. The Company used the net proceeds of the issue of the Series F debentures to make early repayments of its existing debentures for that date.

In accordance with the shelf offer report published by the Company on December 5, 2021, the Company issued to institutions and the public approximately NIS 485 million in exchange for approximately NIS 488 million from Series F. The Company used the net proceeds of the issue of the Series F debentures to make a partial early redemption of approximately NIS 471 million in respect of its existing Series C debentures at that date.

On December 9, 2021, the Company held a private placement of approximately NIS 161 million in Series F debentures for approximately NIS 161 million. The Company used the net proceeds of the issue of the Series F debentures to make a partial early repayment of approximately NIS 157 million par value in respect of its existing Series C debentures for that date (plus accrued interest for the due date and an early repayment penalty as defined in the trust deed of the Series C debentures).

For further details regarding the Company's debentures in the year of the report, see Regulation 20 below..

Regulation 11: List of investments in subsidiaries as of the date of the statement of the financial position

Company Name	Name of holder	Share type	Number of shares held	Total par value	Rate of holding of the issued capital and voting rights	Rate of holding of the right to appoint directors	Value in the Company's separate financial statement (NIS millions)
Bezeq the Israel Telecommunication Corporation Ltd. ("Bezeq")	The Company	Ordinary NIS 1	738,953,713	738,953,713	26.72%	26.72%	1,724

Regulation 12: Changes in investments in subsidiaries during the reported period

There were no changes in investments in the subsidiaries during the reporting period.

Regulation 13: Revenue of subsidiaries and revenue of the corporation therefrom as of the date of the statement of financial position (NIS millions)

Company name	Profit for the period	Comprehensive profit for the period	Dividend	Management fee	Interest revenue
Bezeq	NIS 796 million	NIS 1,219 million			

Regulation 20: Trading on the stock exchange

To the best of the Company's knowledge, during the reporting period, there was no cessation of trading in the Company's securities listed for trading.

On July 6, 2021, the Company held a tender for the purchase of Series F debentures, in the framework of which approximately NIS 394 million were issued to institutional entities and the public in exchange for NIS 394 million from Series F. The Company used the net proceeds of the issue of the Series F debentures to make early repayments of its existing debentures for that date.

On July 19, 2021, the Company made a full early repayment of the Series D debentures principal (plus accrued interest as of the repayment date) and a full early repayment of the Series E debentures principal (plus accrued interest as of the repayment date and an early repayment penalty as defined in the trust deed of Series E debentures). In addition, the Company made a partial early repayment of approximately NIS 226 million in respect of the Series C debentures (plus accrued interest as of the repayment date). Following the early repayments, Series D and E were repaid in full and delisted from trading on the Tel Aviv Stock Exchange.

On December 7, 2021, the Company issued to institutions and the public approximately NIS 485 million in Series F debentures in exchange for NIS 488 million in Series F. The Company used the net proceeds of the issue of the Series F debentures to make a partial early repayment of approx. NIS 471 million in respect of its existing Series C debentures for that date (plus accrued interest as of the repayment date and an early repayment penalty as defined in the series of debentures of the Series C debentures).

On December 9, 2021, the Company held a private placement of approximately NIS 161 million in Series F debentures for approximately NIS 161 million. NIS in respect of its existing Series C debentures for that date (plus accrued interest for the repayment date and an early repayment penalty as defined in the trust deed of Series C debentures).

As of December 31, 2021, approximately NIS 39 million is deposited in the trust accounts for the benefit of the holders of Series C and F debentures.

As of December 31, 2021, the nominal value of Series C debentures that are not held by the Company is NIS 1,010 million and the nominal value of Series F debentures that are not held by the Company is NIS 1,040 million.

On January 10, 2022, the Company exchanged approximately NIS 417 million in Series C debentures for approximately NIS 432 million in Series F debentures.

Regulation 21: Remuneration for related parties and senior officers

The following is a breakdown of the remuneration for 2021, as recognized in the 2021 statements, for each of the most remunerated among the senior officers of the Company or corporation under its control, and which were given thereto in connection with his office. It should be emphasized that the amounts indicated in the table are the amounts recognized in the 2021 statements, but some of the actual payments to some of the officers include amounts recognized in previous financial statements and some are contingent on the conditions set forth below.

Details of remunerated persons					Remuneration (NIS thousands)				Total (NIS thousands)	Section below
Name	Position	Sex	Job volume	Holding rate in the corporation's equity	Salary[1]	Bonus[2]	Share-based payment	mther (Management fee)	Total	
Tomer Raved[3]	CEO	Male	Full-time	-	1,449	2,343[4]	280	290[5]	4,362	A
Itzik Tadmor	CFO	Male	Full-time	-	642	208	-	-	850	B
Ilan Chaikin	Internal auditor	Male	Full-time	-	84	-	-	-	84	C
Dudu Mizrahi	Bezeq CEO	Male	Full-time	-	2,469	2,599	3,975	-	9,043	D
Ran Guron	Pelephone, Bezeq International and DBS CEO	Male	Full-time	-	2,472	2,838	3,975	-	,9285	E
Directors	Director		Full-time	-	802	-	-	-	802	F

The following is a breakdown of the terms of engagement with the stakeholders and officers listed in the table above:

a. Tomer Raved

Mr. Raved has been the CEO and Director of the Company since January 2020. According to the employment agreement with him approved at the Company's General Meeting on February 13, 2020, Mr. Raved is entitled to to an annual salary according to an employee-employer cost of NIS 1.4 million, including social and ancillary benefits as customary in the Company and in accordance with the Company's remuneration policy (convalescence allowance, study fund, pension, sick pay, car expenses, vacation days, cell phone, business expenses and social security, except for vehicle expenses).

In addition, in respect of his office as a director in Bezeq, Mr. Raved is entitled to an annual remuneration and a participation fee in the amount determined by an external expert in accordance with the Remuneration Regulations, as they will be from time to time and in

[1] Regarding senior executives at Bezeq, wage amounts include the cost of wages (employer cost) and the ancillary wage components, including benefits and social conditions, such as coverage of telephone expenses, a personal vehicle of the type customary in the Group (cost of leasing or depreciation expenses and reimbursement of expenses instead of using a company vehicle), study fund (for some of the managers), deposit in a pension fund and deposits due to termination of employee-employer relationship (for employees subject to Article 14 of the Compensation Law), reimbursement of expenses and quota of vacation days, sick and annual convalescence as customary, expenses for holiday gift to employee (grossing amount), fees for membership in professional organizations paid for the employee (outside the employee's occupation) and also, to the extent that a loan was made to the employee - the value of the grossing benefit in the interest that the loan bears.

[2] Regarding senior executives at Bezeq , the bonus amounts listed in the table are as recognized in the 2021 statements and include a performance-dependant bonus as well as special bonuses (for details regarding each of the officers see details in sections A-E after the table below in Bezeq's report), all in accordance with Bezeq's remuneration policy. The performance-dependent bonus that appears in the table is for the year 2021 (not yet paid to senior executives as of the date of the report) and includes a contingent portion that will be paid in practice to the aforementioned Bezeq officers according to the distribution described in the notes to the table. During 2020, bonuses were paid to the above officers for 2020, the amount of which [including a contingent portion not paid in practice in 2021, but paid in practice in 2022 (if any)] is included in the corresponding table in Bezeq's annual statements for 2020 (as published on March 25, 2021).

[3] Tomer Raved, CEO of the company served as a director of the company until November 29, 2021.

[4] This amount reflects a grant given to Mr. Tomer Raved, the Company's CEO for the year 2020 and for the year 2021.

[5] This is a remuneration given to Mr. Tomer Raved, the Company's CEO, for his pffice as a director in Bezeq and for his office as a director in the Company until the date of his resignation from being a director in the Company on November 29, 2021.

accordance with Bezeq's classification at the relevant time.

In addition, Mr. Raved will be entitled to be included in the liability insurance for directors and officers and for indemnification as is customary in the Company, as are all other officers in the Company.

Mr. Raved was granted 2,677,362 unlisted options, exercisable into the Company's shares, which as of the date of approval of his employment agreement amount to approximately 2.25% of the issued and paid-up share capital of the Company. The employment agreement with Mr. Raved can be terminated by the Company upon prior notice of up to 6 months. Mr. Raved may terminate his employment at any time with 30 days' prior notice.

Following the immediate report published by the Company on November 11, 2021 regarding the results of a General Meeting of the Company's shareholders in which it was decided not to approve the granting of an annual grant for 2020 and for 2021 (in this section: "**the Special Grant**") to the Company's CEO, Mr. Tomer Raved. On November 29, 2021, the Company's Board of Directors decided to reconsider the Special Grant, and in light of the recommendation of the Company's Remuneration Committee, the Company's Board of Directors decided to approve the grant of the Special Grant in the Company's maximum annual grant amount (i.e., 12 monthly salaries) for each of the years 2020 and 2021, and in a total amount of NIS 2,343,600 (NIS 1,171,800 for each of the years).

b. Itzik Tadmor

As of January 2019, Mr. Tadmor is employed as the Company's CFO. Mr. Tadmor served as the Company's Chief Financial Officer (Principal Financial Officer) from May 2015 until January 2019. According to the employment agreement with him, Mr. Tadmor is entitled to a gross monthly salary of NIS 42 thousand and social and ancillary benefits as customary (vacation days, executive insurance, study fund, etc.). In accordance with the employment agreement with him, if he continues to work for the Company until December 2023, he will be entitled to a retention bonus. He is also entitled to liability insurance for directors and officers and indemnification as is customary in the Company, as are all other officers in the Company.

c. Ilan Chaikin

Ilan Chaikin is employed as the internal auditor of the Company. Mr. Chaikin is entitled to a fee at a rate of NIS 240 per hour plus VAT. During 2021, Mr. Chaikin's fee amounted to approximately NIS 84K. For further details, see Section 2.5 of the Company's Board of Directors' report as of December 31, 2021, in Chapter B of the periodic report.

d. Dudu Mizrahi

Employed as CEO of Bezeq as of September 1, 2018, as part of a personal employment agreement dated October 4, 2018 (in this section: "**the Employment Agreement**"). His total monthly salary (gross) is approx. NIS 150,000, linked to the CPI. The contract is for an unlimited period, with the right of each party to bring it to an end at any time with 6 months' prior notice by either party

Mr. Mizrahi's bonus targets for 2021 as Bezeq's CEO were set in advance by Bezeq's Board of Directors in December 2020, following the approval of Bezeq's Remuneration Committee and included: Adjusted EBITDA target[6] for Bezeq (Solo) weighing 50% in the bonus calculation; Profit after tax target of Bezeq (solo) weighing 25%; And Coordinated Free Flow Target (FCF)[7] for Bezeq (Solo) weighing 25%. The threshold conditions for the bonus were that the Adjusted EBITDA results for 2021 – (NIS 2,512.1 million) would not decrease by

[6] Adjusted EBITDA for the purpose of determining remuneration - calculated as EBITDA minus other operating expenses / revenue (net), losses / gains from impairment / increase in value (including losses from ongoing impairment), effects of the implementation of International Financial Reporting Standard IFRS16 "Leases" and expenses on share-based payments.

[7] Adjusted Free Cash Flow (FCF) - Calculated as cash arising from current activities minus cash for the purchase / sale of property, plant and equipment and intangible assets (net), and minus leasing payments.

more than 40% from the Adjusted EBITDA results in 2020 (NIS 2,563.0 million). This condition was met. The rate of Bezeq's CEO's compliance with the set of bonus targets for 2021 was approximately 118.5%. Accordingly, the bonus granted to Bezeq's CEO for 2020 is approximately 119.04% of his annual salary. Mr. Dudu Mizrahi will be entitled to 40% of the bonus for meeting the adjusted EBITDA target for Bezeq (Solo) in 2021 only in 2023 (after the date of approval of the 2022 statements) and only if the minimum adjusted EBITDA target for Bezeq (Solo) is achieved in relation to the 2022 budget. It should be noted that after the year of the report, Mr. Dudu Mizrahi was approved, in accordance with Bezeq's Remuneration Policy, a special grant conditional on targets of up to 4 gross monthly salaries for the year 2021, which included: A target for deployment of fiber infrastructure (households) weighing 25%; A target for joining fiber customers weighing 25% and a target scope for the financial impact of reducing telephony rates on the year 2021, which weighs 50%. The rate of Bezeq's CEO's compliance with the set of special grant targets for 2021 was approximately 75% and, accordingly, the amount of the special grant is approximately NIS 450,000 (included in the table above in the grant component for 2021).

On January 18, 2021, Bezeq's general meeting approved, following the approval of Bezeq's Board of Directors dated December 10, 2020, and Bezeq's Remuneration Committee dated December 9, 2020, an amendment to Bezeq's remuneration policy and granting 9,000,000 options to Bezeq's CEO. For details regarding the terms of the options, see the amendment report regarding the outline for granting options to employees and the report of a material private offer dated January 14, 2021 (reference: 2021-01-006340). The fair value of the options at the date of granting thereof (calculated in accordance with the Monte Carlo model) is approximately NIS 6.9 million.

e. Ran Guron

As of January 1, 2019, his total monthly salary (gross) for his office as CEO of the three material subsidiaries: Pelephone, Bezeq International and DBS (in this section, collectively: "**the Subsidiaries**"), amounts to a total of of approx.NIS 150,000, linked to the CPI. The contract is for an unlimited period, with each party entitled to bring it to an end at any time, with 6 months' prior notice by either party.

Mr. Guron's bonus targets for 2021 as CEO of the Subsidiaries were set in advance by Bezeq's Board of Directors in December 2020, after approval by Bezeq's Remuneration Committee and the boards of directors in the Subsidiaries, and included: Adjusted EBITDA target[8] for the subsidiaries weighing 60% in the bonus calculation; EBITDA minus coordinated CAPEX target for subsidiaries (CAPEX in cash terms) weighing 15%; Adjusted EBITDA target by company - a combined target weighing 15%[9]; And a manager evaluation target weighing 10%[10]. The threshold condition for receiving the bonus was that the Adjusted EBITDA results for the Subsidiaries for 2021 (NIS 799 million) would not decrease by more than 40% from the Adjusted EBITDA results in 2020 (NIS 697 million) - this condition was met. The rate of compliance of the CEO of the Subsidiaries with the set of bonus targets for 2021 was approximately 123.4%. Accordingly, the bonus to be granted to the CEO of the subsidiaries for the year 2021 is approximately 123.4% of his annual salary. Mr. Ran Guron will be entitled to 40% of the bonus for meeting the weighted Adjusted EBITDA target in 2021 only in 2023 (after the date of approval of the 2022 statements) and only if the minimum Adjusted EBITDA target set in relation to the 2022

[8] Adjusted EBITDA for the purpose of determining remuneration - calculated as EBITDA minus other operating expenses / revenue (net), losses / gains from impairment / increase in value (including losses from ongoing impairment), effects of the implementation of International Financial Reporting Standard IFRS16 "Leases" and expenses for share-based payments.

[9] Pelephone 40%, DBS 30%, Bezeq International 30%.

[10] See Footnote 8 above

budget year is achieved. It should be noted that in the reported year, Mr. Ran Guron was approved, in accordance with Bezeq's Remuneration Policy, the payment of a special bonus in respect of the implementation of a synergy and streamlining plan in the subsidiaries in respect of the cumulative savings in 2019-2021 in the amount of NIS 603.6k (included in the table above in the bonus component for 2021). This is due to the implementation of the synergy and streamlining plan - an exceptional, unusual and very significant event involving an investment of exceptional effort by the CEO of the material Subsidiaries, bringing significant savings in expenses and value to the Group and preserving the CEO of the Subsidiaries as a key player in the companies.

* In light of the correction of the error in Bezeq International's 2019 statements, there has been a change in the rates of meeting the targets for the annual bonus to Mr. Guron in respect of 2019.

On December 10, 2020, Bezeq's Board of Directors and the boards of directors of the subsidiaries approved, following the approval of Bezeq's Remuneration Committee dated December 9, 2020, the granting of 9,000,000 options to the CEO of the subsidiaries. On January 18, 2021, Bezeq's general meeting approved an amendment to the remuneration policy for Bezeq's officers, which was a condition for granting the options. For details regarding the terms of the options, see the amendment report regarding the outline for granting options to employees and the report of a substantial private offer dated January 14, 2021 (reference: 2021-01-006340). The fair value of the options at the date of their grant (calculated according to the Monte Carlo model) is about NIS 6.9 million.

f. Directors

Each director (including the Chairman of the Board) is entitled to an annual remuneration and a participation remuneration for each meeting, in the maximum amount, in accordance with the Company's classification under to the remuneration regulations. In addition, directors with financial accounting expertise, as this term is defined in the Companies Regulations (Terms and Tests for a Director with Accounting and Financial Expertise and for a Director with Professional Competence), 5765-2005 are entitled to an annual remuneration to an external expert director as stated in the Remuneration Regulations. In addition, the directors are entitled to be included in the arrangement for liability insurance of directors and officers and indemnification as is customary in the Company, as are all other officers in the Company. In 2021, remuneration was paid to the directors of the Company in accordance with the Remuneration Regulations in the amount of NIS 802K.

Regulation 21a: The controlling shareholder in the corporation

On December 2, 2019, a debt settlement was completed between the Company and its bondholders, under which Searchlight II BZQ LP and a corporation controlled by the Forer family (TNR Investments Ltd.) acquired control of the Company (and consequently, Bezeq). The company owns Bezeq through a company under its full control (indirectly) B Communications (SP2) Ltd.[11] In this regard, see also Bezeq's immediate report dated December 2, 2019 regarding the Company's announcement of the completion of the said transaction, as well as Bezeq's immediate reports dated January 2, 2020 regarding holdings of stakeholders and those who became stakeholders in the corporation.

As of the date of completion of the debt settlement as aforesaid, the controlling owners of the Company are Searchlight II BZQ L.P, a limited partnership incorporated in the Cayman Islands ("**Searchlight**") and TNR. Investments Ltd. ("**TNR**"), a private company incorporated in Israel. The final general partner of Searchlight is Searchlight Capital Partners II GP, LLC, a limited liability company incorporated in the State of Delaware, which is held by a number of individuals

[11] As of October 11, 2021, and in accordance with the amendment to the control permit signed on August 22, 2021, 738,953,713 of Bezeq's shares are held directly by the Company, after on that day all the Company's 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 the Company) were transferred to the Company for direct holding. Following the transfer of Bezeq's shares to the Company, the companies B Communications (SP2) Ltd. and B Communications (SP1) Ltd. were closed.

including Eric Zinterhofer, Erol Uzumeri and Oliver Harmaann, with the latter being among the only ones to receive the Company's control permit from the Ministry of Communications. TNR is fully owned and controlled by Mr. David Forer (50%) and Mrs. Michal Forer (50%). Searchlight and TNR are considered controlling shareholders in the Company by virtue of a control permit dated November 11, 2019 and by virtue of a voting agreement between them which confers on them a cumulative holding, as of the date of this report, of approximately 72% of the voting rights in the Company.

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

For details regarding the control permit, see Section 1.1.4 in Chapter A of the periodic report.

Regulation 22: Transactions with the controlling shareholder

For details, to the best of the Company's knowledge, regarding any transaction with the controlling shareholder in the Company, or such that the controlling shareholder in the Company has a personal interest in the approval thereof, which the Company, the companies controlled thereby or related thereto entered into in the reporting year or after to the end of the reporting year and until the date of submission of this report, or it is still valid at the date of the report, as well as for details regarding Bezeq's neglibility procedure, see Note 29 to the statements.

Regulation 24: Holdings of related parties and senior executives

As of the date of the report, holdings of related parties and senior officers in the Company are as set forth below:

The holder	Number of ordinary shares	Options	Capital and voting rate	Capital and voting rate (fully diluted)
Searchlight	69,994,038	-	61.38%	59.97%
TNR Investments	13,248,905	-	11.62%	11.35%
Tomer Raved	-	2,677,362	-	2.29%
The Company	2,297,163	-	-	-

Regulation 24a: Registered capital, issued capital and convertible securities

The registered equity of the Company as of the date of publication of the periodic report is 300,000,000 ordinary shares of NIS 0.1 par value each ("**Ordinary Shares**"). For details regarding the approval of the Company's General Meeting to increase the Company's registered equity, see the immediate report dated March 31, 2021 (Reference No. 2021-01-052569).

The issued and paid-up equity of the Company, as of the date of publication of the periodic report, is 114,038,630 Ordinary Shares (excluding 2,297,163 Ordinary Shares held by the Company which are dormant).

Regulation 24b: Register of shareholders

Shareholder name	Number of shares	Share type and nominal value
Bank Hapoalim Listing Company	109,266,213	Ordinary shares of NIS 0.1 par value each.
American stock transfer	7,050,350	Ordinary shares of NIS 0.1 par value each.

Regulation 25a: Registered address of the corporation

Address: 144 Menachem Begin St., Tel Aviv
Phone 1: 03-6796101 Fax: 03-6796111
Email: tomer@bcomm.co.il

This table lists the directors who serve on the Company's Board of Directors as of the date of publication of the report, followed by details of directors who served in the year of the report but ended their office before the date of publication of the report.

Regulation 26: The directors of the corporation

a. **Directors who have served as of the date of publication of the report**

Last name and first name	Darren Glatt, Chairman	Phil Bacal	Ran Forer	Efrat Duvdevani	Ajit V. Pai	Efrat Makov	Stephen Joseph
ID number	549871770 (foreign passport)	HP037044 (foreign passport)	066522772	23824873	536841734 (Foreign passport)	023044365	551988678 (foreign passport)
Date of birth	November 18, 1975	September 13, 1985	September 2, 1984	JUNE 10, 1968	January 10, 1973	June 17, 1968	April 10, 1980
Address for the service of court documents	144 Menachem Begin Road, Tel Aviv (at B. Communications)	144 Menachem Begin Road, Tel Aviv (at B. Communications)	2 Haysur St., Ramat Hasharon	48 Hanasi Ben Zvi St., Herzliya	144 Menachem Begin Road, Tel Aviv (at B. Communications)	118 HaTamar Road, Moshav Ben Shemen, 73115	144 Menachem Begin Road, Tel Aviv (at B. Communications)
Citizenship	American	Canadian	Israeli	Israeli	American	Israeli	British
Education	BACCY, George Washington University MBA, Harvard Business School	MBA Richard Ivey School of Business at the University of Western Ontario.	Degree in Law, IDC Herzliya, B.A. in Management, IDC Herzliya,LL.M. Commercial Law (cum laude), Tel Aviv University, M.Sc.	Degree in International Relations and English, The Hebrew University; Degree in Public Policy - Management and	BA, Social Studies, Harvard University; J.D Law Studies, University of Chicago Law School	B.A. In Economics and Accounting from Tel Aviv University.	BSc in Business and Financial Economics from Leeds University, KPMG.

			General Management, Stanford University, Semester in Law at Berkeley University	Finance, Tel Aviv University			
Occupation for the past five years	Partner in the Searchlight Capital Partners and head of investments in infrastructure, communications, media and technology. Director in Bezeq, All Points Broadband, Adams Outdoor Advertising. Previously, he was also a director at the following companies: Rackspace, Charter Communication,	Partner in Searchlight Capital Partners. Director in TouchTunes, Roots, Care Advantage Deputy Director, Bezeq	VP of Business Development at the Neopharm Group, Business Development Manager at Celgene Corporation.	CEO of the Peres Center for Peace and Innovation.	Partner in Searchlight Capital Partners. Chairman of the FCC FCC Commissioner	Jewelry Designer (Independent Business). Director in the following companies: BioLight Life Sciences Ltd. (2011-2020); Anchiano Therapeutics Ltd. (2018-2020); Kamada Ltd. (2018-2019); iSPAC 1 Ltd. (2021-present); Allot Ltd. (2021-present) iSPAC 1 Ltd; Allot Ltd.	CFO and VP of Operations at Ocean Outdoor Group (LSE: OOUT). Outdoor media and advertising company.

	Ocean Outdoor, 160over90, MediaMath, Charter Communications, PatientPoint, Veritable Maritime						
Serves as a director in other corporations	Bezeq, All Points Broadband, Adams Outdoor Advertising	Octave Group, Roots Corporation, Care Advantage	Bezeq, LessTests	Future Initiatives, Special Olympics.			Scp Acquisition Topco Limited, Scp Acquisition Midco Limited, Scp Acquisition Bidco Limited, Ocean Topo Limited, Ocean Bidco Limited, Ocean Outdoor UK Limited, Signature Outdoor Limited, Mediaco Outdoor Limited, Forrest Outdoor Media Limited, Forrest Media (Holdings) Limited Limited, Forrest Media Limited, DKTD Media B.V, Ngage Media B.V, Interbest B.v, Global Agencies Stockholm AB,

							Gudfar& son AB, Visual Art & Global Agencies Sweden AB, Visual Art International Holding AB, Visual Art Sweden AB, Visual Art Sweden Holding AB, Visual Art Denmark City Reklame A/S, Visual Art Norway AS.
Has accounting and financial expertise	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Is the director an employee of the corporation, of its subsidiary, of its affiliated company or of a stakeholder therein	Yes, see details of occupation in the last five years.	Yes, see details of occupation in the last five years.	Yes, the director serves as VP of Business Development of the Neopharm Group, whose controlling shareholders, David and Michal Forer, are also controlling shareholders of TNR	No	Yes, see details of occupation in the last five years.	No	No

			Investments Ltd., which owns the joint controlling interest in the Company.				
Is the director a family member of another stakeholder in the corporation	No	No	Yes, the director serves as VP of Business Development and officer in Neopharm Group, of which his parents, David and Michal Forer, are the controlling shareholders and TNR Investments Ltd., which owns the joint controlling interest in the Company.	No	No	No	No
Membership in a committee or committees of the Board of Directors	No	No	No	The Committee for the Examination of Financial Statements; The Audit Committee;	No	The Committee for the Examination of Financial Statements; The Audit Committee;	The Committee for the Examination of Financial Statements; The Audit Committee; Remuneration

				Remuneration Committee;		Remuneration Committee;	Committee;
Is this member of the Board of Directors an outside director	No	No	No	Yes	No	Yes	No
Does the Company see the director as an independent director	No	No	No	Yes	No	Yes	Yes

b. **Directors who served in the year of the report but ended their office before the date of publication of the report**:

During the reporting year, the directors Tomer Raved and Michael Clare served in the Company until November 29, 2021 and December 8, 2021 (respectively).

Regulation 26 A: Senior officers

This table lists senior officers who serve in the Company as of the date of publication of the report, followed by details of senior officers who served in the Company in the year of the report but ended their office before the date of publication of the report..

a. **Senior officers who served in the year of the report and as of the date of publication of the report**

Name of senior officer	Itzik Tadmor	Dudu Mizrahi	Ilan Chaikin
Role in the Company, subsidiary, affiliate or related party	Chief Financial Officer	CEO of the Company	Internal Auditor
Date of birth	February 14, 1980	April 18, 1985	November 21, 1954
Education	BA in Accounting and Economics, Tel Aviv University. MBA in Business Administration, Tel Aviv University.	Double major in Law and Economics from the Tel Aviv University; MBA - NYU Stern School of Business	Bachelor's degree in Economics and Accounting, Tel Aviv University.
Main occupations in the last 5 years and a list of the corporations in which he serves as a director	CFO of B Communications Ltd. and Internet Gold Lines - Gold Ltd.	The Company's CEO and director in Bezeq. Director and Vice President of the Telecom and Technology Group at RBC Investment Bank in New York.	Managing partner at CPA Chaikin Cohen Rubin & Co.
Is he a related party in the Company or a family member of another senior official or of another related party in the Company	No	No	No

Regulation 27: Independent authorized signatory

The Company's CEO, Mr. Tomer Raved, is an independent signatory authorized by the Company, as this is term defined in the law.

Without derogating from the above, for the purpose of making money transfers in any amount from the Company's accounts in banks, the signatures of Mr. Tomer Raved, the Company's CEO, and Mr. Itzik Tadmor, the Company's CFO, are required.

Regulation 27: The accountant of the corporation

Somekh Chaikin, CPA
Address: 17 HaArbaa St.,, KPMG Millennium Tower, Tel Aviv 6473917
Tel: 03-6848000

Regulation 28: Amendment of the Company's Articles of Association

On March 3, 2021, the shareholders' meeting of the Company approved the increase of the registered share equity of the Company, so that the registered equity of the Company after the approval of the meeting was increased to NIS 30,000,000 divided into 300,000,000 ordinary shares of NIS 0.1 each, and amending the Company's Articles of Association so that they reflect the increase in registered equity as aforesaid.

Regulation 29 (a): The recommendations and decisions of the directors before the general meeting and their decisions that do not require the approval of a general meeting in matters specified in Regulation 29(a)

Regarding exceptional transactions, see Note 29 to the financial statements.

A. On November 29, 2021, the Company's Board of Directors approved a plan to repurchase the Company's shares in the amount of up to NIS 30 million, which begins on December 1, 2021 and ends: (1) upon repurchase in the amount of NIS 30 million; Or (2) on March 1, 2022, whichever is earlier. As of the date of the report, in accordance with the said repurchase plan, the Company purchased shares in the total amount of approximately NIS 27 million. For further details, see the Company's report dated November 30, 2021 (Ref. No.: 2021-01-104413), which is generally presented in this report by way of reference.
B. Liability Insurance of Directors and Officers - On November 29, 2021, the Company's Board of Directors approved (after the approval by the Debt Remuneration Committee), in accordance with Regulation 1B1 of the Companies Regulations (Easements in Transactions with Related Parties), 5760-2000, the engagement in a liability insurance policy of directors and officers of the Company, in relation to all directors and officers of the Company, including officers who are the controlling shareholders and including the CEO, for a period beginning on December 2, 2021, and ending on December 1, 2022. For further details, see the Company's report dated November 30, 2021 (Reference No.: 2021-01-104446), which is presented in this report in general by way of reference.
C. For details regarding the repayment of the Company's debentures, see Regulation 20 above.

Regulation 29 (c): Resolutions of a special general meeting

a. Approval of the increase of the registered share equity of the Company and amendment of the Company's Articles of Association (March 3, 2021)
b. Approval of a grant program for the Company's CEO, Mr. Tomer Raved (November 11, 2021);
c. Non-approval of the payment of an annual grant to the Company's CEO, Mr. Tomer Raved, for the year 2020 and for the year 2021 (November 11, 2021). It is noted that on November 29, 2021, following the recommendation of the Company's Remuneration Committee, the Company's Board of Directors decided, in accordance with the provisions of Article 272 (c1) (1) (c) of the Companies Law, to discuss and approve the Company's CEO, Mr. Tomer Raved, Annual grant for the year 2020 and for the year 2021;
d. Approval of the first appointment of Mrs. Efrat Duvdevani, as an external director of the Company for a initial term of three years (January 24, 2022);
e. Approval of the issuance of letters of commitment for indemnification and a letter exempting liability from Mrs. Efrat Duvdevani (January 24, 2022).

2. Regulation 29A (4): Exemption, insurance or obligation to indemnify officers

For details regarding exemption, insurance or indemnification obligation for officers, See Note 29.6 to the statements.

March 23, 2022	______________________
Date	B. Communications Ltd.

Name and role of signatories:

Tomer Raved, CEO
Darren Glatt, Chairman of the Board of Directors

CORPORATE GOVERNANCE QUESTIONNAIRE [1]

BOARD OF DIRECTORS INDEPENDENCE				
			Correct	**Incorrect**
1.		In each reporting year, two or more external directors served in the corporation. This question can be answered "Correct" if the period of time in which two external directors did not serve does not exceed 90 days, as stated in Article 363A (b) (10) of the Companies Law, but any answer (Correct / Incorrect) must state the period of time (days) in which the corporation did not have two or more external directors in the reporting year (including a term of office approved retrospectively, while separating between the various external directors): Director A: 0. Director B: 23 days. The number of external directors serving in the corporation as of the date of publication of this questionnaire: 2.	√	

[1] Published as part of legislative proposals to improve the statements on March 16, 2014.

2.		The rate[2] of independent directors[3] serving in the corporation as of the publication of this questionnaire: 3/7. The rate of independent directors determined In the Articles of Association[4] of the corporation[5]: _______. ☒ Irrelevant (not provided for in the Articles of Association).	______	______
3.		In the reporting year, an examination was conducted with the external directors (and the independent directors) and it was found that in the reporting year they complied with the provision of Article 240 (b) and (f) of the Companies Law regarding the lack of affiliation of the external (and independent) directors serving in the corporation and they meet the conditions required for serving as an external (or independent) director.	√	
4.		All directors who served in the corporation during the reporting year are not subordinated[6] to the CEO, directly or indirectly (except for a director who is an employee representative, if the corporation has employee representation). If you answered "Incorrect" (namely, the director is subordinated to the CEO as mentioned) – indicate the rate of directors that do not meet the aforesaid limitation: _____.	√	

[2]In this questionnaire, "rate" - a certain number out of the total. For example 3/8.
[3] Including "external directors" as defined in the Companies Law.
[4] For the purposes of this question - "Articles of Association" including according to a specific legal provision applicable to the corporation (for example in a banking corporation - the directives of the Supervisor of Banks).
[5] A bond company is not required to answer this section.
[6] For the purposes of this question - the very office of a director of a holding corporation controlled by the corporation will not be considered "subordinate", on the other hand, the office of a director of a corporation serving as an officer (other than a director) and / or an employee of the corporation controlled by the corporation will be considered "subordinate".

5.		All the directors who announced the existence of a personal interest in approving a transaction on the agenda of the meeting, did not attend the discussion and did not participate in such vote (except for discussion and / or voting in the circumstances under Article 278 (b) of the Companies Law): If Your answer is "Incorrect"- Was it for the purpose of presenting a particular subject thereby in accordance with the provisions of Article 278 (a): ☐ Yes ☐ No (mark x in the appropriate box). Indicate the rate of meetings at which such directors were present at the discussion and / or participated in the vote, except in the circumstances as stated in paragraph a: _____.	√	
6.		The controlling shareholder (including his relative and / or someone on his behalf), who is not a director or other senior officer in the corporation, was not present at the board meetings held in the reporting year. If your answer is "incorrect" (i.e., a controlling shareholder and / or relative and / or someone on his behalf who is not a board member and / or a senior official in the corporation was present at such board meetings) - indicate the following details regarding the presence of any additional person at board meetings: Identity: _____. Position in the corporation (if any): _____.	√	

		Details of the affiliation to the controlling shareholder (if the person present is not the controlling shareholder himself): _____. Was it for the purpose of presenting a certain subject thereby: ☐Yes ☐No (mark x in the appropriate box) The rate of presence[7] thereof in meetings of the board of directors that took place in the reporting year for the purpose of presenting a certain subject thereby: _____, Other presence: _____ ☐Irrelevant (there is no controlling shareholder in the corporation).		

QUALIFICATIONS AND SKILLS OF THE DIRECTORS				
			Correct	**Incorrect**
7.		There are no provisions in the corporation's articles of association that restrict the possibility of immediately terminating the office of all directors in the corporation, who are not external directors (in this matter - determination by a simple majority is not considered a restriction)[8]. If Your answer is "incorrect" (namely, there is a restriction as mentioned) indicate -	√	

[7] While separating between the controlling shareholder, his relative and / or someone on his behalf.

[8] A bond company is not required to comply with this section.

		A.	The period of time stipulated in the articles of association for the term of office of a director:		
		B.	The required majority set forth in the articles of association for the termination of office of the directors:		
		C.	A statutory quorum set forth in the articles of association at the general meeting for the purpose for the termination of office of the directors:		
		D.	The majority required to amend these provisions in the articles of association:		
8.			The corporation prepared a training program for new directors, in the field of the corporation's business and in the field of law applicable to the corporation and the directors, and also arranged a follow-up program for the training of incumbent directors, adapted, among other things, to the director's position in the corporation. If your answer is "correct" - indicate whether the program was implemented in the reporting year: ☒ Yes ☐ No (mark x in the appropriate box)	√	
9.		A.	The corporation has a required minimum number of directors on the board of directors who must have accounting and financial expertise. If your answer is "correct" – indicate the minimum number determined:		√

		B.	Number of directors who served in the corporation during the reporting year With accounting and financial expertise[9]: 6. See note at the end of the questionnaire. With Professional qualifications[10]: 0. In the event of changes in the number of directors as stated in the reporting year, indicate the lowest number (except in a time period of 60 days of change) of directors of any type who served in the reporting year.	__________	__________
10.		A.	Throughout the reporting year, the board of directors included members of both sexes. If your answer is "incorrect" – indicate the period of time (days) in which the aforesaid did not exist: _____. This question can be answered "correct" if the period of time in which directors of both sexes did not serve does not exceed 60 days, however in any answer (correct / incorrect), indicate the period of time (days) in which directors of both sexes did not serve: _____.	√	

[9] After the evaluation of the board of directors, in accordance with the provisions of the Companies Regulations (conditions and tests for a director with accounting and financial expertise and for a director with professional Qualification), 5765-2005.

[10] See Footnote 9.

		B.	The number of directors of any sex serving on the corporation's board of directors as of the date of publication of this questionnaire: Men: 5, women: 2.	_____	_____

	BOARD MEETINGS (AND CONVENING A GENERAL MEETING)					
					Correct	Incorrect
11.		A.		Number of board meetings held during each quarter of the reporting year: First quarter (2021): 3. Second quarter: 4. Third quarter: 3. Fourth quarter: 6.	_____	_____
		B.		Next to each of the names of the directors who served in the corporation during the reporting year, indicate the rate[11] of participation in the meetings of the Board of Directors (in this paragraph - including the meetings of the committees of the board of directors of which he is a member, and as indicated	_____	_____

See H.S. 2.[11]

	below) that took place during the reporting year (and with reference to term of office): See note at the end of the questionnaire. (Add lines according to the number of directors).				
Director’s name	Rate of his participation in the meetings of the **board of directors**	Rate of his participation in meetings of the Audit Committee 12	Rate of his participation in meetings of the **Committee for Examining the financial statements** 13	Rate of his participation in meetings of the **Remuneration Committee** 14	Rate of his participation in meetings of other **board of directors** committees in which he is a member (indicate the name of the committee)
Darren Glatt	100%				
Tomer Raved (served during the reporting year	100%				

[12] Regarding the company director in this committee.

[13] Regarding the company director in this committee.

[14] Regarding the company director in this committee.

			until November 29, 2021)							
			Phil Bacal	100%						
			Ran Forer	100%						
			Stephen Joseph	95%	100%	100%	100%			
			Michael Clare (served during the reporting year until December 8, 2021)	100%	100%	100%	100%			
			Efrat Makov	100%	100%	100%	100%			
			Ajit Pai	100%						

12.			In the reporting year, the board of directors held at least one discussion regarding the management of the corporation's business by the CEO and his subordinates, without their presence, and they were given an opportunity to express their position.	√	

SEPARATION BETWEEN THE FUNCTIONS OF THE CEO AND THE CHAIRMAN OF THE BOARD				
			Correct	**Incorrect**
13.		Throughout the reporting year, a chairman of the board served in the corporation. This question can be answered "correct" if the period of time in which a chairman of the board did not serve in the corporation does not exceed 60 days as stated in Article 363A (2) of the Companies Law, but in any answer (correct / incorrect), indicate the period (days) in which a chairman of the board did not serve in the corporation as aforesaid: [__].	√	
14.		Throughout the reporting year, a CEO served in the corporation. This question can be answered "correct" if the period of time in which a CEO did not serve in the corporation does not exceed 60 days as stated in Article 363A (2) of the Companies Law,	√	

		but in any answer (correct / incorrect), indicate the period (days) in which a CEO did not serve in the corporation as aforesaid: [__].		
15.		In a corporation in which the chairman of the board also serves as the CEO of the corporation and / or exercises his powers, the duplication of office is approved in accordance with the provisions of Article 121 (c) of the Companies Law[15]. ☒ Irrelevant (if there is no such dual office in the corporation).		
16.		The CEO <u>Is not</u> a relative of the chairman of the board of directors. If your answer is "incorrect" (i.e., the CEO is a relative of the chairman of the board)-	√	
		A. Indicate the family relation between the parties: _____.	_____	_____
		B. The office was approved in accordance with Article 121 (c) of the Companies Law[16]: ☐ Yes ☐ No *(mark x in the appropriate box)*	_____	_____
17.		A controlling shareholder or his relative <u>does not</u> serve as CEO or senior executive officer in the corporation, except as a director. ☐ Irrelevant (the corporation has no controlling shareholder).	√	

[15] In a bond company - approval in accordance with Article 121 (d) of the Companies Law.
[16] In a bond company - approval in accordance with Article 121 (d) of the Companies Law.

AUDIT COMMITTEE

				Correct	Incorrect
18.		In the reporting year, on the Audit Committee did not serve -		_____	_____
		A.	A controlling shareholder or his relative. ☐ Irrelevant (the corporation has no controlling shareholder).	√	
		B.	Chairman of the board of directors.	√	
		C.	A director employed by the corporation or by the controlling shareholder of the corporation or by a corporation under his control.	√	
		D.	A director who regularly provides services to the corporation or controlling shareholder of the corporation or corporation under its control.	√	

	E. A director whose main livelihood depends on the controlling shareholder. □ Irrelevant (the corporation has no controlling shareholder).	√	
19.	A person who is not allowed to be a member of the Audit Committee, including a controlling shareholder or his relative, was not present at the reporting year at the meetings of the Audit Committee, except in accordance with the provisions of Article 115 (e) of the Companies Law.	√	
20.	A legal quorum for discussion and decision-making at all Audit Committee meetings held in the reporting year was a majority of committee members, with the majority present being independent directors and at least one of them being an external director. If your answer is "incorrect" - indicate the rate of meetings in which the said requirement was not met: _____.	√	
21.	In the year of the report, the Audit Committee held at least one meeting in the presence of the internal auditor and the auditor and without the presence of officers of the corporation who are not members of the committee, regarding deficiencies in the business management of the corporation.	√	
22.	All meetings of the audit committee attended by those who are not allowed to be members of the committee, were with the approval of the committee chairman and / or at the request of the committee (regarding the legal advisor and the corporation secretary who is not a controlling shareholder or his relative).	√	

23.	In the reporting year, arrangements were established by the Audit Committee regarding the manner in which the corporation's employees' complaints were handled in connection with deficiencies in the conduct of its business and regarding the protection to be given to the employees who complained as aforesaid.	√	
24.	The Audit Committee (and / or the Committee for the Examination of the Financial Statements) was of the opinion that the scope of the auditor's work and his fees in relation to the financial statements in the reporting year were adequate for carrying out proper audit and review work.	√	

FUNCTIONS OF THE COMMITTEE FOR EXAMINING THE FINANCIAL STATEMENTS (HEREINAFTER - THE COMMITTEE) IN ITS PRELIMINARY WORK FOR THE APPROVAL OF THE FINANCIAL STATEMENTS				
			Correct	**Incorrect**
25.	A.	Indicate the period of time (in days) determined by the Board of Directors as a reasonable time to submit the Committee's recommendations prior to the discussion of the board of directors for approval of the financial statements: <u>3 days when approving the periodic statements and 2 days when approving the quarterly statements</u>.	_____	_____

	B.	The number of days that have actually elapsed between the date of the transfer of the recommendations to the board of directors and the date of the board's discussion: First quarter statements (2021): 2 Days. Second quarter statements: 3 Days. Third quarter statements: 4 Days. Annual statements: 3 days.	_____	_____
	C.	The number of days that have elapsed between the date of submission of the draft financial statements to the directors and the date of the discussion of the board of directors of the approval of the financial statements: First quarter statements (2021): 5 Days. Second quarter statement: 5 Days. Third quarter statements: 6 Days. Annual statements: 6 Days.		

26.	The corporation's auditor attended all meetings of the Committee and the board of directors, at which the corporation's financial statements relating to the periods included in the reporting year were discussed. If your answer is "incorrect", indicate the participation rate: _______		√	
27.	In the Committee, all the conditions listed below were met throughout the reporting year until the publication of the annual statements:		_____	_____
	A.	The number of its members was not less than three (at the time of the discussion in the Committee and the approval of the statements as aforesaid).	√	
	B.	It complied with all the conditions set out in Article 115 (b) and (c) of the Companies Law (regarding the office of members of the Audit Committee).	√	
	C.	The chairman of the Committee is an external director.	√	
	D.	All its members are directors and most of its members are independent directors.	√	
	E.	All its members have the ability to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	√	
	F.	Committee members gave a statement prior to their appointments.	√	

	G.	The legal quorum for discussion and decision-making in the Committee was the majority of its members, provided that the majority of those present were independent directors, including at least one external director. .	√	
	If your answer is "incorrect" regarding one or more of the subsections of this question, indicate in relation to which statements (periodic / quarterly) the said condition was not met and the condition that was not met.		_____	_____

REMUNERATION COMMITTEE

				Correct	Incorrect
28.		The committee consisted of, in the reporting year, at least three members and the external directors constituted a majority (at the time of the committee's deliberations). ☐ Irrelevant (No discussion took place).		√	
29.		The terms of office and employment of all members of the Remuneration Committee in the reporting year are in accordance with the Companies Regulations (Rules regarding Remuneration and Expenses for an External Director), 5769-2000.		√	
30.		In the reporting year, on the Remuneration Committee did not serve -		_____	_____
		A.	The controlling shareholder or his relative ☐ Irrelevant (the corporation has no controlling shareholder).	√	
		B.	Chairman of the board of directors.	√	

		C.	A director employed by the corporation or by the controlling shareholder of the corporation or by a corporation under his control.	√	
		D.	A director who regularly provides services to the corporation or to the controlling shareholder of the corporation or to a corporation under his control.	√	
		E.	A director whose main livelihood depends on the controlling shareholder. ☐ Irrelevant (the corporation has no controlling shareholder).	√	
31.		The controlling shareholder or his relative were not present in the reporting year at the meetings of the Remuneration Committee, unless the chairman of the committee determined that either of them was required to present a particular subject**.**		√	
32.	The Remuneration Committee and the board of directors did not exercise their authority under Articles 267A (c), 272 (c) (3) and 272 (c1) (1) (c) to approve a transaction or remuneration policy, despite the opposition of the general meeting. If your answer is "incorrect" indicate - Type of transaction approved as stated: ______ The number of times their authority was used in the reporting year: ______			√	

INTERNAL AUDITOR			
		Correct	**Incorrect**
33.	The chairman of the board or the CEO of the corporation is the organizational supervisor of the internal auditor of the corporation.	√	
34.	The chairman of the board or the Audit Committee approved the work plan in the reporting year. In addition, indicate the audit topics that the internal auditor dealt with in the reporting year: Bezeq supervision and enforcement / internal audit. (mark x in the appropriate box).	√	
35.	Scope of employment of the internal auditor in the corporation in the reporting year (in hours[17]): 200 hours.	_____	_____
	In the reporting year, a discussion took place (in the audit committee or on the board of directors) of the internal auditor's findings.	√	

[17] Including working hours invested in investee corporations and audits outside Israel, and as appropriate, both by the Company's internal auditor and by the internal auditors of the Company's subsidiaries.

36.	The internal auditor is not a stakeholder in the corporation, a relative of such, an auditor or anyone on his behalf, nor does he maintain material business relationships with the corporation, its controlling shareholder, or a relative or corporations under their control.	√	

STAKEHOLDER TRANSACTIONS

		Correct	Incorrect
37.	The controlling shareholder or his relative (including a company under his control) is not employed by the corporation or provides it with management services. If your answer is "incorrect" (namely, the controlling shareholder or his relative is employed by the corporation or provides it with management services) indicate - - Number of relatives (including the controlling shareholder) employed by the corporation (including companies under their control and / or through management companies): - Have the employment agreements and / or the management services as aforesaid been approved by the organs established by law: ☐ Yes ☐ No	√	

	(mark x in the appropriate box) ☐ Irrelevant (In a corporation nothing husband control). ______.		
38.	To the best of the corporation's knowledge, the controlling shareholder has no other business in the corporation's field of activity (in one or more fields). <u>See note at the end of the questionnaire</u>. If your answer is "incorrect" - indicate whether an arrangement has been established to delimit activities between the corporation and its controlling shareholder. ☐ Yes ☐ No (there is to mark x In the box Appropriate) ☐ No relevant (the corporation has no controlling shareholder).	√	

Closing notes to the questionnaire:

1. **Meetings of the board of directors (and convening a general meeting)**

Section 11B - It should be noted that in the column on the participation rate in meetings of additional board committees, the reference is to permanent board committees only and does not include non-permanent committees established on an ad hoc basis for certain issues. It should be noted that in the number of meetings of the board of directors and its committees, the meetings held during the reporting year were taken into account, with reference to the term of office of each of the directors on the board and in each of the committees, as the case may be.

2. **Qualification and skills of the directors**

Section 9B - It should be noted that Tomer Raved, who served during the reporting year until November 29, 2021, and Michael Clare, who served during the reporting year until December 8, 2021, have accounting and financial expertise. Ajit Pai joined the Board of Directors as a director with accounting expertise on May 4, 2021. Efrat Duvdevani joined the Board of Directors as an external director with accounting expertise after the end of the reporting year on January 24, 2022.

3. **Stakeholder transactions**

Section 38- Searchlight Group, which owns the company, has holdings in many communications companies around the world (mainly in the United States). As stated in section 1.8 of Chapter A of this report, Bezeq Group's strategy as of this date is focusing on the domestic communications market in Israel only.

Chairman of the Board of Directors: ___________

Chairman of the Audit Committee: ___________

Chairman of the Committee for Examining the Financial Statements: ___________

Chapter E

Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure for the Year Ended December 31, 2021

(1) Report on the internal control over financial reporting and disclosure:

Annual report on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 9 (b) a of the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

Management, under the supervision of the Board of Directors of B Communications Ltd. (hereinafter - "**the Corporation**" or "**the Company**"), is responsible for determining and maintaining adequate internal control over the financial reporting and disclosure in the Corporation.

For this purpose, the members of Management are:

1. Tomer Raved, General Manager;

2. Itzik Tadmor, VP of Finance;

In addition to the said members of Management, serving in the Company are:

1. Ilan Chaikin, Internal Auditor;

2. Lital Aharoni, Comptroller;

Internal control over financial reporting and disclosure includes controls and procedures existing in the Corporation, designed by or under the supervision of the CFO and CEO in the field of finance, or by the person actually performing the said functions, supervised by the Corporation's Board of Directors, which are intended to provide a reasonable degree of assurance regarding the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Corporation is required to disclose in reports it publishes under the provisions is collected, processed, summarized and reported.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information the disclosure of which by the Corporation is required, is accumulated and transmitted to the Corporation's Management, including the CEO and senior executives in the field of finance or to those actually performing the said functions, in order to enable decisions with regard to the disclosure requirement to be made at the appropriate time.

Due to its structural limitations, internal control over financial reporting and disclosure is not intended to provide absolute assurance that misrepresentation or omission of information in the reports will be avoided or discovered.

Management, under the supervision of the Board of Directors, performed an audit and evaluation of the internal control over the financial reporting and disclosure in the Corporation and its effectiveness;

The evaluation of the effectiveness of the internal control over the financial reporting and disclosure carried out by Management under the supervision of the Board of Directors included:

1. Mapping and identifying the relevant business units, accounts and processes which the Corporation considers to be highly material for financial reporting and disclosure;

2. Examination and updating of reporting and disclosure risks;

3. Updating the documentation of the controls that address the identified risks as well as documenting new controls;

4. Testing and evaluating the effectiveness of the performance of such controls;

5. Overall assessment of the effectiveness of internal control

The model of evaluating the effectiveness of the internal control over financial reporting and disclosure was based on the following components:

1. Entity Level Controls, including controls on the process of preparing and closing reports and Information Technololgy General Controls (ITGC);

2. Controls over cash process and debt management

3. Process of preparing and closing the reports

Based on the evaluation of the effectiveness carried out by Management under the supervision of the Board as detailed above, the Board and Management of the corporation concluded that the internal control over the financial reporting and disclosure in the corporation as of December 31, 2021 is effective.

<u>A list of material vulnerabilities in the internal control that were corrected during the reporting year up to the reporting date, including the date on which they were initially reported</u>:

As part of the preparation of the quarterly report for September 30, 2020 and as part of the controls of the process of preparing and closing the financial statements, Bezeq International Ltd., a subsidiary of the Company ("**Bezeq International**"), found that there are discrepancies between the assets and liabilities listed in its books and the actual assets and liabilities, which result, among other things, from non-imputation of costs from previous years in respect of the payment of advances to suppliers to the income statement and the improper recognition of advance expenses.

Bezeq International's Management began an immediate investigation into the matter, including through Bezeq International's Internal Auditor.

In November 2020, Bezeq's Board of Directors was updated on the preliminary findings of Bezeq International's Internal Auditor, who conducted his examination in collaboration with Bezeq International's Security Division and accompanied by an independent external expert. The interim findings revealed, among other things, that over the years there have been professional errors (incorrect handling and accounting records and failures in the manner in which the controls are performed) as well as poor conduct, possibly intentional, on the part of Bezeq International employees.

The total effect of the corrections of the discrepancies discovered in Bezeq International as part of the examinations as of June 30, 2020 was the reduction of the Group’s equity according to the following detail:

1. Errors that occurred until 2010 affected the balance of goodwill recognized at the time of gaining control of Bezeq. The correction of the goodwill balance affected subsequent impairments of cash-generating units recognized by the Group.
2. The reduction of the Group's capital as of January 1, 2018 in the amount of approximately NIS 103 million in respect of past balances from the years 2002-2017, with most of the amount (approximately NIS 80 million) originating in the years 2002-2003.
3. The reduction of the Group's profits (net tax) in the cumulative amount of approximately NIS 133 million in respect of the period between January 1, 2018 and December 31, 2019.
4. Following the findings of the examination, Bezeq International updated its forecasts for the coming years and performed an updated valuation as of December 31, 2019, following which an additional impairment loss of NIS 122 million (NIS 100 million net of tax) was recognized as a result of the update of the value of the activity and the book value of Bezeq International as of December 31, 2019.

In light of the findings of the aforesaid examinations, the Company carried out adjustment of its financial statements as of December 31, 2019 and the year ended on the same date by way of restatement, in order to retroactively reflect in them the effect of the aforesaid.

On November 23, 2020, Bezeq's Board of Directors appointed an independent external auditor (hereinafter: "**the External Auditor**") for the purpose of an in-depth investigation of the issue, including the circumstances that led to the discrepancies and the processes and controls that were supposed to prevent them.

On February 4, 2021, the External Auditor presented his findings to the Bezeq Board of Directors, as part of the audit report prepared by him (hereinafter: "**the Audit Report**"). The following are the main findings and conclusions as they emerged in the Audit Report:

1. Suppliers’ debit balances that were created as a result of direct debit payments that were not recorded as expenses in the years 2001-2003 but accumulated under a general accounting card. Most of the suppliers’ debit balances found are with the parent company Bezeq as a related party.

   Due to the non-recognition of expenses as aforesaid, expenses were recorded during the accounting period based on an estimated and partial cumulative calculation, which did not necessarily correspond to the actual payments made. This record was made against the expenses payable card which also served as a kind of general accounting card.

   As part of the examination, it was found that during all the years that were the subject of the examination, the manner of presentation and analysis of the suppliers’ item by Bezeq International's Finance Division was performed in net terms, thus making it difficult for the Company to control the suppliers' accounts payable, as aforesaid.

   In addition, it was found that some of the employees of the Finance Division at Bezeq International knew about the existence of the unexplained accounts payable but did not act to find out their source and deal with them in real time. In addition, said employees did not notify Bezeq International's Management and the Auditor of the issue
2. Non-recognition of expenses in parallel to revenue in service agreements with customers between the years 2017-2019: Registration of expenses in arrears due to mistakes made in distinguishing between the components of the agreements and in the manner of recording the expenses.
3. Disruption of data presented to the Auditor: Throughout several years, the composition of the Suppliers item was presented to the Auditor in net terms, without detailing any of the balances created in the accounts in the general ledger that made up the net Suppliers item. In this way the unexplained debit balances were blurred before the Auditor. In addition, in 2019, a deliberate omission of rows (reflecting invoices) was performed on one of the supplier accounting cards in order to reflect an alleged adjustment to the net supplier balance item presented.

As part of the investigation, it was found that some of the employees of the Finance Division at Bezeq International knew and took part in disrupting the data provided to the Auditor.

Bezeq’s Board of Directors authorized the Audit Committee of the Bezeq Board of Directors to continue to discuss the findings of the Audit Report and its recommendations, including monitoring the implementation of the recommendations, discussing the implications of audit and control issues and examining the need to draw conclusions and take further steps. Accordingly, at the request of Bezeq's Audit Committee, the External Auditor presented to Bezeq's Audit Committee findings of complementary work performed and subsequently received Bezeq's Board of Directors recommendations from the Audit Committee, mainly in the implementation of periodic controls and analytical analyzes that Bezeq International must perform as part of the process of closing the financial statements (in addition to the existing controls); Adoption of a professional standard for executives engaged in controls, and their occupations, at Bezeq and each of its substantial subsidiaries, as well as conferring supervisory and control powers on the employees of Bezeq's Accounting Division on the work of the finance and accounting employees in each of Bezeq's subsidiaries with regard to the financial statements of each subsidiary;.

Adoption of certain tests for the purpose of increasing the effectiveness of entity-level controls at Bezeq, and at each of its significant subsidiaries; As well as recommendations regarding the examination and improvement of Bezeq and Bezeq International's contracts with external service providers.

It should also be noted that the test report and the samples prepared by the External Auditor did not identify any indications of suspicion of embezzlement in the period under review and in particular the incident that occurred between 2001-2003[1] and

[1] It should be noted that according to the examination report, due to the amount of accounting entries, lack of documentation and completeness in supporting documents and lack of full explanations regarding some of the accounting entries made by employees from Bezeq International’s Finance Division in those years, the suspicion of embezzlement in 2001-2003 cannot be completely ruled out.

clarified by the External Auditor that in relation to the incident between 2017-2019 there was no concrete suspicion of embezzlement - therefore, it was decided not to extend the examination of the suspicions of an embezzlement incident beyond the actions performed and the findings and conclusions that emerged from them by the External Auditor.

Disclosure regarding the material discrepancies between the assets and liabilities listed in Bezeq International's books and the actual assets and liabilities was provided for the first time by the Company in an immediate report dated November 9, 2020. The Company continued to update on the subject as part of additional immediate reports released in November and December 2020 and February 2021, as well as in its periodic reports.

As part of the effectiveness assessment for September 30, 2020 and December 31, 2020, the Company reported ineffective internal control due to material vulnerabilities identified in the controls at the organization level and in the process of preparing and closing the reports, which led to inadequate recognition of expenses. It will be clarified that the material vulnerabilities identified in such controls are with respect to Bezeq International.

In the quarterly report as of March 31, 2021, the Company concluded that the internal control was effective as of the date of publication of the report, and also reported in detail on actions taken to correct the material vulnerabilities.

It should be noted that Bezeq International continues to strengthen its internal control, *inter alia*, by improving the automation of work procedures in which failures have been identified, as well as performing additional operations. Improving the automation of work procedures is carried out as part of a multi-year plan, some of which is accompanied by external professional consultants.

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Regarding the investigations of the Securities Authority and the Israel Police, as detailed in Section 1.1.7 of the chapter describing the business of the corporation in this report, the corporation does not have complete information regarding these investigations, plans, materials and evidence in the hands of the law authorities in the matter (although in January 2021 Bezeq received the core of the investigation material in connection with the 4000 Case, following Bezeq's summons to a hearing on this matter as detailed in Section 1.1.7.2 of the chapter describing the corporation's business). Accordingly, the Corporation is not yet able to assess the effects of the investigations, their findings and results on the Corporation and on the financial statements and estimates used in the preparation of these statements, if any.

(1) <u>Executive statements</u>:

(a) Statement of the CEO pursuant to Regulation 9B (d) (1) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

I, Tomer Raved, declare that:

(1) I examined the periodical report of B. Communications Ltd. (hereinafter – the Corporation) for 2021 (hereinafter - "the Reports");

(2) To my knowledge, the Reports do not include any misrepresentation of a material fact and do not lack a presentation of a material fact necessary so that the presentations included in them, in light of the circumstances in which those representations were included, will not be misleading with respect to the reported period;

(3) To my knowledge, the financial statements and other financial information contained in the Reports adequately reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the statements relate;

(4) I revealed to the Corporation's Auditor, the Board of Directors, the Audit Committee and the committee for examining the Corporation's financial statements, based on my most recent assessment of the internal control over financial reporting and disclosure:

(A) Any significant deficiencies and material vulnerabilities in the determination or exercise of internal control over the financial reporting and disclosure that are likely to adversely affect the Corporation's ability to collect, process, summarize or report financial information in a manner that casts doubt on the financial reporting reliability and preparation of financial statements; and-

(B) Any fraud, whether material or immaterial, involving the CEO or his subordinates directly or involving other employees who have a significant role in the internal control over financial reporting and disclosure;

(5) I, alone or with others in the Corporation:

(A) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my attention by others in the Corporation and its subsidiaries, in particular during the preparation period of the Reports; -

(B) Have established controls and procedures, or verified the determination and existence of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

(C) Have assessed the effectiveness of the internal control over the financial reporting and disclosure, and presented in this report the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control as of the date of the Reports.

Nothing in the foregoing shall derogate from my liability or the liability of any other person, under any law.

Date: March 23, 2022

Tomer Raved, CEO

(b) Statement of the most senior officer in the field of finance pursuant to Regulation 9B(d)(2) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

I, Itzik Tadmor, declare that:

(1) I examined the periodical report of B Communications Ltd. (hereinafter – the Corporation) for 2021 (hereinafter - "the Reports");

(2) To my knowledge, the Reports do not include any misrepresentation of a material fact and do not lack a presentation of a material fact necessary so that the presentations included in them, in light of the circumstances in which those representations were included, will not be misleading with respect to the reported period;

(3) To my knowledge, the financial statements and other financial information contained in the Reports adequately reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the statements relate;

(4) I revealed to the Corporation's Auditor, the Board of Directors, the Audit Committee and the committee for examining the Corporation's financial statements, based on my most recent assessment of the internal control over financial reporting and disclosure:

(A) Any significant deficiencies and material vulnerabilities in the determination or exercise of internal control over the financial reporting and disclosure that are likely to adversely affect the Corporation's ability to collect, process, summarize or report financial information in a manner that casts doubt on the financial reporting reliability and preparation of financial statements; and-

(B) Any fraud, whether material or immaterial, involving the CEO or his subordinates directly or involving other employees who have a significant role in the internal control over financial reporting and disclosure;

(5) I, alone or with others in the Corporation:

(A) Have established controls and procedures, or have verified the determination and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my attention by others in the Corporation and its subsidiaries, in particular during the preparation period of the Reports; -

(B) Have established controls and procedures, or verified the determination and existence of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

(C) Have assessed the effectiveness of the internal control over the financial reporting and disclosure, and presented in this report the conclusions of the Board of Directors and Management regarding the effectiveness of the internal control as of the date of the Reports.

Nothing in the foregoing shall derogate from my liability or the liability of any other person, under any law.

Date: March 23, 2022

Itzik Tadmor, CFO